Ladysmith & District Credit Union
Consolidated Financial Statements
December 31, 2021

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For the year ended December 31, 2021

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Management's Responsibility

To the Members of Ladysmith & District Credit Union:

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

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

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

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

March 21, 2022

John de Leeuw

Chief Executive Officer

Independent Auditor's Report

To the Members of Ladysmith & District Credit Union:

Opinion

We have audited the consolidated financial statements of Ladysmith & District Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of profit, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2021, and its consolidated financial performance and its consolidated 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 Consolidated 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 consolidated 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 for the Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Abbotsford, British Columbia

MNP LLP

March 21, 2022

Chartered Professional Accountants

MNP LLP

Ladysmith & District Credit Union
Consolidated Statement of Financial Position
As at December 31, 2021

	2021	*2020*
Assets		
Cash and cash equivalents *(Note 5)*	**6,334,124**	13,427,263
Financial investments *(Note 6)*	**37,862,127**	26,650,402
Derivative financial instruments *(Note 7)*	**140,486**	297,713
Trade and other receivables *(Note 8)*	**906,419**	853,699
Income taxes recoverable *(Note 13)*	**98,333**	-
Loans to members *(Note 9)*	**191,141,366**	169,652,630
Premises and equipment *(Note 10)*	**5,448,249**	4,474,303
Intangible assets *(Note 11)*	**2,447,150**	1,880,275
	244,378,254	217,236,285
Liabilities		
Member deposits *(Note 12)*	**228,129,184**	203,573,834
Income taxes payable	**-**	124,757
Other liabilities *(Note 15)*	**673,668**	622,386
Lease liability *(Note 16)*	**148,282**	176,716
Deferred tax liabilities *(Note 13)*	**716,100**	491,600
	229,667,234	204,989,293

Commitments *(Note 22)*

Members' equity		
Accumulated other comprehensive income (AOCI) - Revaluation surplus	**2,313,228**	1,176,090
Retained earnings	**12,302,093**	10,846,268
Accumulated other comprehensive income (AOCI) - Other	**95,699**	224,634
	14,711,020	12,246,992
	244,378,254	217,236,285

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Profit

For the year ended December 31, 2021

	2021	*2020*
Financial income		
Interest on member loans	**6,470,742**	6,276,329
Interest on investments	**594,028**	801,686
	7,064,770	7,078,015
Financial expense		
Interest on member deposits	**2,405,928**	2,723,228
Interest on borrowed funds	**11,172**	17,152
	2,417,100	2,740,380
Financial margin	**4,647,670**	4,337,635
Provision for (recovery of) impairment on loans to members *(Note 22)*	**(100,779)**	86,222
	4,748,449	4,251,413
Other income *(Note 17)*	**3,002,366**	2,339,026
Operating margin	**7,750,815**	6,590,439
Operating expenses *(Note 18)*	**5,743,146**	5,114,715
Income from operations	**2,007,669**	1,475,724
Distribution to members *(Note 14)*	**47,780**	40,830
Income before income taxes	**1,959,889**	1,434,894
Provision for (recovery of) income taxes *(Note 13)*		
Current	**279,564**	325,393
Deferred	**224,500**	(30,500)
	504,064	294,893
Profit for the year	**1,455,825**	1,140,001

The accompanying notes are an integral part of these financial statements

Ladysmith & District Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2021

	2021	*2020*
Profit for the year	**1,455,825**	1,140,001
Other comprehensive income:		
Net gains (losses) on derivatives designated as cash flow hedges	**(155,344)**	150,867
Income tax recovery (expense) relating to gains on derivatives designated as cash flow hedges	**26,409**	(25,648)
Unrealized gains on revaluation of land and buildings	**1,137,138**	-
Other comprehensive income for the year, net of income tax	**1,008,203**	125,219
Total comprehensive income for the year	**2,464,028**	1,265,220

The accompanying notes are an integral part of these financial statements

Ladysmith & District Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2021

	AOCI - Revaluation surplus	*Retained earnings*	*AOCI - Other*	*Total members' equity*
Balance December 31, 2019	**1,176,090**	**9,706,267**	**99,415**	**10,981,772**
Profit for the year	**-**	**1,140,001**	**-**	**1,140,001**
Net gains on derivatives designated as cash flow hedges, net of tax	**-**	**-**	**125,219**	**125,219**
Balance December 31, 2020	**1,176,090**	**10,846,268**	**224,634**	**12,246,992**
Profit for the year	**-**	**1,455,825**	**-**	**1,455,825**
Net gains on derivatives designated as cash flow hedges, net of tax	**-**	**-**	**(128,935)**	**(128,935)**
Unrealized gains on revaluation of land and buildings	**1,137,138**	**-**	**-**	**1,137,138**
Balance December 31, 2021	**2,313,228**	**12,302,093**	**95,699**	**14,711,020**

Ladysmith & District Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2021

	2021	*2020*
Cash provided by (used for) the following activities		
Operating activities		
Profit for the year	**1,455,825**	1,140,001
Unrealized gains on revaluation of land and buildings through profit for the year	**(103,296)**	-
Depreciation of premises and equipment	**284,817**	261,402
Depreciation of intangible assets	**231,675**	177,086
Depreciation of right-of-use buildings	**28,062**	27,873
Interest expense on lease liability	**494**	1,033
Deferred income taxes	**224,500**	(30,500)
Gain on disposal of premises and equipment	**-**	(1,500)
Provision for impairment on loans to members	**(100,779)**	86,222
Change in fair value of derivative financial instruments	**29,578**	(26,111)
	2,050,876	1,635,506
Changes in working capital accounts		
Trade and other receivables	**(52,722)**	(34,006)
Income taxes recoverable/payable	**(223,090)**	39,727
Other liabilities	**51,283**	132,811
Accrued interest on loans to members	**8,535**	(23,732)
Accrued interest savings and deposits	**(160,220)**	105,588
Accrued interest on derivative financial instruments	**(1,286)**	(25,023)
	1,673,376	1,830,871
Financing activities		
Net change in member deposits	**24,715,570**	24,480,599
Repayments of lease liability	**(28,928)**	(28,928)
	24,686,642	24,451,671
Investing activities		
Net change in loans to members	**(21,396,492)**	(21,345,895)
Increase in financial investments	**(11,211,725)**	-
Decrease in financial investments	**-**	1,695,082
Purchases of premises and equipment	**(46,390)**	(110,190)
Proceeds from disposal of premises and equipment	**-**	1,500
Purchases of intangible assets	**(798,550)**	(8,276)
	(33,453,157)	(19,767,779)
Increase (decrease) in cash and cash equivalents	**(7,093,139)**	6,514,763
Cash and cash equivalents, beginning of year	**13,427,263**	6,912,500
Cash and cash equivalents, end of year	**6,334,124**	13,427,263

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Ladysmith & District Credit Union (the “Credit Union”) was formed pursuant to the Credit Union Incorporations Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia (“the Act”).

The Credit Union serves members in Ladysmith, British Columbia and the surrounding community and operates two Credit Union branches. The address of the Credit Union’s registered office is 330 First Avenue, Box 430, Ladysmith, British Columbia.

The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2021 comprise the Credit Union and its wholly owned subsidiaries L.C.U. Insurance Agencies Ltd., LDCU Financial Management Ltd., and True Mortgage Specialists Ltd. Together, these entities are referred to as the Credit Union.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

These consolidated financial statements for the year ended December 31, 2021 were approved by the Board of Directors on March 21, 2022.

Impact of COVID-19

In March 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation and quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Credit Union as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2021. Adoption of these amendments had no effect on the Credit Union’s financial statements.

- IFRS 2 *Share-based payment*
- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*
- IAS 39 *Financial instruments: recognition and measurement*

3. Basis of preparation

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

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

3. Basis of preparation *(Continued from previous page)*

Significant accounting judgments, estimates and assumptions

Since a determination of some assets and liabilities is dependent upon uncertain future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made by management using careful judgment. Actual results may differ from these estimates. The estimates, assumptions and judgments used in preparation of these financial statements include the estimate of fair value of financial instruments not traded on active markets, income taxes, and key assumptions in determining the allowance for expected credit losses.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Financial instruments not traded in active markets

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

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 that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Key assumptions in determining the allowance for expected credit losses

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

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

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

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

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

3. Basis of preparation *(Continued from previous page)*

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

- Interest rates
- Unemployment rates
- Inflation
- Loan to Value ratios

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

4. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its 100% owned subsidiaries (L.C.U. Insurance Agencies Ltd., LDCU Financial Management Services, and True Mortgage Specialists Ltd.).

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from intra-Company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, demand deposits and term deposits with maturities of three months or less.

Financial investments

Financial investments are classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Term deposits, marketable securities and guaranteed investment certificates

Term deposits, marketable securities and guaranteed investment certificates are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost using the effective interest method which approximates fair value.

Portfolio investments

Portfolio investments are measured and recorded on a basis consistent with the appropriate financial instrument designation. Investments in equity investments are measured at fair value through profit and loss.

4. Summary of significant accounting policies *(Continued from previous page)*

Loans to members

Loans to members are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Property held for resale

Property held for resale is initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Property held for resale is subsequently valued at the lower of the carrying amount and fair value less cost to sell. Losses arising on reduction of the net realizable value are charged to profit for the year.

Premises and equipment

Equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Premises (land and buildings) are initially recognized at cost, including any cost directly attributable to the acquisition of these assets. Subsequent to initial recognition, these assets are stated at their revalued amount at each reporting date.

Any revaluation increase is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is recognized in profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising from the revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation increase of that asset.

Fair value is determined based on available market evidence at the reporting date. The fair value of properties is based on valuation by a combination of independent appraisers and management estimates.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition.

The Credit Union uses straight-line depreciation and the useful lives applicable for each class of asset during the current and comparative period are as follows:

	Years
Buildings	15 to 30 years
Automotive	3 years
Equipment	2 to 10 years
Leaseholds	5 years
Right-of-use buildings	Term of the lease

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

4. Summary of significant accounting policies *(Continued from previous page)*

Intangible assets

Intangible assets are recorded at cost and are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The Credit Union uses straight-line depreciation and the useful lives applicable for each class of intangible asset during the current and comparative period are as follows:

	Years
Banking system	10 years
Website	5 years

Included in intangible assets is a customer list. The customer list with an indefinite useful life is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

Member deposits

Members deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

Member shares

Member shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Other liabilities

Other liabilities are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Short-term employee benefits

Short-term employee benefits expected to be paid in exchange for services rendered by employees in the year are recognized as current liabilities, measured at the undiscounted amount of the benefits the Credit Union expects to pay.

4. Summary of significant accounting policies *(Continued from previous page)*

The Credit Union participates in a Group Registered Savings Plan, recognizing contributions as an expense in the year during which services are rendered by employees. The Credit Union has no legal or constructive obligation to pay further amounts beyond these contributions.

Provisions

Provisions are recognized, if, as a result of a past event, the Credit Union has a legal or constructive obligation that can be estimated reliably and it is probable that a future outflow of economic benefits will be required to settle the obligation. The timing or amount of the outflow may still be uncertain.

Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and specific risks of the obligation. Where there are a number of obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted accordingly to reflect the current best estimate.

Distributions to members

Dividends on member shares classified as other liabilities are recognized in total comprehensive income.

Income taxes

Current and deferred income taxes are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 income.

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

Leases

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

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

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

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

4. Summary of significant accounting policies *(Continued from previous page)*

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

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

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in profit or loss for the current period.

Fair value measurements

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

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

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

Financial instruments - financial assets

Recognition and initial measurement

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

4. Summary of significant accounting policies *(Continued from previous page)*

Classification and subsequent measurement

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

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of loans to members, term deposits, marketable securities, guaranteed investment certificates, accrued interest and trade and other receivables.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Financial instruments measured at fair value through other comprehensive income are comprised of interest rate swaps.
- Fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and charges in the financial assets' carrying amount are recognized in profit or loss. The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of Central 1 shares and certain other investments.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, and the significance and frequency of sales in prior period.

Contractual cash flow assessment

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

Reclassifications

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

4. Summary of significant accounting policies *(Continued from previous page)*

Impairment

Expected credit loss model

The Credit Union's allowance for credit losses follows an expected credit loss ("ECL") impairment model. The ECL impairment model reflects the present value of cash shortfalls related to default events either over the following twelve months, or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased and probability-weighted amount which considers a variety of scenarios based on reasonable and supportable information. Forward -looking-information ("FLI") is incorporated into the estimation of ECL allowances, which involves significant judgement (see note 7 for additional details). The calculation of ECL allowances is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Credit Union expects to receive. The key inputs in the measurement of ECL allowances are as follows:

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;

- The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and

- The exposure at default ("EAD") is an estimate of the exposure at a future default date.

ECL stage development

On initial recognition of the financial instrument, a loss allowance is recognized and maintained equal to 12 months of ECL. 12-month ECL is defined as the portion of the lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within 12 months after the reporting date.

If credit risk increases significantly relative to initial recognition of the financial instrument, the loss allowance is increased to cover full lifetime ECL. In assessing whether credit risk has increased significantly, the Credit Union compares the risk of default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of initial recognition. Evidence of increased credit risk is observed when the financial instrument is 30 days or more past due on its contractual payment obligations or the financial instrument has had an unfavourable movement in internal risk ratings. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union reverts to recognizing 12 months of ECL.

When a financial instrument is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. The Credit Union considers a financial instrument as impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears is automatically considered impaired.

Recognition

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

For member loans receivable the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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

4. Summary of significant accounting policies *(Continued from previous page)*

Loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

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

Derecognition of financial assets

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

For this purpose, a financial asset is transferred if the Credit Union either transfers the right to receive the contractual cash flows of the financial asset, or retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

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

Modification of financial assets

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

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

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

Financial instruments - financial liabilities

Recognition and initial measurement

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

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss. Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivative instruments are recognized in other comprehensive income.

4. Summary of significant accounting policies *(Continued from previous page)*

Cash flow hedges

The Credit Union uses cash flow hedges to hedge its exposure to the variability of cash flows related to fixed or floating financial assets or liabilities.

The Credit Union accumulates changes in fair value related to the effective portion of the hedging instrument in the cash flow hedge reserve within equity. The effective portion of the hedge is equal to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item from inception of the hedge. The ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in profit or loss.

Amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period during which the hedged expected future cash flows affect profit or loss. The amounts reclassified to profit or loss are presented in the same line item as the underlying hedged transaction.

When hedge accounting is discontinued for a cash flow hedge and the hedged future cash flows are still expected to occur, accumulated hedging gains or losses remain in the cash flow hedge reserve until such time as the future cash flows occur and are then accounted for as described above. If the hedged future cash flows are no longer expected to occur, accumulated hedging gains and losses are immediately reclassified to profit or loss.

Revenue Recognition

Interest

Interest income and expense are recognized in profit for the year using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

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

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

Other revenue

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are recognized using the effective interest method over the estimated repayment term of the related loan.

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

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Commission revenue is recognized in profit for the year on an accrual basis upon the provision of services from acting in the capacity of an agent rather than as the principal in a transaction.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2021 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

4. Summary of significant accounting policies *(Continued from previous page)*

IFRS 16 Leases

Amendments to IFRS 16, issued in March 2021, extend the availability of the exemption for COVID-19 related rent concessions by one year to June 30, 2022. The exemption applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided that the other conditions for applying the practical expedient are met.

The amendments are effective for transactions for annual reporting periods beginning on or after April 1, 2021. The Credit Union does not expect the amendments to have a material impact on its consolidated financial statements.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements

Amendments to IAS 1 and IFRS Practice Statement 2, issued in February 2021, help entities provide accounting policy disclosures that are more useful to primary users of financial statements by replacing the requirement to disclose “significant” accounting policies with a requirement to disclose “material” accounting policies and providing guidance to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2023 and are required to be applied prospectively. The Credit Union does not expect these amendments to have a material impact on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in February 2021, introduce a new definition of “accounting estimates” to replace the definition of “change in accounting estimates” and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Credit Union does not expect these amendments to have a material impact on its consolidated financial statements.

IAS 12 Income Taxes

Amendments to IAS 12, issued in May 2021, narrow the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Credit Union does not expect these amendments to have a material impact on its consolidated financial statements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Amendments to IAS 37, issued in May 2020, specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union does not expect the amendments to have a material impact on its consolidated financial statements.

5. Cash and cash equivalents

	2021	2020
Cash on hand	**3,850,282**	6,817,608
Term deposits callable or maturing in three months or less	**1,256,486**	5,856,764
Guaranteed investment certificates maturing in three months or less	**758,638**	752,891
Marketable securities maturing in three months or less	**468,718**	-
	6,334,124	13,427,263

Total cash and cash equivalents include $1,801,274 (2020 - $949,832) in foreign currencies denominated in Canadian dollars.

6. Financial investments

	2021	2020
Investments carried at amortized cost, maturing between three months and five years:		
Term deposits	**20,300,000**	24,416,240
Guaranteed investment certificates	**1,263,300**	1,250,000
Marketable securities	**15,980,508**	-
Accrued interest	**198,570**	202,779
	37,742,378	25,869,019
Other financial investments:		
Shares - Central 1 Class A	**66,832**	63,854
Shares - Central 1 Class E	**38**	38
Shares - Central 1 Class F	**-**	642,701
Shares - CUPP Services Ltd.	**52,775**	52,775
Shares - STAB Central	**104**	104
Accrued dividends	**-**	21,911
	119,749	781,383
	37,862,127	26,650,402

Total financial investments include $1,256,486 (2020 - $897,419) in foreign currencies denominated in Canadian dollars.

7. Derivative financial instruments

The nature of the Credit Union’s activities exposes it to risks of changes in interest rates. The Credit Union uses interest rate swaps with Central 1 to hedge exposure to interest rate risks. As at December 31, 2021, the Credit Union had entered into two (2020 - two) "receive fixed" interest rate swap contracts with a total notional amount of $5,000,000 (2020 - $5,000,000) and a fair value gain of $140,486 (2020 - $297,713).

Under the terms of the contracts, Central 1 is obligated to pay the Credit Union a fixed rate ranging from 2.5% to 2.6% (2020 – 2.5% to 2.6%). The Credit Union is obligated to pay Central 1 a variable rate based upon the 3 month CDOR rates. At December 31, 2021, the Credit Union is paying a variable rate of 0.46% to 0.48% (2020 – 0.49%). All payments are based on the notional amount of the underlying swaps. The swap contracts will mature from January 24, 2023 to July 31, 2023.

8. Trade and other receivables

	2021	*2020*
Commissions and premiums receivable	**660,325**	558,087
Prepaid expenses	**141,238**	151,235
Deferred broker fee expenses	**81,487**	121,750
Other accounts receivable	**23,369**	22,627
	906,419	853,699

9. Loans to members

Principal and allowance by loan type:

2021

	Principal	**Allowance for impaired loans (Note 22)**	**Net carrying value**
Residential mortgages	130,304,608	114,327	**130,190,281**
Personal loans	15,412,452	63,861	**15,348,591**
Commercial mortgages	42,061,026	20,940	**42,040,086**
Commercial loans	3,266,843	1,626	**3,265,217**
Accrued interest on loans to members	297,191	-	**297,191**
	191,342,120	200,754	**191,141,366**

2020

	Principal	Allowance for impaired loans (Note 22)	Net carrying value
Residential mortgages	112,886,207	220,503	112,665,704
Personal loans	15,381,415	94,335	15,287,080
Commercial mortgages	36,365,813	11,027	36,354,786
Commercial loans	5,040,863	1,528	5,039,335
Accrued interest on loans to members	305,725	-	305,725
	169,980,023	327,393	169,652,630

During the year, the Credit Union disbursed Canada Emergency Business Account (CEBA) loans as approved by Export Development Canada. Administered on behalf of the government, the Credit Union bears no risks or benefits related to these loans which totalled $3,080,000 (2020 – 2,340,000) at year-end. Accordingly, these loans have been treated as an off-balance item netted by the corresponding government payable in the same amount.

10. Premises and equipment

	Land	*Buildings*	*Automotive*	*Equipment*	*Leaseholds*	*Right-of-use buildings*	*Total*
Cost							
Balance at January 1, 2020	1,061,929	3,123,072	31,113	1,259,837	87,188	81,295	5,644,434
Additions	4,717	1,948	26,582	76,943	-	-	110,190
Additions - right-of-use buildings	-	-	-	-	-	150,527	150,527
Disposals	-	-	(11,113)	-	-	-	(11,113)
Revaluation adjustment	-	(153,267)	-	-	-	-	(153,267)
Balance at December 31, 2020	1,066,646	2,971,753	46,582	1,336,780	87,188	231,822	5,740,771
Balance at January 1, 2021	1,066,646	2,971,753	46,582	1,336,780	87,188	231,822	**5,740,771**
Additions	820	7,993	-	34,577	2,813	187	**46,390**
Additions - right-of-use buildings	-	-	-	(2,544)	-	-	**(2,544)**
Revaluation adjustment	383,502	694,287	-	-	-	-	**1,077,789**
Balance at December 31, 2021	**1,450,968**	**3,674,033**	**46,582**	**1,368,813**	**90,001**	**232,009**	**6,862,406**
Depreciation							
Balance at January 1, 2020	-	-	13,113	1,046,766	53,821	27,873	1,141,573
Depreciation expense	-	153,267	4,597	86,073	17,465	-	261,402
Depreciation, right-of-use buildings	-	-	-	-	-	27,873	27,873
Disposals	-	-	(11,113)	-	-	-	(11,113)
Revaluation adjustment	-	(153,267)	-	-	-	-	(153,267)
Balance at December 31, 2020	-	-	6,597	1,132,839	71,286	55,746	1,266,468
Balance at January 1, 2021	-	-	6,597	1,132,839	71,286	55,746	**1,266,468**
Depreciation expense	-	162,646	7,797	98,066	16,308	-	**284,817**
Depreciation, right-of-use buildings	-	-	-	-	-	28,062	**28,062**
Disposals	-	-	-	(2,544)	-	-	**(2,544)**
Revaluation adjustment	-	(162,646)	-	-	-	-	**(162,646)**
Balance at December 31, 2021	-	-	**14,394**	**1,228,361**	**87,594**	**83,808**	**1,414,157**
Net book value							
At December 31, 2020	1,066,646	2,971,753	39,985	203,941	15,902	176,076	4,474,303
At December 31, 2021	**1,450,968**	**3,674,033**	**32,188**	**140,452**	**2,407**	**148,201**	**5,448,249**

11. Intangible assets

	Banking system and website	*Customer list*	*Total*
Cost			
Balance at January 1, 2020	1,695,954	1,164,836	2,860,790
Additions	8,276	-	8,276
Balance at December 31, 2020	1,704,230	1,164,836	2,869,066
Balance at January 1, 2021	1,704,230	1,164,836	**2,869,066**
Additions	798,550	-	**798,550**
Balance at December 31, 2021	**2,502,780**	**1,164,836**	**3,667,616**
Depreciation			
Balance at January 1, 2020	811,705	-	811,705
Depreciation expense	177,086	-	177,086
Balance at December 31, 2020	988,791	-	988,791
Balance at January 1, 2021	988,791	-	**988,791**
Depreciation expense	231,675	-	**231,675**
Balance at December 31, 2021	**1,220,466**	**-**	**1,220,466**
Net book value			
At December 31, 2020	715,439	1,164,836	1,880,275
At December 31, 2021	**1,282,314**	**1,164,836**	**2,447,150**

12. Member deposits

	2021	*2020*
Demand deposits	**136,306,410**	106,952,329
Term deposits	**54,498,774**	59,010,441
Registered savings plans	**14,008,784**	14,404,239
Registered retirement income funds	**9,735,194**	9,886,758
Tax free savings account	**11,060,884**	10,614,991
Member shares (*Note 14*)	**1,596,505**	1,622,224
Accrued interest on member deposits	**922,633**	1,082,852
	228,129,184	203,573,834

Total member deposits include $1,043,021 (2020 - $2,066,000) in foreign currencies denominated in Canadian dollars.

13. Income taxes

Reasons for the difference between income tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2020 - 27%) are as follows:

	2021	*2020*
Income tax expense at the statutory rate	**529,170**	428,155
Items not deductible for tax purposes	**268,573**	291,488
Items deductible for tax purposes	**(722,241)**	(199,017)
Prior years taxable losses applied	**-**	(22,113)
Taxes on other comprehensive income	**291,493**	(25,648)
Credit Union preferred rate deduction	**(87,431)**	(147,472)
Income tax expense	**279,564**	325,393

The movement in 2021 deferred income tax assets and liabilities are:

	Jan 1, 2021	**Change for the year**	**Dec 31, 2021**
Deferred income tax liabilities:			
Premises, equipment and intangible assets	(569,600)	(202,500)	**(772,100)**
Allowance for impaired loans	56,000	(21,000)	**35,000**
Deferred income	22,000	(1,000)	**21,000**
	(491,600)	(224,500)	**(716,100)**
	(491,600)	(224,500)	**(716,100)**

13. Income taxes *(Continued from previous page)*

The movement in 2020 deferred income tax assets and liabilities are:

	Jan 1, 2020	Change for the year	Dec 31, 2020
Deferred income tax assets:			
Intangible assets	4,900	(4,900)	-
Deferred income tax liabilities:			
Premises, equipment, and goodwill	(600,000)	30,400	(569,600)
Allowance for impaired loans	40,000	16,000	56,000
Taxable losses carried forward	22,000	(22,000)	-
Deferred income	11,000	11,000	22,000
	(527,000)	35,400	(491,600)
	(522,100)	30,500	(491,600)

14. Member shares

An unlimited number of Member shares are authorized for issuance.

	2021	*2020*
Balance, beginning of year	**1,622,224**	1,647,580
Issued during the year	**25,769**	28,401
Dividends credited during the year	**47,780**	40,830
Redeemed during the year	**(99,268)**	(94,587)
Balance, end of year *(Note 12)*	**1,596,505**	1,622,224

Member shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with *IAS 32, Financial Instrument Presentation* and *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments*. All of the Credit Union's member shares are classified as financial liabilities and are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and conditions

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $5 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation (CUDIC). The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 20), as is the payment of dividends on these shares.

15. Other liabilities

	2021	2020
Payables and accruals	**514,824**	457,480
Deferred income	**158,844**	164,906
	673,668	622,386

16. Lease liability

Leases as lessee

The Credit Union leases one building. The lease term includes 3 seperate rights of renewal.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented with premises and equipment in the statement of financial position.

Lease liabilities

The following table sets out a maturity analysis of the lease liability:

	2021	2020
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**31,178**	29,116
One to five years	**122,115**	124,713
More than five years	**-**	28,580
Total undiscounted lease liability	**153,293**	182,409
Lease liability included in the statement of financial position	**148,282**	176,716

During 2021 the Credit Union recognized $494 (2020 - 1,033) in interest expense on its lease liability in profit for the year.

17. Other income

	2021	2020
General insurance commissions	**1,120,488**	1,152,764
Financial management commissions	**454,723**	380,147
Account service charges	**259,586**	265,956
Loan processing fees	**566,180**	323,937
Gain (loss) on disposal of financial investments	**(7,014)**	10,852
Unrealized gain on revaluation of land and buildings	**103,296**	-
Other	**505,107**	205,370
	3,002,366	2,339,026

18. Operating expenses

	2021	2020
Advertising and member relations	**174,974**	180,115
Data processing	**294,333**	261,187
Depreciation	**544,554**	466,361
Dues and assessments	**187,946**	87,213
Insurance	**59,671**	58,367
Premises and office	**444,247**	401,216
Professional fees and dues	**244,355**	236,262
Salaries and benefits	**3,423,802**	3,088,494
Service charges	**192,762**	186,162
Training, meetings and travel	**176,502**	149,338
	5,743,146	5,114,715

19. Related party transactions

Key management compensation of the Credit Union

Key management personnel of the Credit Union and its subsidiaries are comprised of the Chief Executive Officer, Manager Financial Services, Manager LCU Insurance Agencies Ltd., Manager LDCU Financial Management Ltd., Senior Manager Operations, and Members of the Board of Directors.

	2021	2020
Salaries and benefits	**871,957**	821,974

Transactions with key management personnel

Loans to key management personnel including their related parties must meet the same qualification requirements and general conditions which apply to Members and must be approved by the Board of Directors and reviewed by the Conduct Review Committee. Loans to key management personnel including their related parties may bear preferential rates of interest.

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
Loan balances outstanding	**2,305,350**	908,609
Lines of credit outstanding	**239,055**	941,171
Unused value lines of credit	**1,274,744**	1,155,228
	3,819,149	3,005,008

19. Related party transactions *(Continued from previous page)*

	2021	2020
Interest and other revenue earned on loans and revolving credit facilities to KMP	**72,240**	36,835
Interest paid on deposits to KMP	**11,534**	24,316
The total value of member deposits from KMP as at the year-end:		
Term and savings deposits	**1,413,390**	2,005,801

Director Compensation

	2021	2020
Directors fees and committee remuneration	**37,775**	32,350
Directors expenses	**12,144**	15,321
Honorarium	**14,250**	14,250

The Board's compensation is designed to attract and retain experienced directors who are aligned with the Credit Union's values and can lead the long-term success of the Credit Union. This requires that directors be adequately and competitively compensated. The amount of compensation is reviewed every three years by comparing to the annual director's survey conducted by Central 1. When considering the appropriate level of compensation, the committee considers:

- LDCU's values, mission, vision and culture;
- The level of responsibility and time commitment required of directors; and
- The need to attract and retain directors with the skills and attributes required to advance the Credit Union's business model and strategic plans, and to control its risks.

The current compensation period began on May 14, 2019. The next compensation review will be presented to members for approval at the 2022 Annual General Meeting to take effect following the 2022 Annual General Meeting. The Credit Union provides directors with the following compensation:

- Annual honorarium for the Board President - $2,250
- Annual honorarium for directors - $2,000
- Board President board meetings attended - $175 (includes AGM and Strategic Planning)
- Director board meetings attended - $150 each (includes AGM and Strategic Planning)
- Director committee meetings attended - $100 (includes audit, ILC, CRC, etc.)
- Director donation and credit committee meetings attended - $50
- Reimbursement for expenses including training, travel, hotel, etc. while attending Credit Union meetings or courses.

20. Capital 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 and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Financial Institutions Act which establishes the applicable percentage for each class of assets.

The Financial Institutions Act (British Columbia) regulations prescribe that the minimum required capital ratio exceeds 8.0% for the Credit Union's fiscal year. As at December 31, 2021, the Credit Union met the capital requirements of its capital plan with a calculated members' capital ratio of 15.17% (2020 - 14.52%).

Regulatory capital consists of the following:

	2021	*2020*
Primary capital		
Membership shares (non-consolidated)	**1,596,505**	1,622,224
Retained earnings	**12,302,093**	10,846,268
Deferred income tax (non-consolidated)	**497,000**	279,000
	14,395,598	12,747,492
Secondary Capital		
Proportion of system retained earnings	**2,341,537**	2,133,043
Deductions from capital		
Goodwill and intangibles	**(1,741,810)**	(1,414,340)
Gains on own-use property	**(1,257,109)**	(1,257,109)
	(2,998,919)	(2,671,449)
Capital base	**13,738,216**	12,209,086

21. Fair value measurements

Recurring fair value measurements

The Credit Union's assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

(in thousands)	***Fair Value***	***Level 1***	***Level 2***	***2021 Level 3***
Assets				
Cash and cash equivalents - cash on hand	**3,850**	**3,850**	**-**	**-**
Financial investments - shares	**120**	**-**	**120**	**-**
Derivative financial instruments	**140**	**-**	**140**	**-**
Total recurring fair value measurements	**3,970**	**3,850**	**120**	**-**

(in thousands)	*Fair Value*	*Level 1*	*Level 2*	*2020 Level 3*
Assets				
Cash and cash equivalents - cash on hand	6,818	6,818	-	-
Financial investments - shares	759	-	759	-
Derivative financial instruments	298	-	298	-
Total recurring fair value measurements	7,875	6,818	1,057	-

Level 2 fair value measurements

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

Line item	***Valuation technique(s)***	***Inputs***
Investments - shares	Fair value is determined to be equivalent to the par value of shares due to the fact transactions occur at par value on a regular and recurring basis.	Value of shares
Derivative financial instruments	Fair value is determined using the net present value of cash flows attributable to the derivative financial liability.	Discount rates based on CDOR and swap rates

21. Fair value measurments *(Continued from previous page)*

Non-recurring fair value measurements

The following table analyzes within the fair value hierarchy the Credit Union's assets and liabilities (by class) not measured at fair value, but for which fair value is disclosed:

(in thousands)	***Fair Value***	***Level 1***	***Level 2***	***2021 Level 3***
Assets				
Term deposits	**21,700**	**-**	**21,700**	**-**
Marketable securities	**16,449**	**-**	**16,449**	**-**
Guaranteed investment certificates	**2,016**	**-**	**2,016**	**-**
Loans to members	**193,095**	**-**	**193,095**	**-**
Trade and other receivables	**684**	**-**	**684**	**-**
Total non-recurring fair value measurements	**233,944**	**-**	**233,944**	**-**
Liabilities				
Member deposits	**229,552**	**-**	**229,552**	**-**
Other liabilities	**515**	**-**	**515**	**-**
Lease liability	**148**	**-**	**148**	**-**
Total non-recurring fair value measurements	**230,215**	**-**	**230,215**	**-**

(in thousands)	*Fair Value*	*Level 1*	*Level 2*	*2020 Level 3*
Assets				
Term deposits	31,364	-	31,364	-
Guaranteed investment certificates	2,009	-	2,009	-
Loans to members	172,591	-	172,591	-
Trade and other receivables	581	-	581	-
Total non-recurring fair value measurements	206,545	-	206,545	-
Liabilities				
Member deposits	201,368	-	201,368	-
Other liabilities	457	-	457	-
Lease liability	177	-	177	-
Total non-recurring fair value measurements	202,002	-	202,002	-

22. Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from loans to members.

Risk management process

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

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

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

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

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

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

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

22. Financial instruments *(Continued from previous page)*

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

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

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

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

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

Measurement of expected credit losses

The Credit Union measures expected credit losses for loans to members on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type. Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union consider items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

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

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

22. Financial instruments *(Continued from previous page)*

Exposure to credit risk

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

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

		2021		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Residential mortgages				
Low risk	**124,847,006**	**-**	**-**	**124,847,006**
Medium risk	**-**	**5,457,602**	**-**	**5,457,602**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount of residential mortgages	**124,847,006**	**5,457,602**	**-**	**130,304,608**
Less: allowance for impaired loans	**78,265**	**36,062**	**-**	**114,327**
Total carrying amount of residential mortgages	**124,768,741**	**5,421,540**	**-**	**130,190,281**
Personal loans				
Low risk	**14,774,872**	**-**	**-**	**14,774,872**
Medium risk	**-**	**637,580**	**-**	**637,580**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount of personal loans	**14,774,872**	**637,580**	**-**	**15,412,452**
Less: allowance for impaired loans	**9,257**	**54,604**	**-**	**63,861**
Total carrying amount of personal loans	**14,765,615**	**582,976**	**-**	**15,348,591**
Commercial mortgages				
Low risk	**42,061,026**	**-**	**-**	**42,061,026**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount of commercial mortgages	**42,061,026**	**-**	**-**	**42,061,026**
Less: allowance for impaired loans	**20,940**	**-**	**-**	**20,940**
Total carrying amount of commercial mortgages	**42,040,086**	**-**	**-**	**42,040,086**
Commercial loans				
Low risk	**3,266,843**	**-**	**-**	**3,266,843**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount of commercial loans	**3,266,843**	**-**	**-**	**3,266,843**
Less: allowance for impaired loans	**1,626**	**-**	**-**	**1,626**
Total carrying amount of commerical loans	**3,265,217**	**-**	**-**	**3,265,217**
Total gross carrying amount				**190,844,175**
Add: accrued interest				**297,191**
Total carrying amount				**191,141,366**

22. Financial instruments *(Continued from previous page)*

	2020			
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Residential mortgages				
Low risk	108,549,821	-	-	108,549,821
Medium risk	-	4,336,386	-	4,336,386
Default	-	-	-	-
Total gross carrying amount of residential mortgages	108,549,821	4,336,386	-	112,886,207
Less: allowance for impaired loans	137,334	83,169	-	220,503
Total carrying amount of residential mortgages	108,412,487	4,253,217	-	112,665,704
Personal loans				
Low risk	14,322,297	-	-	14,322,297
Medium risk	-	1,059,118	-	1,059,118
Default	-	-	-	-
Total gross carrying amount of personal loans	14,322,297	1,059,118	-	15,381,415
Less: allowance for impaired loans	32,219	62,116	-	94,335
Total carrying amount of personal loans	14,290,078	997,002	-	15,287,080
Commercial mortgages				
Low risk	36,365,813	-	-	36,365,813
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount of commercial mortgages	36,365,813	-	-	36,365,813
Less: allowance for impaired loans	11,027	-	-	11,027
Total carrying amount of commercial mortgages	36,354,786	-	-	36,354,786
Commercial loans				
Low risk	5,040,863	-	-	5,040,863
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount of commercial loans	5,040,863	-	-	5,040,863
Less: allowance for impaired loans	1,528	-	-	1,528
Total carrying amount of commercial loans	5,039,335	-	-	5,039,335
Total gross carrying amount				169,346,905
Add: accrued interest				305,725
Total carrying amount				169,652,630

22. Financial instruments *(Continued from previous page)*

Amounts arising from expected credit losses

Reconciliation of the allowance for impaired loans

The following tables show a reconciliation of the opening to the closing balance of the loss allowance from loans to members.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Allowance for impaired loans				
Balance at January 1, 2020	**28,759**	**198,906**	**31,441**	**259,106**
Transfer to 12-month ECL	**67,127**	**(53,621)**	**(13,506)**	**-**
Provision for impairment on loans to members	**86,222**	**-**	**-**	**86,222**
Accounts written off, net of recoveries	**-**	**-**	**(17,935)**	**(17,935)**
Balance at December 31, 2020	**182,108**	**145,285**	**-**	**327,393**
Balance at January 1, 2021	**182,108**	**145,285**	**-**	**327,393**
Transfer to 12-month ECL	**54,619**	**(54,619)**	**-**	**-**
Provision for (recovery of) impairment on loans to members	**(123,706)**	**-**	**22,927**	**(100,779)**
Accounts written off, net of recoveries	**(2,933)**	**-**	**(22,927)**	**(25,860)**
Balance at December 31, 2021	**110,088**	**90,666**	**-**	**200,754**

Credit commitments

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

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

(a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit), guarantees or letters of credit.

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

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2021	*2020*
Unadvanced lines of credit	**24,822,542**	19,816,172
Guarantees and standby letters of credit	**351,997**	356,997
Commitments to extend credit	**4,815,850**	3,228,614

22. Financial instruments *(Continued from previous page)*

Liquidity risk

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

The regulated minimum liquidity ratio is 8%. At year-end, the Credit Union's liquidity exceeded the required regulatory minimum.

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

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.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows 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.

Foreign Currency Risk

Foreign currency risk is the risk that movement in foreign exchange rates will have an adverse effect on the financial condition of the Credit Union. Foreign currency risk arises in the ordinary course of business as the Credit Union meets members demands for foreign currency banking transactions. The impact of foreign currency risk is influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and exposure the currency market. The Credit Union's business is predominantly conducted in Canadian currency with nominal deposits and funds held in US dollars. The Credit Union is not significantly exposed to currency 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. The Credit Union uses interest rate swaps to hedge a portion of its interest rate risk.

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

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans (assets) and interest paid on member deposits (liabilities). 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 Investment Lending Committee in accordance with the Credit Union's policy.

22. Financial instruments *(Continued from previous page)*

Contractual repricing and maturity

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.

	(In thousands)					
					2021	*2020*
	Within one year	***One to four years***	***Over four years***	***Non-Interest Sensitive***	***Total***	*Total*
Assets						
Cash and cash equivalents	6,083	-	-	251	**6,334**	13,428
Average yield %	*0.40*	-	-	-	*0.38*	*0.47*
Financial investments	6,326	24,358	6,860	318	**37,862**	26,650
Average yield %	*0.36*	*1.23*	*1.25*	-	*1.08*	*1.60*
Loans to members	85,624	82,682	22,738	97	**191,141**	169,653
Average yield %	*3.46*	*3.25*	*3.08*	-	*3.32*	*3.73*
Trade and other receivables	-	-	-	906	**906**	854
Other assets	-	-	-	8,135	**8,135**	6,651
Subtotal	**98,033**	**107,040**	**29,598**	**9,707**	**244,378**	217,236
Liabilities						
Member deposits	66,364	68,432	3,261	90,072	**228,129**	203,574
Average yield %	*0.94*	*2.39*	*1.00*	-	*1.08*	*1.44*
Other liabilities	-	-	-	674	**674**	747
Deferred tax liability	-	-	-	716	**716**	492
Lease liability	29	91	28	-	**148**	177
Average yield %	*1.34*	*1.34*	*1.34*	-	*1.34*	*1.54*
Members' equity	-	-	-	14,711	**14,711**	12,246
	66,393	**68,523**	**3,289**	**106,173**	**244,378**	217,236
Interest rate swaps	(5,000)	5,000	-	-	**-**	-
Net mismatch	**26,640**	**43,517**	**26,309**	**(96,466)**	**-**	-

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase financial margin by $116,000 or 0.8% (2020 - $61,000 or 0.4%). A 1.0% decrease in the interest rate would decrease financial margin by $277,000 or 1.8% (2020 - $82,000 or 0.6%).

23. Credit facilities

The Credit Union has authorized lines of credit with Central 1 as follows:

Canadian funds	$ 1,500,000
US dollar funds	$ 50,000
Capital markets	$ 100,000
Demand loan facility	$ 4,000,000

At December 31, 2021, the Credit Union had not utilized any of the credit facilities.