Grant Thornton

Consolidated Financial Statements

Ukrainian Credit Union Limited

December 31, 2021

Contents

Independent Auditor's Report

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To the Members of
Ukrainian Credit Union Limited:

Opinion

We have audited the financial statements of Ukrainian Credit Union Limited ("the Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in members' equity and consolidated statement of cash flow 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 Ukrainian Credit Union Limited 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 (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the 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 and Those Charged with Governance for the 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 a 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 to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue and 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 scepticism 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.

Grant Thornton LLP

Mississauga, Canada
March 14, 2022

Chartered Professional Accountants
Licensed Public Accountants

Ukrainian Credit Union Limited
Consolidated Statement of Financial Position

(In thousands)

December 31		**2021**		2020
Assets				
Cash and cash equivalents (Note 5)	**$**	**5,497**	$	10,270
Investments (Note 6)		**75,466**		91,845
Loans to members (Note 7)		**1,012,588**		862,911
Prepaid expenses and other		**8,614**		5,891
Property and equipment (Note 10)		**14,716**		15,564
Intangible assets (Note 11)		**2,357**		1,765
Derivative financial instruments (Note 9)		**7**		1,578
Deferred income taxes (Note 19)		**676**		813
	$	**1,119,921**	$	990,637
Liabilities				
Liabilities to non-members				
Accounts payable and accrued liabilities (Note 13)	**$**	**8,178**	$	8,591
Lease liability (Note 14)		**1,212**		1,415
Secured borrowings (Note 8)		**114,030**		110,212
Corporate income taxes		**320**		522
		123,740		120,740
Members' deposits (Note 15)		**927,130**		805,971
Shares (Note 17)		**4,256**		4,201
		1,055,126		930,912
Equity				
Shares (Note 17)		**17,115**		17,115
Retained earnings		**43,402**		39,570
Contributed surplus		**5,734**		5,734
Accumulated other comprehensive income (AOCI)		**(1,456)**		(2,694)
		64,795		59,725
	$	**1,119,921**	$	990,637

Commitments (Note 23)

Post-reporting date events (Note 29)

Slawko Borys, Chair

Michael Paul Mychailyshyn, Corporate Secretary

See accompanying notes to the consolidated financial statements

Ukrainian Credit Union Limited
Consolidated Statement of Comprehensive Income

(In thousands)

Year ended December 31	2021	2020
Financial income		
Interest on loans	$ 33,918	$ 32,741
Other interest revenue	757	700
	34,675	33,441
Financial expense		
Interest on deposits	9,344	12,013
Other interest expense	1,956	2,068
Provision for impaired loans (Note 7)	258	2,008
	11,558	16,089
Financial margin	23,117	17,352
Other income (Note 20)	3,302	3,547
	26,419	20,899
Operating expenses		
Personnel and related	11,724	11,195
Occupancy	1,958	2,037
Administrative and general	1,799	1,713
Data and transaction processing	3,457	2,097
Promotion, donations and advertising	919	883
Insurance	658	671
League dues and regulatory assessments	262	241
	20,777	18,837
Income before distributions and income taxes	5,642	2,062
Distributions to members (Note 18)	(33)	(33)
Income before income taxes	5,609	2,029
Income taxes (Note 19)		
Current	1,259	661
Deferred	(166)	(435)
	1,093	226
Net income	4,516	1,803
Other comprehensive income (net of tax)		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of net defined benefit liability	1,742	(537)
Items that may subsequently be reclassified to profit or loss		
Change in unrealized (loss)/gain on swaps	(504)	872
Total other comprehensive income for the year	1,238	335
Total comprehensive income for the year	$ 5,754	$ 2,138

See accompanying notes to the consolidated financial statements

Ukrainian Credit Union Limited
Consolidated Statement of Changes in Members' Equity

(In thousands)
Year ended December 31, 2021

	Shares	Retained Earnings	Contributed Surplus	AOCI	Total
Balance at January 1, 2020	**$ 7,481**	**$ 38,261**	**$ 5,734**	**$ (3,029)**	**$ 48,447**
Net income	-	1,803	-	-	1,803
Distributions to members (Note 18)	-	(494)	-	-	(494)
Issue of investment shares	9,634	-	-	-	9,634
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of net defined benefit liability	-	-	-	(537)	(537)
Items that will be reclassified subsequently to profit or loss					
Change in unrealized gain on swaps	-	-	-	872	872
Balance at December 31, 2020	**17,115**	**39,570**	**5,734**	**(2,694)**	**59,725**
Net income	-	4,516	-	-	4,516
Distributions to members (Note 18)	-	(684)	-	-	(684)
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of net defined benefit liability	-	-	-	1,742	1,742
Items that will be reclassified subsequently to profit or loss					
Change in unrealized loss on swaps	-	-	-	(504)	(504)
Balance at December 31, 2021	**$ 17,115**	**$ 43,402**	**$ 5,734**	**$ (1,456)**	**$ 64,795**

See accompanying notes to the consolidated financial statements

Ukrainian Credit Union Limited
Consolidated Statement of Cash Flows

(In thousands)

Year ended December 31		2021		2020
Decrease in cash and cash equivalents				
Operating activities				
Interest received on loans	**$**	**33,879**	$	32,912
Interest on investments and other income received		**3,243**		3,465
Interest paid on deposits		**(10,752)**		(12,689)
Other interest paid		**(1,956)**		(2,068)
Payments to suppliers and employees		**(18,699)**		(17,925)
Income taxes paid		**(1,349)**		(262)
Changes in member activities:				
Net increase in loans to members		**(149,896)**		(42,969)
Net increase in members' deposits		**122,567**		57,046
		(22,963)		17,510
Financing activities				
Decrease in external borrowings		**-**		(14,000)
Net proceeds from secured borrowings		**3,818**		11,757
Distributions to members		**(717)**		(527)
Special shares issued		**-**		9,636
Member shares issued		**55**		37
		3,156		6,903
Investing activities				
Decrease (increase) in investments (net)		**16,566**		(28,664)
Purchase of property and equipment		**(820)**		(947)
Purchase of intangible assets		**(712)**		(1,086)
		15,034		(30,697)
Net decrease in cash and cash equivalents		**(4,773)**		(6,284)
Cash and cash equivalents				
Beginning of year		**10,270**		16,554
End of year	**$**	**5,497**	$	10,270

See accompanying notes to the consolidated financial statements

1. Governing legislation and nature of operations

The Credit Union is incorporated under the Ontario Credit Unions and Caisses Populaires Act. The Credit Union serves members in various cities in the Province of Ontario. The Credit Union's head office is located at 145 Evans Avenue, Suite 300, Toronto, Ontario.

The Credit Union exists to help members meet their financial needs in their local communities. The Credit Union's principal activities are the provision of deposit-taking and other financial services on a co-operative basis.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors (Board) on March 14, 2022.

2. Basis of presentation, compliance and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in thousands of Canadian dollars.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

During 2018, the Credit Union incorporated a separate legal entity, 2636050 Ontario Limited ("2636050"), for the purposes of mitigating potential risk from real estate acquisitions. In May 2018, 2636050 purchased a building in Ottawa to house a new Ottawa branch and allow for rental of excess premises. The results of 2636050 are consolidated with that of the Credit Union from May 2018 onwards.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with Central 1 Credit Union (Central 1) and banks, net of bank indebtedness, and short-term deposits with original maturities of three months or less from the date of acquisition.

Financial Instruments

IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Credit Union's business model for managing the assets and the instruments' contractual cash flow characteristics to determine the appropriate classification and measurement category.

All financial instruments are initially measured at fair value. Subsequent to initial recognition, all financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost. Financial assets are reclassified between measurement categories only when the business model for managing them changes.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and whether its contractual cash flow characteristics represent solely payments of principal and interest ("SPPI"). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated and instead, the financial instrument as a whole is assessed for classification.

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

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

After initial recognition, these are measured at amortized cost using the effective interest method.

The Credit Union measures loans to members, cash and cash equivalents, high quality liquid assets ("HQLA") and liquidity reserve deposits and other deposits at amortized cost.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply, as disclosed below.

3. Summary of significant accounting policies (continued)

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Portfolio investments and the Credit Union's derivative financial instruments are classified as FVTPL under IFRS 9.

Financial assets at fair value through other comprehensive income (FVOCI)
The Credit Union accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Class A, Class E Central 1 shares would typically be FVTPL under IFRS 9. The Credit Union has made an irrevocable election to present in OCI subsequent changes in the fair value of these equity instruments as they are not held for trading. The accounting for this election is different from the accounting under the FVOCI category for debt instruments because the impairment requirements in IFRS 9 are not applicable and amounts recognized in OCI are never reclassified to profit or loss. Only dividend income on such equity instruments is recognized in profit or loss.

Recognition and derecognition
Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial liabilities
Under IFRS 9, fair value changes are generally presented as follows: (i) the amount that is attributable to changes in the credit risk of the liabilities is presented in other comprehensive income ("OCI") and (ii) the remaining amount of change in the fair value is presented in earnings or losses.

The Credit Union's financial liabilities include secured borrowings, members' deposits, shares classified as liabilities and derivative financial instruments.

3. Summary of significant accounting policies (continued)

Financial liabilities (continued)
Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss other than derivative financial instruments that are designated and effective as hedging instruments, with gains and losses recognized through OCI.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Impairment of financial assets

Under IFRS 9, impairment requires the use of more forward-looking information to recognize expected credit losses – the 'expected credit loss' ("ECL") model. Recognition of credit losses requires the Credit Union to consider a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. 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
The model has three stages:

(Stage 1) 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 lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the 12 months after the reporting date.

3. Summary of significant accounting policies (continued)

ECL stage development (continued)
(Stage 2) 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 a 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 its 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 unfavorable 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 places the financial instrument in the Stage 1 category and reverts to recognizing 12 months of ECL.

(Stage 3) 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. Any financial instruments where the borrower has filed for bankruptcy or consumer proposal will also be re-staged to Stage 3.

Due to the inclusion of relative credit deterioration criteria and consideration of forward-looking information, lifetime credit losses are generally recognized earlier under IFRS 9. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Changes in the loss allowance, including the movement between 12 months and lifetime expected credit losses, is recorded in the Consolidated Statement of Comprehensive Income.

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery. When financial instruments are secured, this is generally after all collateral has been realized or transferred to the Credit Union, or in certain circumstances, when the net realizable value of any collateral and other available information suggests that there is no reasonable expectation of further recovery. In events where a bankruptcy or consumer proposal occurs, management will file all required documentation with the Trustee and realize on any available security with the unrecoverable balance being immediately written off. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for losses.

3. Summary of significant accounting policies (continued)

Derivative financial instruments

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Hedges
The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates. The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Consolidated Statement of Financial Position.

Derivative financial instruments are accounted for at fair value through profit or loss (FVTPL) except for derivatives designated as hedging instruments which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Credit Union actually hedges and the quantity of the hedging instrument that the Credit Union actually uses to hedge that quantity of hedged item.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The hedged item and the effectiveness of the hedge are reliably measurable; and
- The hedging relationship meets all of the hedge effectiveness requirements described above at inception and on an ongoing basis. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the Consolidated Statement of Financial Position. The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments.

3. Summary of significant accounting policies (continued)

Hedges (continued)
For hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in OCI until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in OCI are frozen and reclassified from the accumulated OCI to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in OCI is transferred immediately to profit or loss.

Other non-hedge derivatives
The Credit Union classifies certain financial assets upon initial recognition at fair value through profit or loss. Financial instruments included in this category are the embedded derivatives and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Loans to members

Loans are initially measured at fair value and subsequently re-measured at their amortized cost, net of allowance, using the effective interest rate method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest for all loans is accounted for on the accrual basis.

Loan fees and costs

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be material and an adjustment to loan yield are deferred and amortized using the effective interest method. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized either over the average remaining term of the original mortgage, or over the term of the newly renegotiated mortgage.

Loan costs that are considered material are deferred and amortized using the effective interest method.

3. Summary of significant accounting policies (continued)

Bad debts written off

Bad debts are written off from time to time as determined by management and approved by the Board when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

Mortgage securitization

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

Interest income and expense

Interest income and expense are recognized in the Consolidated Statement of Comprehensive Income for all interest-bearing financial instruments accounted for using amortized cost and other financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts the expected future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. The application of this method has the effect of recognizing income and expense on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest, the Credit Union estimates cash flows (using projections based on its experience of members' behaviour) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in net income for the year.

3. Summary of significant accounting policies (continued)

Property and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	20 to 30 years
Computer equipment	3.5 to 10 years
Other furniture, general equipment	5 to 10 years
Capital and leasehold improvements	Over the lease term
Vehicles	5 years

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

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within 'other income' or 'other expenses'.

Impairment of non-financial assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net earnings, except to the extent they reverse gains previously recognized in OCI.

Intangible assets

Intangible assets consist of computer software used in the Credit Union's banking system and other system software that qualify for recognition as an intangible asset. Software is initially accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over the estimated useful life of 7 to 10 years. Residual values and useful lives are reviewed at each reporting date.

3. Summary of significant accounting policies (continued)

Leased assets

The Credit Union as a lessee

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Credit Union depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Credit Union also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

3. Summary of significant accounting policies (continued)

Measurement and recognition of leases as a lessee (continued)

On the statement of financial position, right-of-use assets have been included in property and equipment.

Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

Members' shares

Membership shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union's Board, the shares are classified as equity, as per IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Distributions to members

Distributions are recognized in net income or members' equity when circumstances indicate the Credit Union has a constructive obligation, of which it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in OCI or directly in equity.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Credit Union's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in OCI (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in OCI or equity, respectively.

3. Summary of significant accounting policies (continued)

Pension plan

The Credit Union sponsors a defined benefit pension plan for qualified employees who have chosen to participate.

Under the Credit Union's defined benefit plan, the amount of pension benefit that an employee will receive on retirement is dependent on one or more factors such as age, years of service and compensation. The legal obligation for any benefit remains with the Credit Union.

Management estimates the net defined benefit asset or liability and the re-measurements, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling if any, excluding interest, flowing through OCI annually with the assistance of independent actuaries. This is based on standard rates of inflation, and mortality. It also takes into account the Credit Union's anticipation of future salary increases and retirement experience. Discount factors are determined at each year end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The Credit Union determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense is recognized in personnel and related expenses in net income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. The Credit Union recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Credit Union also sponsors a separate defined contribution plan for employees that joined the Credit Union through the merger with So-Use Credit Union in 2010.

Standards, Amendments and Interpretations not yet effective

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Credit Union.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Credit Union's consolidated financial statements.

4. Significant management judgment in applying accounting policies and estimation uncertainty

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The effect of a change in accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both. Information about the judgments, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

Estimates

Impairment
An impairment loss is recognized for the amount by which an asset's or cash generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

The actual results may vary, and may cause significant adjustments to the Credit Union's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets
Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2021, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are presented in Notes 10 and 11. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Fair value of financial instruments
Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

4. Significant management judgment in applying accounting policies and estimation uncertainty (continued)

Allowance for credit losses
The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by loan type and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 30-day past due and delinquency status. The assessment of a significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Pension plan
Management estimates the defined benefit liability or asset annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The defined benefit accrued benefit liability of $2,160,000 (December 31, 2020 - $3,826,000) is based on standard rates of inflation and mortality. It also takes into account the Credit Union's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability or asset. Estimation uncertainties exist which may vary significantly in future appraisals of the Credit Union's defined benefit obligation.

Income taxes
The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Judgments

Allowance for credit losses
In determining whether an impairment loss should be recorded in the Consolidated Statement of Comprehensive Income the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

(All tabular amounts reported are in thousands)

5. Cash and cash equivalents

	2021	2020
Cash, current accounts, items in transit net of bank indebtedness	**$ 5,497**	$ 10,270

The Credit Union maintains its current accounts and term deposits with Central 1.

6. Investments

	2021	2020
Liquidity reserve deposits with Central 1	**$ -**	$ 58,198
HQLA	**67,895**	-
Other deposits with Central 1	**5,325**	28,819
Central 1 Credit Union shares	**2,029**	4,798
Other investment	**5**	5
	75,254	91,820
Accrued interest receivable on investments	**212**	25
	$ 75,466	$ 91,845

On January 4, 2021, the Credit Union's Central transitioned the Mandatory Liquidity Pool ("MLP") from a deposit structure to an investment structure. Previously, the Credit Union was required to maintain liquidity reserves with Central 1 Credit Union (Central 1) at 6% of total assets as at the conclusion of each month. The deposits could be withdrawn only if there was a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The new MLP consisting of high quality liquid assets ("HQLA") meets regulatory requirements and ensures the funds are bankruptcy remote and creditor-proof. The HQLA investments are due within four years. At maturity, these investments are reinvested at market rates for various terms.

Other deposit investments are due between one month and five months. The carrying amounts for deposits approximate fair value due to the deposits having similar characteristics as cash and cash equivalents.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. The Credit Union's allocation of Central 1 shares is based on asset size relative to other Class "A" members. Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. The Credit Union does not intend to dispose of any Central 1 shares in the near future. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

(All tabular amounts reported are in thousands)

7. Loans to members

Residential mortgage loans bear interest at an average annual rate of 3.08% (2020 - 3.20%) and are receivable in interest only or blended principal and interest instalments for a maximum amortization period of 35 years. Some mortgages are open and at the option of the borrower may be paid off at any time without notice or penalty. Principal amount due within one year is estimated at $178,227,000 (2020 – $138,038,000).

Commercial mortgage loans bear interest at an average annual rate of 3.68% (2020 – 4.08%) and are receivable in interest only or blended principal and interest instalments for a maximum amortization period of 35 years. Principal amount due within one year is estimated at $133,003,000 (2020 – $67,353,000).

Personal loans and lines of credit bear interest at an average annual rate of 5.11% (2020 - 5.60%) and are receivable in interest only or blended principal and interest instalments for a maximum amortization period of 10 years. Principal amount due within one year is estimated at $8,841,000 (2020 – $10,931,000).

	2021	2020
Regulatory loan classes		
Residential mortgage loans	**$ 641,485**	$ 551,808
Commercial loans	**338,330**	280,211
Personal loans	**34,810**	32,887
	1,014,625	864,906
Expected credit loss	**(3,402)**	(3,321)
	1,011,223	861,585
Accrued interest receivable	**1,365**	1,326
	$ 1,012,588	$ 862,911

Concentration of risk

The Credit Union has an exposure to groupings of individual loans or related groups of members' loans which exceed 10% of members' equity. There are 12 connections with total loans greater than 10% of members' equity ranging from $5,716,000 to $13,355,000 (2020 - $6,547,000 to- $9,526,000).

The Credit Union's allowance for impaired loans was calculated in accordance with By-Law No. 6 of the Financial Services Regulatory Authority of Ontario (FSRAO).

Canada Emergency Business account ("CEBA")

At December 31, 2021, the Credit Union has disbursed loans in the amount of $10,460,000 (2020 - $6,790,000) on behalf of Central 1 related to the CEBA program. This amount has not been included in the loans balance on the statement of financial position.

(All tabular amounts reported are in thousands)

7. Loans to members (continued)

Allowance for Expected Credit Loss **2021**

	Beginning Balance	Provision	Write-offs Less Recoveries	**Ending Balance**
Residential	$ 1,224	$ (539)	$ -	**$ 685**
Commercial	530	777	-	**1,307**
Personal	1,567	20	(177)	**1,410**
	$ 3,321	$ 258	$ (177)	**$ 3,402**

Allowance for Expected Credit Loss **2020**

	Beginning Balance	Provision	Write-offs Less Recoveries	**Ending Balance**
Residential	$ 777	$ 447	$ -	**$ 1,224**
Commercial	383	147	-	**530**
Personal	472	1,414	(319)	**1,567**
	$ 1,632	$ 2,008	$ (319)	**$ 3,321**

The following tables reconcile the opening and closing allowance for loans to members, by stage, for each major product category. Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding re-measurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period, including those assets that were derecognized following a modification of terms.
- De-recognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred, including those assets that were derecognized following a modification of terms.
- Re-measurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- During the twelve months ended December 31, 2021, there were no significant changes to the models used to estimate expected credit losses.

(All tabular amounts reported are in thousands)

7. Loans to members (continued)

Allowance for expected credit loss

Residential	Stage 1	Stage 2	Stage 3	**Ending Balance**
Balance, beginning of year	$ 1,153	$ 69	$ 2	$ **1,224**
Re-measurements	(593)	56	(2)	**(539)**
Write-offs less recoveries	-	-	-	**-**
Balance, ending of year	$ 560	$ 125	$ -	$ **685**

Commercial	Stage 1	Stage 2	Stage 3	**Ending Balance**
Balance, beginning of year	$ 443	$ -	$ 87	$ **530**
Re-measurements	(111)	904	(16)	**777**
Write-offs less recoveries	-	-	-	**-**
Balance, ending of year	$ 332	$ 904	$ 71	$ **1,307**

Personal	Stage 1	Stage 2	Stage 3	**Ending Balance**
Balance, beginning of year	$ 803	$ 751	$ 13	$ **1,567**
Re-measurements	169	(167)	18	**20**
Write-offs less recoveries	(57)	(111)	(9)	**(177)**
Balance, ending of year	$ 915	$ 473	$ 22	$ **1,410**

There were no changes in stages during the year.

Key Assumptions in determining the allowance for impaired loans collective provision

The measurement of ECL is a complex calculation that involves a large number of interrelated variables. The key drivers of changes in ECL include the following:

- Changes in the credit quality of the borrower or instrument, reflected in changes in internal or external risk ratings. The Credit Union's risk rating process assigns a score to each commercial loan based on industry standards as outlined by FSRAO. Residential mortgages and personal loans are assigned a risk rating collectively by product type and security. All commercial and revolving residential mortgages/personal loans are reviewed annually and their risk ratings updated accordingly;
- Changes in forward-looking macroeconomic conditions. Management utilizes statistically significant provincial data for unemployment rates and real estate rates and national data for real GDP, household debt levels and government of Canada 3-month bond rates;
- Changes in scenario design and the weights assigned to each scenario; and
- Migration between stages, which can be triggered by changes to any of the above inputs.

(All tabular amounts reported are in thousands)

7. **Loans to members** (continued)

At December 31st, the balances of loans in arrears within the portfolio (excluding accrued interest) were as follows:

				2021
	Residential Mortgages	Personal Loans	Commercial Loans	**Total**
Current $	636,180	$ 34,602	$ 337,717	**$ 1,008,499**
Less than 30 days in arrears	4,286	68	93	**4,447**
30 - 89 days	437	65	-	**502**
90 - 179 days	-	10	-	**10**
180 – 365 days	55	51	-	**106**
More than 365 days	527	14	520	**1,061**
	$ 641,485	$ 34,810	$ 338,330	**$ 1,014,625**

				2020
	Residential Mortgages	Personal Loans	Commercial Loans	Total
Current	$ 548,959	$ 32,518	$ 279,251	$ 860,728
Less than 30 days in arrears	1,066	265	-	1,331
30 - 89 days	650	66	441	1,157
90 - 179 days	569	23	-	592
180 – 365 days	-	12	285	297
More than 365 days	564	3	234	801
	$ 551,808	$ 32,887	$ 280,211	$ 864,906

(All tabular amounts reported are in thousands)

8. Secured borrowings

The Credit Union enters into mortgage securitization transactions. In accordance with the Credit Union's accounting policy the transferred financial assets continue either to be recognized in their entirety or to the extent of the continuing involvement, are derecognized in their entirety.

Transferred financial assets that are not derecognized in their entirety

The table below sets out the carrying amounts and fair values related to transferred mortgages to members that are not derecognized in their entirety and any associated liabilities. All mortgages to members are classified as loans and receivables and are measured at amortized cost in the Consolidated Statement of Financial Position.

	2021	2020
Carrying amounts of assets, included in loans to members	**$ 112,419**	$ 108,913
Carrying amount of associated liabilities, recognized as secured borrowings	**$ 114,030**	$ 110,212

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.

9. Derivative financial instruments

Asset liability management

In the ordinary course of business, the Credit Union purchases derivative instruments from Central 1 and Concentra in order to hedge against exposure to interest rate fluctuations.

Derivative instruments have a fair value that varies based on the particular instrument and changes in interest rates; the purpose of these instruments is to provide a hedge against interest rate fluctuations by improving the Credit Union's matching of its asset and liability position.

The following table summarizes the notional amounts and fair value of the Credit Union's derivative portfolio as at December 31, 2021 and 2020.

					December 31, 2021
	Within 1 year	**1 to 5 years**	**Total**	**Fair Value Assets**	**Liabilities**
Receive fixed interest rate swaps	**$ 25,000**	**$ -**	**$ 25,000**	**$ 7**	**$ -**
Forward starting receive fixed interest rate swaps	**-**	**-**	**-**	**-**	**-**
December 31, 2021 total	**$ 25,000**	**$ -**	**$ 25,000**	**$ 7**	**$ -**

(All tabular amounts reported are in thousands)

9. Derivative financial instruments (continued)

									December 31, 2020
		Within 1 year		1 to 5 years		Total		Fair Value Assets	Liabilities
Receive fixed interest rate swaps	$	155,000	$	-	$	155,000	$	1,576	$ -
Forward starting receive fixed interest rate swaps		-		25,000		25,000		2	-
December 31, 2020 total	$	155,000	$	25,000	$	180,000	$	1,578	$ -

(All tabular amounts reported are in thousands)

10. Property and equipment

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Vehicles	Total
Cost							
Balance on December 31, 2020	$ 3,808	$ 11,287	$ 5,468	$ 5,016	$ 5,926	$ 61	$ 31,566
Additions	-	227	100	106	354	-	787
Write-off fully depreciated unused	-	-	(2,735)	(2,964)	(3,475)	-	(9,174)
Reclasses to Intangibles/Other	-	-	(3)	(199)	-	-	(202)
Balance on December 31, 2021	**$ 3,808**	**$ 11,514**	**$ 2,830**	**$ 1,959**	**$ 2,805**	**$ 61**	**$ 22,977**
Accumulated depreciation							
Balance on December 31, 2020	$ -	$ 2,359	$ 4,525	$ 4,098	$ 4,990	$ 30	$ 16,002
Depreciation expense	-	584	289	359	210	13	1,455
Write-off fully depreciated unused	-	-	(2,735)	(2,964)	(3,475)	-	(9,174)
Reclasses to Intangibles/Other	-	-	2	(24)	-	-	(22)
Balance on December 31, 2021	**$ -**	**$ 2,943**	**$ 2,081**	**$ 1,469**	**$ 1,725**	**$ 43**	**$ 8,261**
Net book value							
December 31, 2020	$ 3,808	$ 8,928	$ 943	$ 918	$ 936	$ 31	$ 15,564
December 31, 2021	**$ 3,808**	**$ 8,571**	**$ 749**	**$ 490**	**$ 1,080**	**$ 18**	**$ 14,716**

As of December 31, 2021, right-of-use assets in the amount of $1,739,000 (2020 - $1,739,000) relating to five premises leased by the Credit Union are included in buildings above. During the year, depreciation charged on right-of-use assets was $224,000 (2020 - $222,000). Accumulated depreciation at December 31, 2021 was $603,000 (2020 - $379,000), leaving a net book value $1,136,000 (2020 - $1,360,000). The length of lease term vary lease by lease but range between 2022 and 2030. Management has incorporated lease extension terms on two of the five leases.

During 2021, unused fully depreciated assets were written-off. The net impact to the net book value of the write-off was nil. In addition, some assets previously categorized as computer related were reclassed to intangibles.

(All tabular amounts reported are in thousands)

11. Intangible assets

The Credit Union has recorded an intangible asset for the purchase and implementation of banking system software. Included in the cost is the purchase price of the software contract, the cost of salaries, wages and benefits of employees directly involved in the implementation, and the cost of professional fees arising directly from testing the system and bringing the asset to working condition. Intangible assets also include the cost of trademarks and other system software. Amortization of $335,000 has been included in data and transaction processing expense in 2021 (2020 - $145,000). Intangibles of $202,000 were reclassified from other capital assets during 2021, in addition to fully amortized unused intangibles of $1,960,000 being written-off, having a net book value of nil.

	Cost	Accumulated amortization	**2021**	2020
Intangible assets	$ 3,414	$ 1,057	**$ 2,357**	$ 1,765

12. External borrowings

On September 22, 2021, the Credit Union revised its credit facilities with Central 1, increasing the total available credit by $15,000,000 to $78,783,000. The revised credit facilities include a $10 million core line of credit and a $62.6 million core notice facility. At December 31, 2021, $Nil (2020 - $Nil) was drawn on the core notice facility.

Assets have been pledged as security for $78,783,000 (2020 - $63,783,000) of authorized credit facilities at Central 1 by an assignment of book debts and a general security agreement.

A portion of the Credit Union's line of credit is used as security for letters of credit granted to members. As December 31, 2021, $923,000 (2020 - $60,000) of the line of credit secured such letters of credit.

13. Accounts payable and accrued liabilities

	2021	2020
Accounts payable and accrued liabilities	**$ 6,018**	$ 4,765
Pension plan liability	**2,160**	3,826
	$ 8,178	$ 8,591

(All tabular amounts reported are in thousands)

14. Lease liability

	2021	2020
Lease liabilities (current)	$ 203	$ 233
Lease liabilities (non-current)	1,009	1,182
	$ 1,212	$ 1,415

Lease payments not recognized as a liability

The Credit Union has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of a lease liability is as follows:

	2021	2020
Leases of low value assets	$ 102	$ 98
Variable and month-to-month lease payments	469	477
	$ 571	$ 575

15. Members' deposits

	2021	2020
Chequing accounts	$ 208,057	$ 175,997
Demand deposits	155,257	141,905
Term deposits	396,424	326,252
Tax-free savings accounts	61,733	58,775
Registered savings deposits	74,447	73,263
Registered income funds	27,441	24,600
	923,359	800,792
Accrued interest on deposits	3,771	5,179
	$ 927,130	$ 805,971

The average composite interest rate in force at December 31, 2021 was 1.05% (2020 – 1.24%).

(All tabular amounts reported are in thousands)

16. Employee Pension Benefit Plan

The Credit Union has a defined benefit post-employment plan which covers substantially all retired employees. The Credit Union has adopted the IFRS recommendations for accounting for employee future benefits dealing with the recognition, measurement, presentation and disclosure of benefits payable to employees when they have withdrawn from active service.

The Credit Union accrues its obligations and related costs under employee benefit plans and has adopted the following policies:

- The cost of the post-employment benefits earned by employees is actuarially determined using the projected benefit method. The objective under this method is to expense each member's benefits under the plan as they accrue, taking into consideration projections of benefit cost to and during retirement
- Actuarial gains and losses are recognized in OCI

Components of Defined Benefit Cost recognized in net income

		2021		2020
Current service cost	**$**	**697**	$	494
Interest cost		**115**		109
Total defined benefit cost recognized in net income	**$**	**812**	$	603
Remeasurements recognized in OCI				
Effect of changes in financial assumptions – gain(loss)	**$**	**1,742**	$	**(537)**

	2021	2020
Weighted Average Assumptions for Defined Benefit Cost Recognized in Profit or Loss		
Discount Rate	**3.00%**	3.20%
Weighted average assumptions for Disclosure		
Discount Rate	**3.00%**	2.60%

Sensitivity Analysis

		2021		2020
Effect on benefit obligation for fiscal year end				
100 basis points increase in discount rate	**$**	**(2,481)**	$	(2,648)
100 basis points decrease in discount rate		**2,983**		3,206
100 basis points increase in salary scale		**909**		910
100 basis points decrease in salary scale		**(856)**		(859)

(All tabular amounts reported are in thousands)

16. Employee Pension Benefit Plan (continued)

Components of Defined Benefit Cost

	2021	2020
Total defined benefit cost recognized in net income	$ 812	$ 603
Total remeasurements recognized in OCI – (gain) loss	(1,742)	537
	$ (930)	$ 1,140
Change in benefit obligation		
Benefit obligation at beginning of year	$ 15,217	$ 12,698
Current service cost (employer portion)	697	494
Member contributions	233	224
Interest cost	412	426
Employer paid benefit payments	(587)	(222)
Actuarial (gain) loss	(1,234)	1,597
Benefit obligation at end of year	14,738	15,217
Market value of plan assets	12,578	11,391
Cumulative amount recognized in OCI	(1,869)	(3,915)
Net benefit prepaid at year end recognized in statement of financial position	$ 291	$ (89)

	2022
Estimated employer paid benefit payments	$ 198

17. Shares

	2021 Liability	2021 Equity	2020 Liability	2020 Equity
Membership shares	$ 3,422	$ -	$ 3,367	$ -
Class A shares				
75th Anniversary Series	-	9,613	-	9,613
65th Anniversary Series	249	2,238	249	2,238
2010 Special Series	400	3,600	400	3,600
1999 So-Use Series	185	1,664	185	1,664
	$ 4,256	$ 17,115	$ 4,201	$ 17,115

These shares are not covered by deposit insurance.

17. Shares (continued)

Membership shares

The Credit Union's charter authorizes the issue of an unlimited number of Membership shares, an unlimited number of Patronage shares, and an unlimited number of Preference shares. Credit Unions must prescribe the number of shares each member must own. Ukrainian Credit Union Limited requires 30 shares as a condition of adult membership, 10 shares for individuals under the age of eighteen, or 1 share for individuals who enrol in designated youth accounts. Membership shares are issued at $5 each and shares may be redeemed for $5 each upon withdrawal from membership. Because they are redeemable, membership shares are classified as a liability rather than as equity on the balance sheet. The number of shares outstanding at year end is 684,000 (2020 - 673,000).

Class A Shares

In August 2019, the Credit Union approved an investment share offering which resulted in investment shares being authorized for purchase by the membership. The Credit Union completed the share issue of the Class A Shares, 75th Anniversary Series, with a par value of $1 in July 2020. The shares have restricted voting rights as outlined by the Act. Each share is allowed one vote where permissible. Holders of Class A shares are not entitled to vote separately as a class or series on amendments to the Credit Union's articles of incorporation which effect an exchange, reclassification or cancellation of all or part of the shares of the class or that series, or create a new class of shares equal or superior to the Class A shares. The shares are redeemable on a first-come, first-served basis at the discretion of the Board. The shares are not redeemable for five years following their issue date, except under specific circumstances. Thereafter, redemption in any given year cannot exceed 10% of the issued and outstanding Class A shares, 75th Anniversary series as reported on the audited financial statements for the preceding fiscal year and in no case shall redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Dividends are non-cumulative and are payable as declared by the Board before payment of dividends on membership shares. At December 31, 2021, there were 9,613,000 shares issued and outstanding (2020 – 9,613,000).

In July 2008, the Credit Union approved an investment share offering which resulted in investment shares being authorized for purchase by the membership. The Credit Union completed the share issue of the Class A Shares, 65th Anniversary Series, with a par value of $1 in June 2009. The shares have restricted voting rights as outlined by the Act. Each share is allowed one vote where permissible. Holders of Class A shares are not entitled to vote separately as a class or series on amendments to the Credit Union's articles of incorporation which effect an exchange, reclassification or cancellation of all or part of the shares of the class or that series, or create a new class of shares equal or superior to the Class A shares. The shares are redeemable on a first-come, first-served basis at the discretion of the Board. Redemption for the first five years in any given year cannot exceed 10% of the issued and outstanding Class A shares, 65th Anniversary series as reported on the audited financial statements for the preceding fiscal year and in no case shall redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Dividends are non-cumulative and are payable as declared by the Board before payment of dividends on membership shares. At December 31, 2021, there were 2,487,000 shares issued and outstanding (2020 – 2,487,000).

(All tabular amounts reported are in thousands)

17. Shares (continued)

Class A Shares (continued)

In 2009, the Credit Union approved an investment share offering which resulted in investment shares being authorized for purchase by the membership. The Credit Union completed the share issue of the Class A Series 2010, with a par value of $1 in November 2010. The shares have restricted voting rights as outlined by the Act. Each share is allowed one vote where permissible. Holders of Class A shares are not entitled to vote separately as a class or series on amendments to the Credit Union's articles of incorporation which effect an exchange, reclassification or cancellation of all or part of the shares of the class or that series, or create a new class of shares equal or superior to the Class A shares. The shares were redeemable after November 1, 2015 provided that total redemptions in any fiscal year do not exceed an amount equal to 10% of the total Class A Series 2010 Special Shares at the end of the previous fiscal year. In no case shall redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Dividends are non-cumulative and are payable as declared by the Board before payment of dividends on membership shares. At December 31, 2021, there were 4,000,000 shares issued and outstanding (2020 – 4,000,000).

In October 2010, the Credit Union acquired the outstanding Class A Special Shares issued in 1999 by So-Use Credit Union (So-Use) as a result of the business combination with So-Use. These shares have a par value of $1 and have restricted voting rights as outlined by the Act. Each share is allowed one vote where permissible. Holders of Class A shares are not entitled to vote separately as a class or series on amendments to the Credit Union's articles of incorporation which effect an exchange, reclassification or cancellation of all or part of the shares of the class or that series, or create a new class of shares equal or superior to the Class A shares. These shares are redeemable provided total redemptions in any fiscal year do not exceed an amount equal to 10% of the total Class A Shares So-Use 1999 Series at the end of the previous fiscal year. In no case shall redemption occur which would cause the Credit Union to fail to comply with Regulatory Capital and liquidity requirements. Dividends are non-cumulative and are payable as declared by the Board before payment of dividends on membership shares. At December 31, 2021, there were 1,849,000 shares issued and outstanding (2020 – 1,849,000).

18. Distributions to members

	2021		2020	
	Net Income	**Equity**	Net Income	Equity
Class A share dividends				
75th Anniversary Series	**$ -**	**$ 384**	$ -	$ 194
65th Anniversary Series	**10**	**90**	10	90
2010 Special Series	**16**	**144**	16	144
1999 So-Use Series	**7**	**66**	7	66
	$ 33	**$ 684**	$ 33	$ 494

(All tabular amounts reported are in thousands)

18. Distributions to members (continued)

At the Credit Union's annual general meeting in both 2021 and 2020, the membership passed a resolution that, in lieu of paying a dividend on membership shares in 2021 and 2020, respectively, the amount for such dividend be donated by Ukrainian Credit Union Limited to one or more reputable Canadian or International organizations in support of Ukraine's efforts to maintain a democratic, independent state within the borders guaranteed by the Budapest Memorandum of 1994. In addition, for both 2021 and 2020, it was also resolved that the amount of such dividend may also be donated for parliamentary or public policy leadership development programs that build community capacity to assist either Ukraine or the Ukrainian Canadian community or for mitigating the effects of the COVID-19 pandemic.

19. Income taxes

The significant components of tax expense included in net income are composed of:

	2021	2020
Deferred tax benefit		
Origination and reversal of temporary differences	**$ (166)**	$ (435)
Current tax expense		
Based on current year taxable income	**1,259**	661
Total income tax expense	**$ 1,093**	$ 226

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2021	2020
Deferred tax		
Re-measurement of net defined benefit liability	**$ 303**	$ (137)
Current tax		
Reclassification of realized gains on available-for-sale investments and interest rate swaps	**(112)**	194
Total tax effect of amounts recorded in other comprehensive income	**$ 191**	$ 57

(All tabular amounts reported are in thousands)

19. Income taxes (continued)

	Dec 31, 2020	SoFP movement in equity	Recognized in net income	**Dec 31, 2021**
Deferred tax liabilities (assets) relate to:				
Non-deductible allowance for doubtful accounts	$ (650)	$ -	$ (146)	**$ (796)**
Loss carryforward not utilized	(60)	-	(68)	**(128)**
Property and equipment	183	-	45	**228**
Acquisition of United Ukrainian and So-Use Credit Union assets	435	-	-	**435**
Re-measurement of net defined benefit liability	(696)	303	-	**(393)**
Pension liability	(25)	-	3	**(22)**
Deferred tax asset	$ (813)	$ 303	$ (166)	**$ (676)**

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 18.2% (2020 – 18.2%) are as follows:

	2021	2020
Income before taxes	**$ 5,609**	$ 2,029
Expected taxes based on the statutory rate of 18.2% (2020 – 18.2%)	**1,021**	370
Tax effect of distributions to members charged against retained earnings	**(124)**	(90)
Other non-deductible items	**3**	2
Rate differences	**-**	(17)
True up in respect of prior years	**68**	(18)
Other	**125**	(21)
Total income tax expense	**$ 1,093**	$ 226

20. Other Income

	2021	2020
Service charges and commissions	**$ 2,255**	$ 1,922
Other	**1,047**	1,625
	$ 3,302	$ 3,547

(All tabular amounts reported are in thousands)

21. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including executive management and the Board. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Disclosures.*

	2021	2020
Compensation		
Salaries and other short-term employee benefits	**$ 1,457**	$ 1,355
Total pension and other post-employment benefits	**106**	88
	$ 1,563	$ 1,443

	2021	2020
Loans to key management personnel		
Aggregate value of loans balance	**$ 6,688**	$ 3,805
Interest received on loans advanced	**$ 177**	$ 100
Total value of lines of credit advanced	**$ 1,454**	$ 1,465
Unused value of lines of credit	**$ 750**	$ 1,113

The Credit Union's policy for lending to key management personnel is that all such loans were granted in accordance with normal lending terms.

	2021	2020
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$ 2,917**	$ 2,763
Total interest paid on term and saving deposits	**$ 42**	$ 35

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

(All tabular amounts reported are in thousands)

22. Additional disclosures

Insurance expense includes $467,000 (2020 - $494,000) in premiums to FSRAO. League dues and regulatory assessments expense includes $262,000 (2020 - $241,000). These disclosures are required under the Credit Union and Caisses Populaires Act, 1994.

The five officers and employees of the Credit Union with the highest total remuneration over $150,000 received during 2021 are disclosed below.

Name	Title	Salary & Variable Compensation	Benefits	Total Remuneration
Taras Pidzamecky	CEO and General Counsel	$ 389	$ 50	$ 439
Bradley Sutherland	CFO	238	25	263
Roman Litwinchuk	COO	193	21	214
Diane Comtois	Credit Manager	164	19	183
Joseph Felicitas	IT Manager	146	18	164

The aggregate remuneration paid to directors was $139,000 (2020 - $138,000).

At December 31, 2021, loans to directors and officers and the unused portion of authorized lines of credit amounted to $8,142,000 (2020 - $5,270,000). All such loans were granted in accordance with normal lending terms, except for certain loans to officers at reduced rates.

23. Commitments

Lease commitments

The Credit Union leases some of its office equipment which are not captured by IFRS 16. These contracts require minimum future rent payments as follows:

2022	$ 145
2023	146
2024	147
2025	158
2026	158

Mortgage and loan commitments

At December 31, 2021, the Credit Union had committed $25,025,000 for commercial, personal and mortgage loans (2020 - $18,631,000). The total unextended lines of credit at year end 2021 are $186,576,000 (2020 - $160,227,000). Total letters of credit at year end 2021 are $124,000 (2020 - $410,000).

(All tabular amounts reported are in thousands)

24. Regulatory capital

The Credit Unions and Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at the following minimum levels:

% leverage ratio assets	% risk capital ratio weighted assets
4.00%	8.00%

The Credit Union is in compliance with the Act and regulations regarding regulatory capital.

	2021	2020
Tier 1 Capital		
Membership shares	**$ 3,422**	$ 3,367
Investment shares	**17,115**	17,115
Contributed surplus	**5,734**	5,734
Retained earnings	**43,402**	39,570
Total tier 1 capital	**69,673**	65,786
Tier 2 Capital		
10% of redeemable investment shares	**834**	834
Allowance for credit losses (stage 1 & 2)	**3,309**	3,219
Accumulated other comprehensive income	**(1,456)**	(2,694)
Total tier 2 capital	**2,687**	1,359
Total regulatory capital	**$ 72,360**	$ 67,145
% of total assets	**6.46%**	6.78%
% of total risk-weighted assets	**12.17%**	13.34%

The Credit Union manages its capital under guidelines established by FSRAO. The regulatory capital guidelines measure capital in relation to assets and risk-weighted assets. The Credit Union has capital policies, procedures and controls which it utilizes to achieve its goals and objectives including: providing sufficient capital to maintain the confidence of investors and depositors, and being an appropriately capitalized Credit Union, as measured internally, defined by regulatory authorities and compared with the Credit Union’s peers.

(All tabular amounts reported are in thousands)

25. Financial instruments

The estimated fair values of the Credit Union's financial instruments are set out below. No fair values have been determined for property and equipment or any other asset that is not a financial instrument.

Financial Instruments	2021 Book Value	2021 Fair Value	Fair Value Over/(Under) Book Value
Financial Assets			
FVTPL			
Other investments	$ 5	$ 5	$ -
FVOCI			
Central 1 Credit Union Shares	2,029	2,029	-
Derivatives – Swaps	7	7	-
Amortized Cost			
Cash and cash equivalents	5,497	5,497	-
Loans to members	1,012,588	1,011,059	(1,529)
HQLA	68,102	67,545	(557)
Other deposits	5,330	5,311	(19)
Total financial assets	1,093,558	1,091,453	(2,105)
Financial Liabilities			
Other Liabilities – Members' deposits and shares	931,386	935,139	3,753
Secured borrowings	114,030	114,030	-
Total financial liabilities	1,045,416	1,049,169	3,753

(All tabular amounts reported are in thousands)

25. Financial instruments (continued)

Financial Instruments	2020 Book Value	2020 Fair Value	Fair Value Over/(Under) Book Value
Financial Assets			
FVTPL			
Other investments	$ 5	$ 5	$ -
FVOCI			
Central 1 Credit Union Shares	4,798	4,798	-
Derivatives - Swaps	1,578	1,578	-
Amortized Cost			
Cash and cash equivalents	10,270	10,270	-
Loans to members	862,911	871,492	8,581
Liquidity reserves	58,216	60,695	2,479
Other deposits	28,826	29,657	831
Total financial assets	966,604	978,495	11,891
Financial Liabilities			
Other Liabilities – Members' deposits and shares	810,172	817,258	7,086
Secured borrowings	110,212	110,212	-
Total financial liabilities	920,384	927,470	7,086

The differences between the book and fair values of the Credit Union's loans, deposits and of other financial instruments are due primarily to changes in interest rates. The carrying value of the Credit Union's loans to and deposits of members are not adjusted to reflect increases or decreases in fair value due to interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

Financial assets and liabilities are grouped into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

25. Financial instruments (continued)

The level within which the financial asset or liability is classified, is determined based on the lowest level of significant input to the fair value measurement. The following methods and assumptions were used to estimate the fair value of financial instruments:

(a) The fair value of cash and cash equivalents is assumed to approximate their book values, due to their short term nature. These assets are classified as Level 1 financial instruments as they are valued using quoted market prices in active markets.
(b) The estimated fair value of loans carried at amortized cost reflects changes in market price that have occurred since the loans were originated. For fixed-rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at current market interest rates for loans with similar credit risks. Fixed rate loans and deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. For floating-rate loans, changes in interest rates have minimal impact on fair value since loans reprice to the market frequently. On that basis, fair value is assumed to approximate carrying value. Floating-rate loans are classified as Level 2 financial instruments.
(c) The estimated fair value of fixed rate investments and fixed rate deposits is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. Fixed rate deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. Fixed rate investments are classified as Level 2 financial instruments as they are valued using observable inputs other than quoted market prices. For deposits with no defined maturities, fair value is considered to approximate carrying value and the deposits are classified as Level 2 financial instruments.
(d) The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates. These are classified as a Level 2 financial instrument as it is valued using observable inputs.
(e) There have been no reclassifications between Level 1 and Level 2 during the year. A sensitivity analysis is not provided for Level 3 loans and deposits as their fair value would only change as a result of credit risk inputs and these inputs are not expected to be significant.

26. Financial instrument risk management

Market risk

Market risk is the potential for profit or loss from changes in the value of financial instruments. The value of a financial instrument can be affected by changes in interest rates, foreign exchange rates, equity and commodity prices and credit spreads.

The Credit Union is exposed to market risk in the investment portfolio as well as through non-trading activities.

Market risk in investment activities is managed by the senior management of the Credit Union and a Committee of the Board. Every investment transaction is guided by policy and regulatory limitations.

26. Financial instrument risk management (continued)

Market risk exposure exists in non-trading Credit Union transactions with members which primarily includes deposit taking and lending. These are also referred to as "asset and liability" positions.

Asset and liability management deals with managing the market risks of the traditional Credit Union activities. Market risks primarily include interest rate risk and foreign currency risk.

Foreign currency risk

The Credit Union is subject to currency risk through its U.S. dollar denominated operating activities. Changes in the exchange rate may result in a decrease or increase in the gain or loss on foreign exchange. The Credit Union has a policy of matching U.S. dollar denominated assets with U.S. dollar denominated liabilities, and accordingly does not actively use derivative instruments to reduce its exposure to foreign currency risk.

The Credit Union's exposure to changes in currency exchange rates is controlled by limiting the unhedged foreign currency exposure to the lower of $1,000,000 in U.S. funds or 10% of the Credit Union's entire foreign currency position when under the management of a foreign exchange management consultant approved by the Board. Otherwise, the unhedged foreign currency exposure is limited to $200,000 in U.S. funds.

For the year-ended December 31, 2021, the Credit Union's exposure to foreign exchange risk is within policy.

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

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Credit Union incurring a financial loss. The credit exposure is mitigated through the use of Board approved credit policies governing the Credit Union's credit portfolio and with credit practices that limit transactions according to the borrowers' credit quality. A substantial portion of the Credit Union's loans to members are secured by residential properties. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

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

26. Financial instrument risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund obligations as they come due. Demand for cash can result from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Senior management manages liquidity risk and monitors the cash and funding needs on a daily basis.

The Credit Union has set a minimum liquidity ratio of 7.0% (2020 – 7.0%).

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

Structural risk

Structural risk is defined as the risk that the Credit Union's ability to meet business objectives will be adversely affected by volatility in market rates. The Credit Union manages structural risk using an Earnings at Risk approach. The primary objective of this approach is to maximize earnings on a consistent basis while minimizing reductions to net income resulting from changes in future interest rates.

Structural risk is monitored through the Structural Risk Management Policy with the objective of ensuring that the Credit Union manages its cash flows in a manner that contributes adequately to earnings and limits the risk to the financial margin and equity of the Credit Union. The objectives are also to ensure product terms, pricing and balance sheet mix, to balance member product demands with the need to protect the equity of the Credit Union, and to ensure that financial derivative instruments be used only to limit interest rate risk and not be used for speculative or investment purposes.

The Credit Union uses income simulation modelling to measure exposure to changes in interest rates over short term periods. Earnings at risk are calculated by forecasting the net interest margin for the next 12 month period using most likely assumptions. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast. The resulting change in the forecast as a result of interest rate shocks is then compared to the most likely forecast to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set by the Board of Directors. These scenarios are based on hypothetical simulations assuming the markets are shocked with a 50 or 100 basis point volatility. At the current time, the Credit Union is in compliance with all limits set by the structural risk management policy.

(All tabular amounts reported are in thousands)

26. Financial instrument risk management (continued)

Asset/Liability Management Limits	Maximum Change Limit	Projected Change to Earnings	Status
Most Likely Shocked + 100 basis points	$ (1,100)	$ 1,046	Compliant
Most Likely Shocked + 50 basis points	(1,100)	926	Compliant
Most Likely Forecast Scenario			
Most Likely Shocked - 25 basis points	(1,100)	(178)	Compliant
Most Likely Shocked - 50 basis points	(1,100)	(4)	Compliant

27. Interest rate sensitivity

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off-balance sheet instruments scheduled to re-price on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

At December 31, 2021, the Credit Union had outstanding interest rate swap contracts in the notional principal amount of $25,000,000 (2020 - $180,000,000) maturing in January 2022.

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual dates.

Expected Maturities	Assets	Interest Rate-%	Liabilities and equity	Interest Rate-%	Asset/ Liability gap
Variable, and up to 6 months	$ 335,322	2.46	$ 509,096	0.48	$ (173,774)
6 months to 1 year	109,632	3.16	234,825	1.70	(125,193)
1 to 2 years	168,374	3.39	94,748	1.96	73,626
2 to 3 years	163,635	3.22	38,168	2.36	125,467
3 to 4 years	156,941	2.92	18,135	2.35	138,806
4 to 5 years	151,232	2.44	12,969	2.27	138,263
Total Interest-sensitive	1,085,136		907,941		177,195
Non-interest-sensitive	34,785		211,980		
Total	**$1,119,921**		**$ 1,119,921**		

28. COVID-19

Since January 1, 2020, the spread of COVID-19 has severely impacted many local economies in Canada as well as around the globe. Many organizations and businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to organizations worldwide, resulting in an economic slowdown. The Canadian government and Bank of Canada has responded with monetary and fiscal interventions to stabilize economic conditions.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Credit Union for future periods.

29. Post-reporting date events

The Credit Union evaluated subsequent events through to March 14, 2022, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.