

# **CARPATHIA CREDIT UNION LIMITED**

## **Financial Statements**

**For the year ended December 31, 2021**

# CARPATHIA CREDIT UNION LIMITED

## Financial Statements

For the year ended December 31, 2021

## Contents

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## Independent Auditor's Report

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To the Members of Carpathia Credit Union Limited

### Opinion

We have audited the financial statements of Carpathia Credit Union Limited ("Credit Union"), which comprise the balance sheet as at December 31, 2021, the statement of comprehensive income, the statement of changes in members' equity and the statement of cash flows for the year then ended and notes to the financial statements.

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

### Basis for Opinion

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

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

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

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

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



## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*BDO Canada LLP*

Chartered Professional Accountants

Winnipeg, Manitoba  
March 17, 2022

**Carpathia Credit Union Limited**  
**Balance Sheet**

**December 31** **2021** **2020**

**Assets**

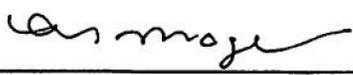
<b>Funds on hand and on deposit</b> (Note 8)	<b>\$ 9,078,525</b>	\$ 21,602,410
<b>Income taxes recoverable</b>	<b>311,958</b>	308,857
<b>Other assets</b>	<b>240,779</b>	199,679
<b>Investments</b> (Note 11)	<b>137,659,566</b>	114,363,209
<b>Loans to members</b> (Note 3)	<b>458,870,151</b>	473,662,000
<b>Deferred income tax asset</b> (Note 16)	<b>301,900</b>	230,900
<b>Property, equipment and intangible assets</b> (Note 18)	<b>6,901,803</b>	7,514,500
<b>Assets held-for-sale</b> (Note 19)	<b>3,478,947</b>	-
<b>Right-of-use assets</b> (Note 20)	<b>491,104</b>	656,138
	<b>\$ 617,334,733</b>	<b>\$ 618,537,693</b>

**Liabilities and Members' Equity**

<b>Accounts payable and other liabilities</b>	<b>\$ 715,285</b>	\$ 825,569
<b>Members' deposits</b> (Note 4)	<b>583,114,825</b>	584,338,360
<b>Lease liabilities</b> (Note 20)	<b>514,832</b>	674,790
	<b>584,344,942</b>	585,838,719
<b>Commitments</b> (Note 14)		
<b>Contingencies</b> (Note 15)		
<b>Members' Equity</b> (Note 6)		
Contributed surplus	<b>6,040,523</b>	6,040,523
Members' shares (Note 5)	<b>483,563</b>	512,793
Retained earnings	<b>26,465,705</b>	26,145,658
	<b>32,989,791</b>	32,698,974
	<b>\$ 617,334,733</b>	<b>\$ 618,537,693</b>

Approved on behalf of the Board of Directors:

  
\_\_\_\_\_ Director

  
\_\_\_\_\_ Director

## Carpathia Credit Union Limited

### Statement of Comprehensive Income

For the year ended December 31	2021	2020
<b>Revenue</b>		
Interest on loans to members	\$ 14,553,898	\$ 18,240,165
Investment Income		
Liquidity deposits	1,713,335	1,567,403
CUCM shares	134,520	188,739
Interest rate swap	133,488	337,283
	<b>16,535,241</b>	<b>20,333,590</b>
<b>Cost of Funds</b>		
Interest paid to members	7,946,754	9,888,191
Interest paid on borrowings	340	361
Interest paid on interest rate swap	797,776	833,490
	<b>8,744,870</b>	<b>10,722,042</b>
<b>Financial margin</b>	<b>7,790,371</b>	<b>9,611,548</b>
<b>Operating Expenses</b>		
Personnel (Note 22)	4,690,218	5,037,427
Administrative	1,854,993	2,011,392
Occupancy	1,955,482	1,670,954
Members' security	555,321	627,017
Organizational	300,366	308,413
<b>Operating expenses</b>	<b>9,356,380</b>	<b>9,655,203</b>
<b>Other income</b> (Note 23)	<b>2,231,457</b>	<b>2,414,061</b>
	<b>7,124,923</b>	<b>7,241,142</b>
<b>Operating income</b>	<b>665,448</b>	<b>2,370,406</b>
<b>Provision for impaired loans</b> (Note 3)	<b>408,207</b>	<b>1,998,488</b>
<b>Income before income taxes</b>	<b>257,241</b>	<b>371,918</b>
<b>Provision for Income Taxes</b> (Note 16)		
Deferred tax expense (recovery)	(74,101)	83,789
<b>Total comprehensive income for the year</b>	<b>\$ 331,342</b>	<b>\$ 288,129</b>

## Carpathia Credit Union Limited

### Statement of Changes in Members' Equity

**For the year ended December 31, 2021**

	Contributed Surplus	Members' Shares	Retained Earnings	Total
Balance at December 31, 2019	\$ 6,040,523	\$ 596,750	\$ 25,870,828	\$ 32,508,101
Net income for the year	-	-	288,129	288,129
Distribution to members	-	-	(13,299)	(13,299)
Issue of members' shares	-	77,580	-	77,580
Redemption of members' shares	-	(161,537)	-	(161,537)
<b>Balance at December 31, 2020</b>	<b>6,040,523</b>	<b>512,793</b>	<b>26,145,658</b>	<b>32,698,974</b>
<b>Net income for the year</b>	<b>-</b>	<b>-</b>	<b>331,342</b>	<b>331,342</b>
<b>Distribution to members (Note 5)</b>	<b>-</b>	<b>-</b>	<b>(11,295)</b>	<b>(11,295)</b>
<b>Issue of members' shares</b>	<b>-</b>	<b>25,620</b>	<b>-</b>	<b>25,620</b>
<b>Redemption of members' shares</b>	<b>-</b>	<b>(54,850)</b>	<b>-</b>	<b>(54,850)</b>
<b>Balance at December 31, 2021</b>	<b>\$ 6,040,523</b>	<b>\$ 483,563</b>	<b>\$ 26,465,705</b>	<b>\$ 32,989,791</b>

## Carpathia Credit Union Limited

### Statement of Cash Flows

For the year ended December 31	2021	2020
<b>Cash Flows from (used in) Operating Activities</b>		
Net income for the year	\$ 331,342	\$ 288,129
Adjustments for		
Interest revenue	(16,535,241)	(20,333,590)
Interest expense	7,969,463	9,888,552
Depreciation expense	825,706	844,056
Provision for impaired loans	408,207	1,998,488
Deferred income taxes	(71,000)	(99,700)
Loss on capital assets written off	106,143	-
	<b>(6,965,380)</b>	<b>(7,414,065)</b>
Change in other assets and accounts payable and other liabilities	(151,384)	211,765
Change in income taxes recoverable	(3,101)	(2,484)
	<b>(154,485)</b>	<b>209,281</b>
Changes in member activities, net		
Change in loans to members*	10,415,758	55,721,450
Change in members' deposits	(487,588)	(1,048,035)
	<b>9,928,170</b>	<b>54,673,415</b>
Cash flows related to interest, dividends, and income taxes		
Interest received on loans to members	15,038,733	18,402,909
Interest received on investments	1,888,351	1,885,273
Interest paid on members' deposits	(8,705,070)	(10,559,963)
Interest paid on borrowings	(340)	(361)
	<b>8,221,674</b>	<b>9,727,858</b>
<b>Total cash flows from operating activities</b>	<b>11,029,979</b>	<b>57,196,489</b>
<b>Cash Flows from (used in) Investing Activities</b>		
Purchase of investments	(23,203,365)	(47,507,070)
Purchase of property and equipment	(150,016)	(1,028,861)
<b>Total cash flows used in investing activities</b>	<b>(23,353,381)</b>	<b>(48,535,931)</b>
<b>Cash Flows from (used in) Financing Activities</b>		
Issue of common and surplus shares	25,620	77,580
Redemption of common and surplus shares	(54,850)	(161,537)
Dividends on shares	(11,295)	(13,299)
Principal paid on lease liabilities	(159,958)	(164,700)
<b>Total cash flows used in financing activities</b>	<b>(200,483)</b>	<b>(261,956)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(12,523,885)</b>	<b>8,398,602</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>21,602,410</b>	<b>13,203,808</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,078,525</b>	<b>\$ 21,602,410</b>

**\*Non-cash transaction:**

An amount of \$3,478,947 transferred from loans to members to Assets held-for-sale.

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# Carpathia Credit Union Limited

## Notes to Financial Statements

For the year ended December 31, 2021

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### 1. Corporation Information

Carpathia Credit Union Limited (the "Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act of the Province of Manitoba ("the Act") and is a member of Credit Union Central of Manitoba ("CUCM"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Manitoba. Products and services offered to its members include consumer and commercial loans and mortgages, chequing and savings accounts, term deposits, registered deposits, automated banking machines ("ABMs"), debit and credit cards, mobile banking and Internet banking. The Credit Union has five branches located in Winnipeg with the corporate office being located at 952 Main Street, Winnipeg, Manitoba.

These financial statements have been authorized for issue by the Board of Directors on March 17, 2022.

### 2. Basis of Presentation

#### (a) Statement of Compliance

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

#### (b) Basis of Measurement

These financial statements were prepared under the historical cost convention, except for derivative financial instruments measured at fair value.

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

#### (c) Judgement and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Credit Union's accounting policies. The areas involving critical judgements and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The determination of whether the loan receivables due from qualifying borrowers under the CEBA program meet the derecognition criteria for financial assets in IFRS 9 (Note 3).
- The determination of impairment of loans to members; assessing whether credit risk on the financial asset has increased significantly since initial recognition; and the incorporation of forward looking information into the measurement of the expected credit loss ("ECL") (Note 3).

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# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

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### **2. Basis of Presentation** (continued)

#### (c) Judgement and Estimates (continued)

- The classification of financial assets, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 3);
- The Credit Union determines the fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Note 3, 4 and 11); and
- The determination of lease term for some lease contracts in which the Credit Union is a lessee that include renewal options and termination options, and the determination whether the Credit Union is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract (Note 20).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

### 3. Loans to Members

Loans to members and allowance for impaired loans held by the Credit Union are as follows:

	2021	2020
Consumer		
Mortgages	\$ 307,500,318	\$ 335,392,010
Term loans	4,604,467	6,312,427
Lines of credit and overdrafts	11,505,461	12,998,191
Commercial		
Mortgages	125,849,455	111,753,098
Term loans	5,422,068	4,727,216
Lines of credit and overdrafts	4,114,668	5,480,270
	458,996,437	476,663,212
Accrued interest receivable	767,662	1,252,498
	459,764,099	477,915,710
Allowance for impaired loans	893,948	4,253,710
Net loans to members	\$ 458,870,151	\$ 473,662,000

#### Terms and Conditions

Loans to members can have either a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on the Credit Union's Variable Lending Rate ("VLR"), ranging from VLR minus 1.95 to VLR plus 7.95%. The rate is determined by the type of loan, security offered and the member's and associate's credit worthiness. The Credit Union's VLR rate at December 31, 2021 was 2.95%.

The interest rate offered on fixed rate loans being advanced at December 31, 2021 ranges from 3.40% to 10.50%. The rate offered to a particular member or associate varies with the term type of loan, security offered and the member's and associate's credit worthiness.

Consumer real estate loans and home equity lines of credit are loans secured by residential property. The loans are generally repayable monthly with blended payments of principal and interest while the lines of credit have various repayment terms.

Consumer term loans and other lines of credit are non-real estate secured and have various repayment terms. They are secured by various types of collateral, including charges on specific equipment or personal property, investments, and personal guarantees.

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# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

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### **3. Loans to Members (continued)**

#### Terms and Conditions (continued)

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

#### Recognition and Initial Measurement

The Credit Union initially recognizes loans to members on the date on which they are originated. Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

#### Classification and Subsequent Measurement

Loans to members are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Loans to members are subsequently reduced by any allowance for loan losses.

#### Derecognition and Contract Modifications

The Credit Union derecognizes loans to members when the contractual rights to the cash flows from the loans to members expire, or the Credit Union transfers the loans to members.

On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

During the prior year, the Credit Union agreed to administer the Canadian Emergency Business Account ("CEBA") program on behalf of the Government of Canada. The Credit Union will provide lending to businesses who qualify for CEBA ("qualifying borrower"). The Credit Union shall ensure that the applicant is eligible for support under CEBA and act in its regular standard of care as required for comparable transactions. In exchange for the services, the Government will pay the financial institution an administration fee.

Per the terms of the agreement, it is determined that the Credit Union meets the derecognition criteria for the loans advanced to the borrower; therefore, the loans administered under the CEBA program are not recognized on the Balance Sheet.

As part of the Loan Deferral Program, the terms of the modification are evaluated to determine whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

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# Carpathia Credit Union Limited

## Notes to Financial Statements

For the year ended December 31, 2021

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### 3. Loans to Members (continued)

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

If the terms of a member loan are modified, but not substantially, then the member loan is not derecognized. If the member loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the member loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on loans to members.

#### Credit Risk

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

#### Credit Risk Management

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.

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

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

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, loan administration, credit concentration limits, and risk rating;
- Loan lending limits including Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and depreciation periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Internal audit procedures and processes are in existence for the Credit Union's lending activities.

# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

### 3. Loans to Members (continued)

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for impaired loans quarterly.

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.

#### Amounts Arising from Expected Credit Loss ("ELC")

The Credit Union recognizes an allowance for loan losses for ECL on loans to members. The Credit Union measures allowance for loan losses at each reporting period date according to a three-stage ECL model as follows:

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk ("SICR") relative to its initial recognition.	Following a SICR relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).
Criteria for movement	<p>At origination, all loans to members are categorized into stage 1.</p> <p>A commercial loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement in the credit risk grading is approved by credit managers.</p> <p>For personal loans, migration back to stage 1 may occur upon approval of loan officers if all signs of previous credit deterioration are remedied and the member has 6 months of principal and interest payments made with no delinquency.</p>	<p>The Credit Union determines a SICR has occurred when:</p> <ul style="list-style-type: none"> <li>• the loan moves to the Credit Union's watch list;</li> <li>• the member migrates to a credit risk grade of 4; or</li> <li>• a contractual payment is more than 30 days past due (if borrower does not participate in the Loan Deferral Program).</li> </ul> <p>Participation in the Loan Deferral Program does not automatically trigger an automatic SICR, all else being equal. The assessment continues to be primarily based on quantitative lifetime probability of default (PD) thresholds and changes in risk rating of the borrower. Additional qualitative reviews and a review of loans 30 days past due is also applied.</p>	<p>A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred:</p> <ul style="list-style-type: none"> <li>• a breach of contract such as a default or delinquency in interest or principal payments;</li> <li>• significant financial difficulty of the borrower;</li> <li>• the restructuring of a loan by the Credit Union on terms that the Credit Union would not consider otherwise;</li> <li>• payment on a loan is overdue 90 days or more (if borrower does not participate in the Loan Deferral Program); or</li> <li>• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.</li> </ul> <p>A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.</p>

## Carpathia Credit Union Limited

### Notes to Financial Statements

For the year ended December 31, 2021

### 3. Loans to Members (continued)

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
ECL methodology	Impairment is estimated based on the expected losses over the expected life of loans to members arising from default events occurring in the next 12 months (12-month expected credit loss).	Impairment is estimated based on the expected losses over the expected life of loans to members arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss).	
Collective or individual assessment	Collective assessment of loans to members is grouped on the basis of similar risk characteristics based on loan type and the length of time the loans are past due. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.		Each credit-impaired loans to members is individually assessed.
Application of ECL methodology	<p>Expected credit loss on a group of loans to members is measured on the basis of a loss rate approach. The Credit Union develops loss rates for loans to members in stage 1 and loss rates for loans to members in stage 2, based on historical default and loss experiences for those types of loans to members, adjusted for current economic conditions and forecasts of future economic conditions. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans, unused lines of credit, letters of credit).</p> <p>For member loans in stage 1 with undrawn loan commitments, the estimate of drawdown within 12 months of the reporting date is based on historical drawdown information.</p> <p>For member loans in stage 2 with undrawn loan commitments, the estimate of drawdown over the life of the loan commitment is also based on historical drawdown information.</p> <p>To reflect the impact of COVID-19 and the temporary effects it has on collectibility including the Credit Union and government-led payment support programs, the Credit Union has layered in adjustments.</p>		The probability of default on credit-impaired loans to members is 100%, therefore, the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.
Key forward-looking information	<p>Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Credit Union's members.</p> <p>The ECL calculation is sensitive to forward-looking scenarios and their respective probability weightings as at the reporting date. The outbreak of COVID-19 has led to significant changes to forward-looking information and respective probability weightings since December 31, 2019 resulting in a significant increase in expected credit losses. As the full extent of the impact of COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian economy remains uncertain, it remains difficult to predict whether the increase in expected credit losses will materialize into a significant level of write-offs and whether the Credit Union will recognize additional increases in expected credit losses in subsequent periods. At the reporting date, forecasts and information available surrounding the impact of COVID-19 on the economy and timing of recovery continues to change. Any information obtained after the reporting period will be reflected in the ECL in future periods. This may cause significant volatility to the ECL.</p>		

## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

### 3. Loans to Members (continued)

#### Credit Quality Analysis

The following table sets out information about the credit quality of loans to members based on the Credit Union's credit risk rating grade. Consumer and commercial loans are not rated, therefore, information has been presented by their level of delinquency. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	2021 Total	2020 Total
<b>Consumer Loans</b>					
Current	\$ 349,147,327	\$ -	\$ -	\$ 349,147,327	\$ 364,771,152
> 30 days past due	-	876,500	-	876,500	6,294,005
> 90 days past due	-	-	416,700	416,700	1,616,854
	<u>349,147,327</u>	<u>876,500</u>	<u>416,700</u>	<u>350,440,527</u>	<u>372,682,011</u>
Allowance for loan losses	<u>(103,310)</u>	<u>(1,363)</u>	<u>(79,242)</u>	<u>(183,915)</u>	<u>(178,282)</u>
Carrying amount	<u>349,044,017</u>	<u>875,137</u>	<u>337,458</u>	<u>350,256,612</u>	<u>372,503,729</u>
<b>Commercial Loans</b>					
Current	132,421,453	-	-	132,421,453	105,086,396
> 30 days past due	-	2,722,707	-	2,722,707	2,093,705
> 90 days past due	-	-	242,031	242,031	15,609,073
	<u>132,421,453</u>	<u>2,722,707</u>	<u>242,031</u>	<u>135,386,191</u>	<u>122,789,174</u>
Allowance for loan losses	<u>(514,367)</u>	<u>(47,469)</u>	<u>(148,197)</u>	<u>(710,033)</u>	<u>(4,075,428)</u>
Carrying amount	<u>131,907,086</u>	<u>2,675,238</u>	<u>93,834</u>	<u>134,676,158</u>	<u>118,713,746</u>
<b>Balance at year end</b>	<u>\$ 480,951,103</u>	<u>\$ 3,550,375</u>	<u>\$ 431,292</u>	<u>\$ 484,932,770</u>	<u>\$ 491,217,475</u>

The allowance for loan losses in the above table includes amounts related to undrawn loan commitments. The Credit Union has the following undrawn loan commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	2021	2020
Unadvanced loans	\$ 27,272,730	\$ 10,392,532
Unused lines of credit	26,830,280	17,555,476
Letters of credit	203,010	340,174
	<u>\$ 54,306,020</u>	<u>\$ 28,288,182</u>

## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

### 3. Loans to Members (continued)

#### Write-off

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

#### Allowance for Loan Losses

The following table presents reconciliations from the opening to the closing balance of the allowance for loan losses by type of loans to members. The allowance for loan losses in these tables include ECL on loan commitments for certain loans to members such as unadvanced loans, unused lines of credit and letters of credit, because the Credit Union cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

	12-month ECL	Lifetime ECL not Credit- impaired	Lifetime ECL Credit- impaired	2021 Total	2020 Total
<b>Consumer Loans</b>					
Balance at beginning of year	\$ 97,175	\$ 5,199	\$ 75,909	\$ 178,283	\$ 412,904
Net remeasurement of allowance for loan losses	6,135	(3,836)	93,021	95,320	127,149
Loans written off	-	-	(89,688)	(89,688)	(361,771)
Balance at end of year	<b>103,310</b>	<b>1,363</b>	<b>79,242</b>	<b>183,915</b>	178,282
<b>Commercial Loans</b>					
Balance at beginning of year	362,697	36,037	3,676,693	4,075,427	3,863,123
Net remeasurement of allowance for loan losses	151,670	11,432	149,785	312,887	1,871,338
Reclassified to assets held-for-sale	-	-	(1,330,579)	(1,330,579)	-
Loans written off	-	-	(2,347,702)	(2,347,702)	(1,659,033)
Balance at end of year	<b>514,367</b>	<b>47,469</b>	<b>148,197</b>	<b>710,033</b>	4,075,428
<b>Total allowance for loan losses, end of year</b>	<b>\$ 617,677</b>	<b>\$ 48,832</b>	<b>\$ 227,439</b>	<b>\$ 893,948</b>	<b>\$ 4,253,710</b>

## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

### 3. Loans to Members (continued)

#### Quality of Collateral Held

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

	<b>2021</b>	<b>2020</b>
Unsecured loans	<b>\$ 5,003,752</b>	\$ 7,817,705
Loans secured by cash or members' deposits	<b>1,063,671</b>	1,310,324
Loans secured by real property	<b>381,021,795</b>	392,009,598
Loans secured by chattels	<b>10,322,023</b>	7,222,093
Loans insured by government or deposits	<b>61,585,196</b>	68,303,492
	<b>\$ 458,996,437</b>	\$ 476,663,212

The total collateral held for member loans in stage 3 is \$2,986,093 (2020 - \$17,232,192).

#### Concentration of Credit Risk

The Credit Union monitors concentration of credit risk on the basis of similar risk characteristics, based on loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The Credit Union has credit risk concentration from its geographic distribution of loans to members including a sizeable proportion of the Credit Union's loan portfolio being secured by property in and around Winnipeg, Manitoba.

The Credit Union held significant loans in the following three segments:

	<b>2021</b>	<b>2020</b>
Real estate, rental, leasing industry	<b>\$ 93,844,613</b>	\$ 104,983,138
Residential building construction	<b>5,290,339</b>	5,695,409
Retail trade	<b>13,788,883</b>	29,727,009

There are no individual or related groups of loans to members which exceed 5% of assets as at December 31, 2021 or December 31, 2020.

#### Fair Value Measurement

The fair value of loans to members at December 31, 2021 was \$456,445,255 (\$478,096,431 in 2020).

The estimated fair value of variable loans is assumed to be equal to book value as the interest rates are re-priced to market on a periodic basis. The estimated fair value of fixed rate loans is determined using level 3 valuations (Note 11) by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Rates used vary from prime plus 0.00% to 6.49% based on maturity date and type of loan.

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## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

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### 3. Loans to Members (continued)

#### Fair Value Measurement (continued)

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value.

### 4. Members' Deposits

Members' deposits are as follows:

	<u>2021</u>	<u>2020</u>
Savings	<b>\$ 189,708,718</b>	\$ 183,337,472
Registered deposits	<b>162,232,656</b>	166,026,185
Term deposits	<b>130,289,763</b>	142,994,105
Chequing	<b>97,315,643</b>	87,671,598
Unclaimed accounts	<b>36,055</b>	41,063
	<b>579,582,835</b>	580,070,423
Accrued interest payable	<b>3,531,990</b>	4,267,937
	<b>\$ 583,114,825</b>	\$ 584,338,360

#### Terms and Conditions

Included in members' deposits is an amount of \$4,976,335 to be settled in US dollars (\$5,096,325 in 2020).

Chequing accounts are due on demand and bear interest at a variable rate ranging from 0.00% to 0.05% at December 31, 2021.

Savings accounts are due on demand and bear interest at a variable rate ranging from 0.00% to 0.10% at December 31, 2021. The Credit Union offers various savings accounts with interest calculated daily or monthly and paid on the accounts monthly or semi-annually depending on the type of account.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2021 range from 0.00% to 2.06%. The Credit Union has entered into an interest rate swap with CUCM to offset the exposure associated with this product (Note 12).

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## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

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#### **4. Members' Deposits (continued)**

##### Terms and Conditions (continued)

The registered plans can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. Members and associates may make withdrawals from accounts on a monthly, semi-annual or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

##### Recognition and Initial Measurement

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

##### Classification and Subsequent Measurement

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

##### Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

As at December 31, 2020 and 2021 there are no individuals or related groups with members' deposits that exceed 5% of members' deposits and capital.

The majority of members' deposits are with members and associates located in and around Winnipeg, Manitoba.

##### Liquidity Risk

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

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

Provisions of the Act require the Credit Union to maintain liquid assets of at least 8% of members' deposits and borrowings in order to meet member/associate withdrawals.

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## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

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#### 4. Members' Deposits (continued)

##### Liquidity Risk (continued)

The Credit Union manages liquidity risk by:

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

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework.

As at December 31, 2021, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	<b>\$ 128,156,969</b>
Total liquidity requirement	<u>46,649,186</u>
Excess liquidity	<u><b>\$ 81,507,783</b></u>

The maturities of liabilities are shown in Note 10. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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

##### Fair Value Measurement

The fair value of members' deposits at December 31, 2021 was \$584,134,984 (\$584,247,992 as at December 31, 2020).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined using level 3 valuations (Note 11) by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks. Rates used vary from 0.00% to 2.00% based on the maturity date of the deposit.

While fair value amounts are designated to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value.

# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

### 5. Members' Shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments.

Shares	Authorized	Issued	2021		2020	
			Equity	Liability	Equity	Liability
Common	Unlimited	72,133	\$ 360,663	\$ -	381,264	\$ -
Surplus	Unlimited	122,900	122,900	-	131,529	-
			<b>\$ 483,563</b>	<b>\$ -</b>	<b>512,793</b>	<b>\$ -</b>

#### Terms and Conditions

Each member must purchase one common share. No member may hold more than 10% of the issued and outstanding shares of any class. Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

#### Authorized Shares

##### *Common Shares*

Authorized common share capital consists of an unlimited number of common shares, issued and redeemable at \$5 each. The total amount of common shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed the total amount of common shares issued in that year if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act.

Dividends are payable at the discretion of the Board of Directors.

##### *Surplus Shares*

Authorized surplus shares capital consists of an unlimited number of surplus shares, issued and redeemable at \$1 each. The withdrawal of surplus shares is subject to the Credit Union maintaining adequate regulatory capital, as is the payment of any distributions on these shares. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not reduce the Credit Union's members' equity below 5% of assets.

The withdrawal is also subject to terms of the Credit Union's share policy which restricts redemption to certain situations (member/associate is deceased, member moves outside the community, wind-up or dissolution of a business or corporation, bankruptcies, reaching the age of 65). All such payments are at the discretion of the Board of Directors.

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# Carpathia Credit Union Limited

## Notes to Financial Statements

For the year ended December 31, 2021

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### 5. Members' Shares (continued)

#### Distributions to Members

The Board of Directors have declared dividends on common shares of \$11,295 which has been presented as a reduction of equity on the statement of changes in members' equity.

### 6. Capital Management

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

Regulations under the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Total members' capital as shown on the balance sheet shall not be less than 5% of the book value of all assets;
- Retained earnings shall not be less than 3% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

The Credit Union considers its capital to be comprised of common and surplus shares, and contributed surplus and retained surplus. There have been no changes on what the Credit Union considers to be its capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Act which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2021 was \$245,437,724 (\$224,704,489 as of December 31, 2020).

As at December 31, 2021, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of 5.36% (5.30% as of December 31, 2020) a retained surplus ratio of 5.30% (5.22% as of December 31, 2020) and a risk weighted asset ratio of 13.62% (14.65% as of December 31, 2020).

Regulatory Capital consists of the following:

	<u>2021</u>	<u>2020</u>
Tier I Capital		
Members' shares	\$ 483,563	\$ 512,793
Contributed surplus	6,040,523	6,040,523
Retained earnings	26,465,705	26,145,658
Collective allowance for impaired loans	666,509	501,108
	<u>33,656,300</u>	<u>33,200,082</u>
Total regulatory capital	\$ 33,656,300	\$ 33,200,082

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# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

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### **7. Cash and Cash Equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and current accounts with CUCM less borrowings that are repayable on demand.

### **8. Funds on Hand and on Deposit**

The Credit Union's cash and current accounts are held with CUCM. The average yield on the accounts at December 31, 2021 is 0.211% (0.370% in 2020).

Included in the balance of funds on hand and on deposit is \$1,764,199 denominated in US dollars (\$1,479,077 in 2020).

### **9. Borrowings**

The Credit Union has approved lines of credit for both Canadian and US dollars with Credit Union Central of Manitoba equal to 5% of its members' deposits and bears interest at prime with the effective rate of 2.25% for the Canadian dollar chequing account and 2.00% for US dollar chequing account at December 31, 2021. As at December 31, 2021, this amounts to \$29,155,741. These accommodations are secured by an assignment of shares and deposits in Credit Union Central of Manitoba and a general assignment of loans to members. The balance outstanding at December 31, 2021 was \$Nil (\$Nil in 2020).

### **10. Financial Margin and Interest**

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

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

The following schedule shows the Credit Union's sensitivity to interest rate changes. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity.

## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

#### 10. Financial Margin and Interest (continued)

<u>Expected Repricing or Maturity Date</u> <i>(in thousands)</i>	<u>Liabilities and</u> <u>Assets Members' Equity</u>		<u>Asset/ Liability Gap</u>
Interest sensitive			
Variable	\$ 83,444	\$ 287,153	\$ (203,709)
0 to 6 months	172,675	125,452	47,223
6 to 12 months	43,464	71,418	(27,954)
1 to 2 years	62,686	39,216	23,470
2 to 3 years	57,346	17,706	39,640
3 to 4 years	65,243	10,189	55,054
4 to 5 years	111,614	7,546	104,068
over 5 years	2,659	-	2,659
Interest sensitive	599,131	558,680	40,451
Non-interest sensitive	18,204	58,655	(40,451)
Total	\$ 617,335	\$ 617,335	-

As at December 31, 2021, the weighted average rate for interest bearing assets is 2.70% and for interest-bearing liabilities is 1.50%.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates was calculated using financial modelling software and determined that an increase in interest rates of 1.00% could result in a increase in net income of \$676,787 while a decrease in interest rates of 1.00% could result in a decrease in net income of \$678,251.

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.

#### 11. Investments

	<u>2021</u>	<u>2020</u>
CUCM term deposits	\$ 118,700,000	\$ 107,100,000
Concentra Bank - Long term deposits	10,000,000	-
Accrued interest receivable	521,606	428,614
	<u>\$ 129,221,606</u>	<u>\$ 107,528,614</u>

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# Carpathia Credit Union Limited

## Notes to Financial Statements

For the year ended December 31, 2021

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### 11. Investments (continued)

#### Terms and Conditions

The CUCM liquidity deposits bear interest at rates ranging from 0.09% to 0.27% and mature between January 2022 and April 2022.

Included in the balance of liquidity deposits is \$3,200,000 denominated in US dollars (2020 - \$3,600,000).

The Concentra Bank long-term deposits bear interest at 2.00% and mature in September 2026.

#### Recognition and Initial Measurement

Liquidity deposits are initially measured at fair value plus transaction costs that are directly attributable to their acquisition.

#### Classification and Subsequent Measurement

Liquidity deposits are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Liquidity deposits are subsequently reduced by any loss allowance.

#### Credit Risk

The Credit Union holds cash held on deposit with CUCM. Liquidity deposits have been determined to have low credit risk and therefore the loss allowances for liquidity deposits is measured at an amount equal to 12-month ECL.

#### Fair Value Measurement

The carrying amounts of liquidity deposits and cash held on deposit with CUCM approximate fair value due to having similar characteristics as cash and equivalents.

#### Shares

	<u>2021</u>	<u>2020</u>
CUCM - Class 1 shares	\$ 2,288,165	\$ 1,832,475
CUCM - Class 2 shares	5,888,820	4,741,145
Concentra Bank - Common shares	259,876	259,876
Kalya Co-op Ltd.	1,099	1,099
	<u>\$ 8,437,960</u>	<u>\$ 6,834,595</u>

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# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

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### 11. Investments (continued)

#### Terms and Conditions

The shares in CUCM are required as a condition of affiliation and are redeemable upon withdrawal of affiliation or at the discretion of the Board of Directors of CUCM. In addition, the member credit unions and caisses are subject to additional capital calls at the discretion of the Board of Directors of CUCM.

CUCM shares are subject to a rebalancing mechanism at least annually and are issued and redeemable at par value. 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 that transactions occur at par value on a regular and recurring basis.

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

Dividends on these shares are at the discretion of the Board of Directors of CUCM.

#### Recognition and Initial Measurement

The Credit Union recognizes equity instruments on the settlement date, which is the date the asset is received by the Credit Union. The instruments are initially measured at fair value.

#### Classification and Subsequent Measurement

The Credit Union classifies its equity instruments as Fair Value Through Profit or Loss.

#### Derecognition

The Credit Union derecognizes investments when the contractual rights to the cash flows from the investment expires or the Credit Union transfers the investment.

#### Fair Value Measurement

The maximum exposure to credit risk would be the fair value of shares detailed in the above table. Class 1 and 2 CUCM shares are subject to a rebalancing mechanism at least annually and are issued and redeemable at par value. There is no separately quoted market value for these shares. However, fair value is determined to be equivalent to par value due to the fact that transactions occur at par value on a regular and recurring basis.

Concentra Bank shares are held at their carrying amount which approximates its fair value.

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# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

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### 11. Investments (continued)

The following provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on degree to which the fair value is observable:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. There are no assets or liabilities measured at fair value classified as Level 1.
- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 inputs include quoted prices for assets in markets that are considered less active. Assets and liabilities measured at fair value and classified as Level 2 include investments in shares.
- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities. Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of estimated fair value requires significant management judgement or estimation. There are no assets or liabilities measured at fair value classified as Level 3.

There were no transfers between levels of the fair value hierarchy for the periods ended December 31, 2020 and 2021.

### 12. Derivative Financial Instruments

The Credit Union utilizes derivative financial instruments to mitigate the risk on certain instruments.

#### Term Deposits

As described in Note 4, the Credit Union issues term deposits to its members. The Credit Union has entered into an interest rate swap with CUCM, where the Credit Union pays a fixed rate of interest for the term of the deposit on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors. As at December 31, 2021, the Credit Union had entered into such contracts on term deposits for a total of \$30,000,000.

#### Cash Flow Hedges

The derivative instruments acquired from CUCM are designated as cash flow hedges as they modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are hedges of floating rate deposits.

All derivative valuations are Level 2 valuations and there were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2020 and 2021.

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# Carpathia Credit Union Limited

## Notes to Financial Statements

For the year ended December 31, 2021

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### 13. Foreign Exchange Risk

The Credit Union's foreign exchange risk is related to US dollar deposits denominated in US dollars. Foreign currency changes are continually monitored by senior management for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to no more than 10% of total members' deposits in USD.

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

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.

### 14. Commitments

#### Contractual Obligations

##### *Credit Union Central of Manitoba*

The Credit Union is a member of CUCM, which provides banking and other services to Credit Unions in Manitoba. By nature of membership in CUCM, the Credit Union is obligated to pay affiliation dues which are based on membership and assets.

##### *Deposit Guarantee Corporation of Manitoba*

The Deposit Guarantee Corporation of Manitoba (the "Corporation") is a deposit insurance corporation. By legal obligation under the Act, the Corporation protects the savings and deposits of all Credit Union members in every credit union within Manitoba. By legislation, the Credit Union pays a quarterly levy to the Corporation based on a percentage of members' deposits.

### 15. Contingencies

The Credit Union, in the course of its operations, is subject to lawsuits. As a policy, the Credit Union will accrue for losses in instances where it is probable the liabilities will be incurred and where such liabilities can be reasonably estimated. At present, the Credit Union has no reason to believe that there are any lawsuits which will have a significant impact on the Credit Union's financial position.

## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

#### 16. Income Taxes

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

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

	<u>2021</u>	<u>2020</u>
Current tax expense		
Based on current year taxable income	\$ (3,101)	\$ (15,911)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	<u>(71,000)</u>	<u>99,700</u>
Total income tax expense (recovery)	<u>\$ (74,101)</u>	<u>\$ 83,789</u>

The total provision for income taxes in the statement of comprehensive income is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	<u>2021</u>	<u>2020</u>
	%	%
Combined federal and provincial statutory income tax rates	27.0	27.0
Credit Union rate reduction	(12.0)	(12.2)
Other	(10.2)	7.7
Non-capital loss carryback	<u>(4.8)</u>	<u>(22.5)</u>
	<u>-</u>	<u>-</u>

The components of deferred income tax liabilities and assets are as follows:

	<u>2021</u>	<u>2020</u>
Deferred income tax asset		
Property and equipment	\$ (444,481)	\$ (484,966)
Allowance for impaired loans	153,014	173,521
Non-capital losses	<u>593,367</u>	<u>542,345</u>
Net deferred income tax asset	<u>\$ 301,900</u>	<u>\$ 230,900</u>

#### 17. Pension Plan

The Credit Union has a defined contribution pension plan for permanent part-time and full-time employees. The contributions are held in trust by the CSS Group Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at rates ranging from 6% to 7% of the employee salary. The expense and payments for the year ended December 31, 2021 were \$196,351 (\$223,428 in 2020). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

## Carpathia Credit Union Limited Notes to Financial Statements

**For the year ended December 31, 2021**

### 18. Property, Equipment and Intangible Assets

Property, equipment and intangible assets 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	3.50% to 10%
Furniture and equipment	10% to 25%
Computer equipment	25% to 33%
Computer software	10%
Paved lot	8%

Leasehold improvements are amortized over the term of the lease.

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

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 income, except to the extent they reverse gains previously recognized in other comprehensive income.

	<b>2021</b>		2020	
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	Net Book Value
Land	\$ 1,474,785	\$ -	\$ 1,474,785	\$ 1,474,785
Buildings	7,117,214	4,085,066	3,032,148	3,219,430
Furniture and equipment	2,107,827	1,853,970	253,857	274,009
Computer equipment	1,201,946	1,077,674	124,272	230,917
Computer software	2,012,897	398,195	1,614,702	1,820,010
Paved lot	222,398	180,088	42,310	54,077
Leasehold improvements	1,102,826	743,097	359,729	441,272
	<b>\$ 15,239,893</b>	<b>\$ 8,338,090</b>	<b>\$ 6,901,803</b>	<b>\$ 7,514,500</b>

Depreciation of \$660,672 (\$660,704 in 2020) has been recorded for the year.

As a result of the closure of the McPhilips Street branch, and the amalgamation of North Winnipeg Credit Union Limited, a loss of \$106,143 was incurred on the write-off of assets for the year ended December 31, 2021. The assets written off include leasehold improvements, furniture and equipment.

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## Carpathia Credit Union Limited

### Notes to Financial Statements

For the year ended December 31, 2021

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#### 19. Assets Held-for-Sale

In January 2021, collateral property from a delinquent loan was derecognized and classified as an asset held for sale. At the reporting date, the property is valued at the lower of carrying cost and fair value less cost to sell.

The Credit Union is currently in the process of identifying the potential buyer for the property and incurred \$234,745 to maintain the property with no depreciation charged in the year.

#### 20. Right-of-Use Assets and Lease Liabilities

At inception of a contract, the Credit Union assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2020.

##### Nature of Leasing Activities in the Capacity as Lessee

The Credit Union leases two office buildings which expire in 2024 and 2026.

##### Recognition and Initial Measurement

The Credit Union recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally the Credit Union uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Credit Union to use an identified asset and require services to be provided to the Credit Union by the lessor, the Credit Union has elected to account for the entire contract as a lease, and therefore the Credit Union does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

**Carpathia Credit Union Limited**  
**Notes to Financial Statements**

**For the year ended December 31, 2021**

**20. Right-of-Use Assets and Lease Liabilities (continued)**

Subsequent Measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease, for example, a change in the Credit Union's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

Right-of-use assets include buildings and consist of the following:

Cost	
Balance, December 31, 2021	\$ 839,490
Accumulated Depreciation	
Balance, January 1, 2021	183,352
Depreciation for the year and balance at December 31, 2021	<u>165,034</u>
Carrying amounts, December 31, 2021	<u>\$ 491,104</u>

Lease liabilities consist of the following:

Balance, January 1, 2021	\$ 674,790
Interest expense	22,369
Lease payments	<u>(182,327)</u>
Balance at December 31, 2021	<u>\$ 514,832</u>

Amounts recognized in the statement of comprehensive income as occupancy expenses related to right-of-use assets, lease liabilities and payments on operating leases for the year are as follows:

	<u>2021</u>	2020
Depreciation expense of right-of-use assets	\$ 165,034	\$ 183,352
Interest expense on lease liabilities	<u>22,369</u>	<u>28,686</u>
Total operating lease expense	<u>\$ 187,403</u>	<u>\$ 212,038</u>

Total cash outflow for leases for the year were \$182,327 (\$193,386 in 2020).

# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

### 20. Right-of-Use Assets and Lease Liabilities (continued)

#### Liquidity Risk

The Credit Union does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Credit Union's finance function.

Contractual maturities representing undiscounted contractual cash-flows of lease liabilities are as follows as at December 31, 2021:

No later than 1 year	\$	155,650
Later than 1 year and not later than 5 years		415,717
	<b>\$</b>	<b>571,367</b>

### 21. Related Party Transactions

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Key personnel have been taken to comprise the directors and senior members of management responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation of key personnel during the year was as follows:

	2021	2020
Compensation		
Salaries, and other short-term employee benefits	\$ 778,859	\$ 759,717
Total pension and other post-employment benefits	32,559	42,226
Directors honoraria and per diems	81,442	101,210
Directors training and conference costs	13,560	26,357
	\$ 906,420	\$ 929,510

	2021	2020
Loans to key personnel		
Aggregate value of loans outstanding	\$ 408,596	\$ 2,476,735
Interest received on loans advanced	7,215	95,604
Value of loans advanced during year	100,026	-
Unused value of lines of credit	321,858	214,435

The Credit Union's policy for lending to key personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit.

## Carpathia Credit Union Limited

### Notes to Financial Statements

**For the year ended December 31, 2021**

#### 21. Related Party Transactions (continued)

	2021	2020
Deposits from key personnel		
Aggregate value of term and savings accounts	\$ 2,629,959	\$ 2,022,620
Interest paid on term and savings accounts	46,895	37,435

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

#### 22. Personnel Expenses

	2021	2020
Salaries and wages	\$ 3,778,501	\$ 3,868,952
Employee benefits	730,002	980,009
Other	181,715	188,466
	\$ 4,690,218	\$ 5,037,427

#### 23. Other Income

	2021	2020
Canada Emergency Wage Subsidy	\$ 364,385	\$ 941,737
Service charges	1,329,794	1,004,504
Other	271,757	237,173
Commissions	212,200	205,381
Foreign exchange	53,321	25,266
	\$ 2,231,457	\$ 2,414,061

Other income primarily includes Canada Emergency Wage Subsidy, service charges and commission income.

Canada Emergency Wage Subsidy are government grants that are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. As the grant relates to payroll, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Service charges are charged to members, primarily in the nature of account fees and transaction-based service charges. Account fees relate to account maintenance activities and are recognized in the income over the period in which the service is provided. Transaction-based service charges are recognized as earned at a point in time when a transaction is completed. Commission income is generally recognized at a point in time when the transaction is executed.

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# Carpathia Credit Union Limited

## Notes to Financial Statements

**For the year ended December 31, 2021**

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### **24. Standards, Amendments and Interpretations Not Yet Effective**

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2022 or later that the Credit Union has decided not to adopt early.

The adoption of the new standards, interpretations and amendments which were issued but are not yet effective are not expected to have a material impact on the Credit Union's financial statements.