

# **Credit Union Central of Manitoba Limited**

## **Consolidated Financial Statements December 31, 2021**

(in thousands of Canadian dollars)



## Independent auditor's report

To the Members of Credit Union Central of Manitoba Limited

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Credit Union Central of Manitoba Limited and its subsidiary (together, the Organization) 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 (IFRS).

#### What we have audited

The Organization's consolidated financial statements comprise:

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

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### Independence

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is

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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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

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### **Auditor's responsibilities for the audit of the consolidated financial statements**

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

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

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

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Winnipeg, Manitoba  
February 25, 2022

# Credit Union Central of Manitoba Limited

## Consolidated Statement of Financial Position

### As at December 31

(in thousands of Canadian dollars)

|   | 2021      | 2020      |
|---|-----------|-----------|
| <b>Assets</b>                                 |           |           |
| Liquidity pool (note 4)                       | 7,449,853 | 7,780,849 |
| Derivative instruments (note 5)               | 6,466     | 19,010    |
| Income taxes recoverable (note 6)             | 1,670     | -         |
| Intermediation pool (note 7)                  | 109,077   | 70,519    |
| Property and equipment (note 8)               | 12,899    | 13,410    |
| Other assets                                  | 5,949     | 3,167     |
| Deferred income taxes (note 6)                | 2,061     | -         |
|   | 7,587,975 | 7,886,955 |
| <b>Liabilities</b>                            |           |           |
| Accounts payable                              | 31,838    | 32,382    |
| Income taxes payable (note 6)                 | -         | 11,749    |
| Members' deposits                             | 6,375,632 | 6,740,672 |
| Obligations under repurchase agreements       | 220,096   | -         |
| Derivative instruments (note 5)               | 405,044   | 529,666   |
| Deferred income taxes (note 6)                | -         | 4,822     |
| Subordinated liabilities (note 9)             | 20,909    | 21,720    |
|   | 7,053,519 | 7,341,011 |
| <b>Members' equity</b>                        |           |           |
| Share capital (note 10)                       | 407,438   | 405,636   |
| Accumulated other comprehensive income (loss) | (1)       | 94        |
| Retained earnings                             | 127,019   | 140,214   |
|   | 534,456   | 545,944   |
|   | 7,587,975 | 7,886,955 |

Approved by the Board of Directors

\_\_\_\_\_  
Director

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Director

# Credit Union Central of Manitoba Limited

## Consolidated Statement of Operations and Comprehensive Income (Loss)

### For the year ended December 31

(in thousands of Canadian dollars)

|   | 2021             | 2020             |
|---|------------------|------------------|
| <b>Financial revenue</b>  |                  |                  |
| Liquidity pool - other interest income                            | 236,523          | 193,172          |
| Intermediation pool - interest income                             | 888              | 344              |
| Intermediation pool - dividend income                             | 150              | 150              |
|   | <u>237,561</u>   | <u>193,666</u>   |
| <b>Cost of funds</b>  | 18,024           | 41,416           |
|   | <u>219,537</u>   | <u>152,250</u>   |
| Unrealized gains (losses) on non-derivative instruments (note 11) | (220,658)        | 226,605          |
| Unrealized gains (losses) on derivative instruments (note 11)     | 211,040          | (159,365)        |
| Net cost of derivative instruments (note 11)                      | (143,751)        | (85,599)         |
|   | <u>67,289</u>    | <u>(244,964)</u> |
|   | <u>(153,369)</u> | <u>(18,359)</u>  |
| <b>Financial margin</b>   | 66,168           | 133,891          |
| <b>Other income</b>   |                  |                  |
| Share of Celero's income (note 3 f) iii. & note 22)               | 2,230            | 326              |
| Share of CCWH's income (note 3 f) iii. & note 23)                 | 519              | 590              |
| Share of PPJV's loss (note 3 f) iii. & note 24)                   | (11,121)         | (3,892)          |
| Rental income – net (note 3 e) & note 13)                         | 932              | 840              |
| Net operating expense (note 12)                                   | (94)             | (719)            |
|   | <u>(7,534)</u>   | <u>(2,855)</u>   |
| <b>Income before credit union patronage distributions</b>         | <u>58,634</u>    | <u>131,036</u>   |
| <b>Credit union distributions</b>                                 |                  |                  |
| Financial margin distribution                                     | (67,717)         | (57,386)         |
| Distribution of Celero's income (note 3 f) iii. & note 22)        | (2,230)          | (326)            |
|   | <u>(69,947)</u>  | <u>(57,712)</u>  |
| <b>Income (loss) before income taxes</b>                          | (11,313)         | 73,324           |
| Income tax expense (recovery) (note 6)                            | (6,613)          | 13,663           |
|   | <u>(6,613)</u>   | <u>13,663</u>    |
| <b>Net income (loss) for the year</b>                             | <u>(4,700)</u>   | <u>59,661</u>    |
| <b>Other comprehensive income (loss)</b>                          |                  |                  |
| Equity accounted investments                                      | (95)             | 56               |
|   | <u>(95)</u>      | <u>56</u>        |
| <b>Comprehensive income (loss)</b>                                | <u>(4,795)</u>   | <u>59,717</u>    |

# Credit Union Central of Manitoba Limited

## Consolidated Statement of Members' Equity

### As at December 31

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(in thousands of Canadian dollars)

|                                       | Share<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Total          |
|---------------------------------------|------------------|--|----------------------|----------------|
| <b>Balance at December 31, 2019</b>   | 333,166          | 38   | 89,769               | 422,973        |
| Comprehensive net income for the year | -                | 56   | 59,661               | 59,717         |
| Dividends to members                  | -                | -  | (9,216)              | (9,216)        |
| Members' shares issued (note 10)      | 72,470           | -  | -                    | 72,470         |
| <b>Balance at December 31, 2020</b>   | <b>405,636</b>   | <b>94</b>  | <b>140,214</b>       | <b>545,944</b> |
| <b>Balance at December 31, 2020</b>   | 405,636          | 94   | 140,214              | 545,944        |
| Comprehensive net loss for the year   | -                | (95)   | (4,700)              | (4,795)        |
| Dividends to members                  | -                | -  | (8,495)              | (8,495)        |
| Members' shares issued (note 10)      | 1,802            | -  | -                    | 1,802          |
| <b>Balance at December 31, 2021</b>   | <b>407,438</b>   | <b>(1)</b>   | <b>127,019</b>       | <b>534,456</b> |

# Credit Union Central of Manitoba Limited

## Consolidated Statement of Cash Flows

### For the year ended December 31

(in thousands of Canadian dollars)

|  | 2021             | 2020            |
|--|------------------|-----------------|
| <b>Cash provided by (used in)</b>                              |                  |                 |
| <b>Operating activities</b>                                    |                  |                 |
| Net income (loss) for the year                                 | (4,700)          | 59,661          |
| Items not affecting cash                                       |                  |                 |
| Unrealized losses (gains) on FVTPL financial instruments       | 9,618            | (67,240)        |
| Depreciation of property and equipment (note 8)                | 738              | 785             |
| Loss on disposal of property and equipment (note 8)            | 3                | 191             |
| Deferred income tax expense (recovery) (note 6)                | (6,883)          | 529             |
| Decrease (increase) in liquidity pool assets                   | 56,227           | (2,081,612)     |
| Net change in derivative instruments                           | 98,962           | 201,549         |
| Increase (decrease) in members' deposits                       | (364,792)        | 1,931,239       |
| Net change in other assets and accounts payable                | (16,744)         | 16,606          |
|  | <u>(227,571)</u> | <u>61,708</u>   |
| <b>Investing activities</b>                                    |                  |                 |
| Acquisition of property and equipment (note 8)                 | (230)            | (328)           |
| Increase in intermediation pool assets                         | (30,516)         | (23,857)        |
|  | <u>(30,746)</u>  | <u>(24,185)</u> |
| <b>Financing activities</b>                                    |                  |                 |
| Increase (decrease) in obligations under repurchase agreements | 220,096          | (27,787)        |
| Subordinated liabilities issued (paid) (note 9)                | (811)            | 21,720          |
| Members' shares issued (note 10)                               | 1,802            | 72,470          |
| Dividends to members   | (8,495)          | (9,216)         |
|  | <u>212,592</u>   | <u>57,187</u>   |
| <b>(Decrease) increase in cash</b>                             | <b>(45,725)</b>  | <b>94,710</b>   |
| <b>Cash (overdraft) - Beginning of year</b>                    | <b>66,890</b>    | <b>(27,820)</b> |
| <b>Cash - End of year</b>                                      | <b>21,165</b>    | <b>66,890</b>   |
| <b>Supplementary cash flow information</b>                     |                  |                 |
| Income tax paid  | 13,963           | 2,791           |
| Income tax received  | 273              | 75              |

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# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

#### 1 General information

Credit Union Central of Manitoba Limited (the “Organization”) is incorporated under *The Credit Unions And Caisses Populaires Act* (“CUCP Act”) of Manitoba and is domiciled in Canada. The address of its registered office is 317 Donald Street, Winnipeg, Manitoba, Canada. The Organization is the trade association and is a service provider to Manitoba credit unions. The Organization manages liquidity reserves, monitors credit granting procedures settlement services, banking, treasury, human resources, market research, communications, marketing, planning, lending, product/service research and development, and business consulting services to Manitoba credit unions. Manitoba credit unions jointly own the Organization and the Organization’s operations are financed through assessments and fee income.

#### 2 Basis of preparation

The Organization prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as defined in Part 1 of the CPA Canada Handbook - Accounting (International Financial Reporting Standards (“IFRS”)), except as otherwise specified by the Financial Institutions Regulation Branch of Manitoba (“FIRB”). There were no modifications specified by FIRB in the preparation of the consolidated financial statements. The significant accounting policies used in the preparation of the consolidated financial statements are summarized below.

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

These consolidated financial statements were approved by the Board of Directors for issue on February 25, 2022.

#### 3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

##### a) Basis of measurement

The consolidated financial statements have been prepared using amortized cost, except for certain investments in liquidity pool assets, intermediation pool assets, members’ deposits, obligations under repurchase agreements, and derivative instruments, which are all measured at fair value through profit or loss (“FVTPL”).

##### b) Consolidation

The financial statements consolidate the accounts of the Organization and its wholly owned subsidiary, 317 Donald Inc. Subsidiaries are those entities which the Organization controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

control is obtained and are de-consolidated from the date that control ceases. Intercompany transactions, balances, revenues and expenses, and profits and losses are eliminated.

#### **c) Investments in associates**

Associates are entities over which the Organization exercises significant influence, but not control. The Organization accounts for its investment in associates using the equity method. The Organization's share of profits or losses of associates is recognized in the consolidated statement of operations.

Unrealized gains on transactions between the Organization and its associates are eliminated to the extent of the Organization's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests of the Organization in associates are recognized in the consolidated statement of operations.

For investments in associates, a significant or prolonged decline in fair value of the investment below its carrying value is evidence that the investment is impaired. The impairment loss is the difference between the carrying value and its recoverable amount at the measurement date. The recoverable amount is the higher of an investment's fair value less costs of disposal and its value in use.

#### **d) Recoveries from members**

Recoveries from members are recognized on an accrual basis of accounting.

#### **e) Rental income**

Third-party rental income related to the operations of 317 Donald Inc. are disclosed separately in the consolidated statement of operations and comprehensive income (loss). Rental income from operating lease payments is recognized as income on either a straight line basis or another systematic basis when earned.

#### **f) Financial instruments**

##### **Financial Assets**

The Organization has applied IFRS 9 and classifies its financial assets using the following measurement categories:

- FVTPL;
- Fair value through other comprehensive income ("FVOCI"); or
- Amortized cost.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

The classification requirements for debt and equity instruments are described below:

#### Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on the Organization's business model for managing the asset and the cash flow characteristics of the asset. Based on these factors the Organization classifies its debt instruments into one of the following three measurement categories:

**Amortized cost** – Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated as FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized.

**FVOCI** – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated as FVTPL, are measured at FVOCI. Changes in the carrying amount are recorded through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is de-recognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

**FVTPL** – Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss.

**Business model** – The business model reflects how the Organization manages its assets in order to generate cash flows. That is, whether the Organization's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of "other" business model and measured at FVTPL. Factors considered by the Organization include past experience on how the cash flows for such assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Organization assesses whether the cash flows represent solely payments of principal and interest. Where the contractual terms introduce exposure to

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

The Organization reclassifies debt investments only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

#### Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay cash and have evidence of a residual interest in the issuer's net assets. The Organization subsequently measures all equity investments at FVTPL, except where the Organization's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. Fair value gains and losses for those investments are recognized in OCI and are not subsequently reclassified to profit or loss, including upon disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Organization's right to receive payment is established. No equity instruments were designated as FVOCI.

#### Impairment

The Organization assesses on a forward-looking basis the expected credit loss ("ECL") associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Organization recognizes a loss allowance for such losses at each reporting date.

#### Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either the Organization has transferred substantially all of the risk and rewards of ownership or the Organization neither transfers nor retains substantially all the risk and rewards of ownership and the Organization has not retained control. Collateral furnished by the Organization under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Organization retains substantially all of the risks and rewards due to the predetermined repurchase price.

#### Financial liabilities

Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as FVTPL. This classification is applied to derivative instruments and members'

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

deposits designated as such at initial recognition. Gains or losses on financial liabilities designated as FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to the changes in the credit risk of the liability are also presented in profit or loss. Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

Financial instruments, other than those required to be classified as held for trading, may be classified on a voluntary and irrevocable basis as FVTPL provided that such classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from recognizing the related gains and losses on different bases.

Financial instruments are categorized as follows:

**i. Liquidity pool**

***Investments held for trading***

Financial instruments are classified as held for trading if they are a derivative or acquired principally for selling or repurchasing in the near term or managed together for which there is evidence of a recent pattern of short term profit taking. The Organization's derivative instruments are the only investments required to be classified as held for trading (note 3 f) ii).

***Investments classified as FVTPL***

These investments are recorded at their fair value initially using the trade date for recognizing transactions and thereafter. Interest income earned is included in *Financial revenue - liquidity pool - other interest income* using the effective interest method. Gains and losses arising from subsequent market valuations are recognized in the consolidated statement of operations and comprehensive income (loss) in *Unrealized gains (losses) on non-derivative instruments*.

***Cash and cash equivalents***

Cash and cash equivalents, consisting of cash, deposits and overdrafts with financial institutions, are classified as amortized cost. Bank overdrafts are included as a component of cash as they represent an integral part of the Organization's cash management. Cash and cash equivalents are classified as amortized cost, which is equivalent to fair value.

***Transaction costs***

All transaction costs are expensed as incurred for assets and liabilities classified as held for trading and classified as FVTPL. Transaction costs for all other financial assets are included in the initial carrying amount.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

#### ii. Derivative instruments

##### ***Interest rate swap agreements***

The Organization enters into interest rate swap agreements in order to manage its exposure to changes in interest rates.

Additionally, the Organization, in its role as a financial intermediary, enters into interest rate swap agreements with and at the direction of its members. Concurrently, the Organization enters into a mirroring counter agreement with a third party financial institution.

These agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs. Cash flows on both the receiving and paying leg of the interest rate swap agreements are included in net cost of derivative financial instruments used to manage interest rate risk (note 18 c)). The fair value of interest rate swap agreements is recorded in derivative instruments assets or liabilities, as appropriate, on the consolidated statement of financial position with the corresponding gain or loss included in *Unrealized gains (losses) on derivative instruments*.

##### ***Foreign exchange forward rate agreements***

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates.

Foreign exchange forward rate agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs. The fair value of foreign exchange forward rate agreements is recorded in derivative instruments assets or liabilities, as appropriate, on the consolidated statement of financial position with the corresponding gain or loss included in *Financial revenue - liquidity pool - other interest income*.

##### ***Embedded derivatives***

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host — with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If a hybrid contract contains a host that is an asset the Organization applies its classification criteria to the entire hybrid contract. Embedded derivatives contained within a host that is not an asset are treated as separate derivative instruments when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative instrument, and the combined contract is not classified as held for trading or FVTPL. Embedded derivatives would be accounted for at fair value on the consolidated statement of financial position and changes in fair value would be recorded on the consolidated statement of operations and comprehensive income (loss). The Organization determined that no embedded derivatives require separation from the host instrument for the periods presented.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

#### iii. Intermediation pool

Equity instruments are classified as FVTPL and are recognized at fair value using the trade date for recognizing transactions. Dividends are recorded when declared and are included in *Financial revenue - intermediation pool - dividend income*.

Loans are classified as amortized cost using the effective interest method. Interest income earned is included in *Financial revenue - intermediation pool - interest income* using the effective interest method.

#### ***Investment in Celero Solutions (“Celero”)***

Celero is an unincorporated entity domiciled in Canada that provides information technology services to the Organization, credit unions and other organizations. Pursuant to its agreement with the other investees, the Organization has a 33 $\frac{1}{3}$ % ownership interest in Celero. The Organization accounts for its investment in Celero using the equity method.

Member credit unions that receive services through Celero are the beneficial owners of the Organization’s interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero’s net income. Conversely, should Celero incur a net loss from operations, the Organization records an offsetting contribution and an amount recoverable from its member credit unions.

#### ***Investment in CU CUMIS Wealth Holdings Limited Partnership (“CCWH”)***

CCWH is an investment limited partnership domiciled in Canada formed to hold the partners’ interest in Aviso Wealth Inc. The Organization has a 6.61% ownership interest in CCWH and accounts for its investment using the equity method due to the attributes associated with the partnership agreement. CCWH is owned by the Organization, Central 1 Credit Union, Credit Union Central of Alberta, Credit Union Central of Saskatchewan, Atlantic Central, and The CUMIS Group. There are four classes of partnership units issued by CCWH of which two classes grant ownership rights. Net income of CCWH is allocated and distributed to the various unitholders, those with ownership rights and those without, at the discretion of the general partner. Typically, most of the income is allocated and distributed to classes of units that do not possess ownership rights. Based on the allocation and distribution to CCWH unitholders, the Organization’s interest in net income in 2021 was 1.42% (2020 – 2.69%).

#### ***Investment in Prairie Payments Joint Venture (“PPJV”)***

PPJV is an unincorporated entity governed pursuant to the Prairie Payments Joint Venture Agreement effective January 1, 2020. The joint venturers, Credit Union Central Alberta Limited, Credit Union Central of Saskatchewan and the Organization, each have a 33 $\frac{1}{3}$ % interest in PPJV. PPJV was formed to manage the outsourced payment services relationship with IBM Canada Limited (IBM) and to develop enhancements to payment services provided to members of the joint venturers and other organizations. The Organization accounts for its investment in PPJV using the equity method.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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#### iv. Members' deposits

Members' deposits are designated as FVTPL and recorded at their fair value initially using the trade date for recognizing transactions. Members' deposits are redeemable at the option of the member and are recorded at the amount payable on demand. The amount payable on demand is computed by discounting contractual cash flows as follows:

- for terms less than 13 months, using prevailing banker's acceptance rates offered by the Organization; and
- for terms greater than 13 months, using the corresponding market yield on Schedule 1 bank senior debt.

Interest expense is included in cost of funds using the equivalent to the effective interest method. Gains and losses arising from subsequent market valuations are recognized as *Unrealized gains (losses) on non-derivative instruments*.

#### v. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Organization currently has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Organization enters into various master netting agreements or other similar agreements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or the termination of the contracts (note 20).

#### vi. Obligations under repurchase agreements

The Organization may enter into short-term sales of securities under agreements to repurchase at predetermined prices and dates. The corresponding securities under these agreements continue to be recorded in liquidity pool assets on the consolidated statement of financial position. The obligations are classified as FVTPL and are recorded at fair value initially and thereafter using the trade date for recognizing transactions. These agreements are treated as collateralized borrowing transactions. Interest incurred on the obligation is reported in cost of funds using the effective interest method.

#### g) Income taxes

The asset and liability method is used to account for deferred income taxes. Under this method, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in the consolidated statement of operations and comprehensive income (loss) in the period that includes the substantive enactment date. Deferred income tax assets are recognized to the extent that realization is considered probable.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### **h) Property and equipment**

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation, with the exception of land which is not depreciated, and any accumulated impairment losses. Depreciation is recognized by the Organization at rates and on bases determined to charge the cost of property and equipment over its estimated useful life using the straight-line method as follows:

|                         |                             |
|-------------------------|-----------------------------|
| Technology              | 3 to 10 years               |
| Furniture and equipment | 5 to 10 years               |
| Leasehold improvements  | remaining term of the lease |
| Building                | 50 years                    |

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Costs for property and equipment under development include direct development costs. Capitalization of costs ceases and depreciation commences when the property and equipment is available for use.

#### **i) Foreign currency translation**

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in financial margin.

#### **j) Leased assets**

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use and are initially measured on a present value basis. Lease liabilities include the net present value of fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease or if that rate cannot be determined, the lessee's incremental borrowing rate being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant period rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the the asset's useful life and the lease term on a straight-line basis.

Payments associated with short term leases and leases of low value assets are recognized on a straight line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise small items of equipment.

Each lease payment is allocated between the liability and finance cost.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars)

#### **k) Intangible assets**

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Organization. Intangible assets are classified within technology assets (note 8) based on materiality.

Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life (typically 5 years). Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary.

#### **l) Provisions**

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

#### **m) Critical accounting estimates and judgements**

The Organization makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### **Critical accounting judgement – Financial instrument classifications**

The classification of financial instruments as either amortized cost, FVTPL, or FVOCI requires management to exercise judgement. In addition, determining whether the requirements for designating certain assets and liabilities as FVTPL are met requires judgement. Management has determined that these requirements have been met in the case of members' deposits. Members' deposit share interest rate risk with the financial assets in the liquidity pool which are classified as FVTPL. Accordingly, members' deposits are designated as FVTPL as the changes in fair value tend to offset those of the liquidity pool thereby reducing the accounting mismatch that would otherwise arise. The designation of members' deposit as FVTPL thus results in more relevant information. The designation of liquidity pool assets and members' deposits as FVTPL results in the recognition of gains and losses being recognized in the statement of income along with the Organization's derivatives.

##### **Critical accounting estimates**

###### **Members' deposits classified as FVTPL**

The fair values of members' deposits with a carrying value of \$6,375,632 (2020 - \$6,740,672) are not quoted in an active market and are therefore determined by using a discounted cash flow model. The fair value of members' deposits with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. The discounted cash flow model used to determine fair values is validated and periodically reviewed by experienced personnel. The inputs in the discounted cash flow model are based on observable data, such as market based discount rates that approximate the redemption features. Changes in assumptions could affect the

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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reported fair value of members' deposits. A 25 basis point reduction in the discount rate would increase members' deposits and decrease financial margin by \$1,189. A 25 basis point increase in the discount rate would decrease members' deposits and increase financial margin by \$1,188.

#### **Fair value of derivative instruments**

The fair values of derivative instruments are not quoted in an active market and are therefore determined by using a discounted cash flow model (note 5). The discounted cash flow model used to determine fair values is validated and periodically reviewed by experienced personnel. The inputs in the discounted cash flow model are based on observable data, such as yield curves associated with interest rates and foreign exchange rates. Changes in assumptions about these factors could affect the reported fair value of derivative instruments.

#### **Intermediation pool assets classified as FVTPL**

The Organization holds certain intermediation pool assets as FVTPL. Fair values for certain FVTPL assets are considered to approximate their par value based on the terms of those shares. The Organization continues to monitor these shares for any indication that a new measure of fair value is available and any change in the resulting fair value would be recognized in profit or loss.

#### **n) Changes in accounting policies**

Effective, January 1, 2021, The Organization adopted the Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 Insurance contracts and IFRS 16 (Collectively the “Phase 2 Amendments”). The Phase 2 Amendments address issues that arise upon replacing the existing interest rate benchmark with the alternative interest rates and introduces additional disclosure requirements. The Phase 2 Amendments provide two key reliefs:

- i) For modifications resulting from the Reform which are transacted on an economically equivalent basis, the Reform allows the benchmark rate change to be reflected prospectively in the effective interest rate of the instrument rather than as an immediate gain or loss.
- ii) If qualifying criteria are met, hedging relationships that are directly impacted by the Reform would be able to continue hedge accounting upon transition to alternative interest rates.

The Organization does not apply hedge accounting and as at December 31, 2021, has exposure to LIBOR (London Interbank Offered Rate) and other IBOR (Interbank Offered Rate) currencies as per below.

|                                      | Notional amount |
|--------------------------------------|-----------------|
| Derivative instruments - assets      | \$323,514       |
| Derivative instruments - liabilities | 66,976          |



# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars)

#### 5 Derivative instruments

Derivative instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument, or index. Derivative contracts are expressed in notional amounts. The notional amount is the reference amount used to determine the payment required by contract and is a common measure of business volume. All derivatives are traded over-the-counter.

|                                   | 2021                                |              |              |           | December 31, 2021 |           |
|-----------------------------------|-------------------------------------|--------------|--------------|-----------|-------------------|-----------|
|                                   | Notional amount by term to maturity |              |              |           | Fair value        |           |
|                                   | 1 year or less                      | 1 to 5 years | Over 5 years | Total     | Asset             | Liability |
| <b>Interest rate contracts</b>    |                                     |              |              |           |                   |           |
| Swap contracts                    | 1,320,372                           | 7,135,230    | 902,204      | 9,357,806 | 6,466             | 382,583   |
| <b>Foreign exchange contracts</b> |                                     |              |              |           |                   |           |
| Forward contracts                 | 7,126                               | 128          | -            | 7,254     | -                 | 101       |
| Swap contracts                    | -                                   | 311,133      | -            | 311,133   | -                 | 22,360    |
|                                   | 7,126                               | 311,261      | -            | 318,387   | -                 | 22,461    |
| <b>Fair value</b>                 |                                     |              |              |           | 6,466             | 405,044   |
| <br>                              |                                     |              |              |           |                   |           |
|                                   | 2020                                |              |              |           | December 31, 2020 |           |
|                                   | Notional amount by term to maturity |              |              |           | Fair value        |           |
|                                   | 1 year or less                      | 1 to 5 years | Over 5 years | Total     | Asset             | Liability |
| <b>Interest rate contracts</b>    |                                     |              |              |           |                   |           |
| Swap contracts                    | 1,433,186                           | 5,041,887    | 1,186,862    | 7,661,935 | 19,010            | 486,150   |
| <b>Foreign exchange contracts</b> |                                     |              |              |           |                   |           |
| Forward contracts                 | 2,163                               | 570          | -            | 2,733     | -                 | 48        |
| Swap contracts                    | -                                   | 217,286      | 86,016       | 303,302   | -                 | 43,468    |
|                                   | 2,163                               | 217,856      | 86,016       | 306,035   | -                 | 43,516    |
| <b>Fair value</b>                 |                                     |              |              |           | 19,010            | 529,666   |

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars)

#### 6 Income taxes

Significant components of the provision for income taxes included in the consolidated statement of operations and comprehensive income (loss) are:

|   | <b>2021</b>    | <b>2020</b>   |
|---|----------------|---------------|
| Current income taxes                                      |                |               |
| Based on current year taxable income                      | 270            | 13,134        |
| Adjustment recognized for current tax of prior periods    | -              | -             |
|   | <u>270</u>     | <u>13,134</u> |
| Total current income taxes                                |                |               |
| Deferred income taxes                                     |                |               |
| Origination and reversal of temporary differences         | (4,672)        | 355           |
| Increase in tax rates                                     | (2,083)        | 6             |
| Adjustment recognized for deferred taxes of prior periods | (128)          | 168           |
|   | <u>(6,883)</u> | <u>529</u>    |
| Total deferred income taxes                               |                |               |
| Income tax expense (recovery)                             | <u>(6,613)</u> | <u>13,663</u> |

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

|                                    | <b>2021</b>  | <b>2020</b>  |
|------------------------------------|--------------|--------------|
| shown as %                         |              |              |
| Federal base rate                  | 38.00        | 38.00        |
| Federal abatement                  | (10.00)      | (10.00)      |
| General rate reduction             | (13.00)      | (13.00)      |
|                                    | <u>15.00</u> | <u>15.00</u> |
| Blended net federal tax rate       |              |              |
| Provincial tax rate <sup>(a)</sup> | <u>7.86</u>  | <u>5.94</u>  |
|                                    | <u>22.86</u> | <u>20.94</u> |

(a) The increase in the Provincial tax rate is as a result of the Manitoba government phasing out additional deductions for credit unions. There is a 40% rate reduction on the 12% tax rate paid in Manitoba. This 40% reduction will be reduced to 20% in 2022, and 0% thereafter. The overall Provincial tax rate is a blended rate based on income taxes paid to Saskatchewan, Alberta, and Manitoba.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

Differences between the income tax expense for the year and the expected income taxes based on the statutory rate of 20.94% (2020 – 20.94%) are:

|   | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|
| (Loss) income before income taxes                             | (11,313)    | 73,324      |
| Expected provision for income taxes at statutory rates        | (2,586)     | 15,354      |
| Other non-deductible portion of expenses (non-taxable income) | (147)       | (21)        |
| Impact of change in deferred tax rates                        | (2,083)     | 6           |
| Higher tax rate applicable to subsidiary                      | 34          | 46          |
| Adjustment recognized for tax of prior periods                | 177         | 168         |
| Tax savings on dividend                                       | (1,942)     | (1,930)     |
| Other   | (66)        | 40          |
| Income tax expense (recovery)                                 | (6,613)     | 13,663      |

Based on the *Income Tax Act*, credit unions are entitled to a deduction from taxable income related to payments in respect of share capital and therefore any dividends paid or payable by the Organization would result in tax savings. Distributions to members are charged against retained earnings however the tax savings are recognized in the consolidated statement of operations and comprehensive income (loss).

Components of the deferred tax assets and liabilities are:

|  | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|
| Deferred tax assets  |             |             |
| Provisions for expenditures currently not deductible for income tax purposes | 331         | 337         |
| Non-capital losses   | 8,084       | -           |
| Other  | 106         | 55          |
|  | 8,521       | 392         |
| Deferred tax liabilities   |             |             |
| Intermediation pool assets   | (4,617)     | (3,529)     |
| Capital cost allowance in excess of depreciation                             | (1,851)     | (1,759)     |
| Members' deposits  | 8           | 74          |
|  | (6,460)     | (5,214)     |
| Net deferred tax asset (liability)   | 2,061       | (4,822)     |

# Credit Union Central of Manitoba Limited

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(in thousands of Canadian dollars)

The Organization has no material unrecognized temporary differences related to its wholly-owned subsidiary or its investment in associates.

|   | 2021    | 2020     |
|---|---------|----------|
| Income taxes payable  |         |          |
| Current income taxes recoverable (payable)                    | 1,670   | (11,749) |
|   | <hr/>   | <hr/>    |
| Deferred income tax   |         |          |
| Deferred tax assets   |         |          |
| Deferred tax assets to be recovered within 12 months          | 331     | 337      |
| Deferred tax assets to be recovered after more than 12 months | 8,190   | 55       |
|   | <hr/>   | <hr/>    |
|   | 8,521   | 392      |
|   | <hr/>   | <hr/>    |
| Deferred tax liabilities                                      |         |          |
| Deferred tax liabilities to be paid after more than 12 months | (6,460) | (5,214)  |
|   | <hr/>   | <hr/>    |
|   | (6,460) | (5,214)  |
|   | <hr/>   | <hr/>    |
| Net deferred tax asset (liability)                            | 2,061   | (4,822)  |

The movement in deferred tax assets (liabilities) is recognized in the consolidated statement of operations and comprehensive income (loss) for the year.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

#### 7 Intermediation pool

|  | 2021    | 2020   |
|--|---------|--------|
| <b>Amortized cost</b>                    |         |        |
| Loans                                    |         |        |
| Co-operatives                            | 8,100   | 7,302  |
| Members                                  | 36,526  | 16,602 |
|  | 44,626  | 23,904 |
| <b>Fair value through profit or loss</b> |         |        |
| 189286 Canada Inc.                       | 6,473   | 5,611  |
| Concentra Bank                           | 11,317  | 3,817  |
| Other equity investments                 | 474     | 476    |
|  | 18,264  | 9,904  |
| <b>Equity accounted investments</b>      |         |        |
| Investment in Celero (note 22)           | 7,798   | 8,262  |
| Investment in CCWH (note 23)             | 18,455  | 18,395 |
| Investment in PPJV (note 24)             | 19,934  | 10,054 |
|  | 46,187  | 36,711 |
|  | 109,077 | 70,519 |

The FVTPL investments do not have quoted market prices in an active market. For certain shares, fair value is considered to approximate par value based on the terms of those shares. The Organization continues to monitor these shares for any indication that a new measure of fair value is available.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

(in thousands of Canadian dollars)

#### 8 Property and equipment

|                                     | Land  | Building | Technology | Furniture<br>and<br>equipment | Leasehold<br>improvements | Total    |
|-------------------------------------|-------|----------|------------|-------------------------------|---------------------------|----------|
| <b>Year ended December 31, 2021</b> |       |          |            |                               |                           |          |
| Opening net book value              | 1,379 | 9,963    | 1,587      | 151                           | 330                       | 13,410   |
| Additions                           | -     | -        | 206        | 24                            | -                         | 230      |
| Disposals                           | -     | -        | (3)        | -                             | -                         | (3)      |
| Transfers                           | -     | (2)      | -          | 2                             | -                         | -        |
| Depreciation                        | -     | (277)    | (369)      | (41)                          | (52)                      | (738)    |
| Closing net book value              | 1,379 | 9,684    | 1,422      | 136                           | 278                       | 12,899   |
| <b>At December 31, 2021</b>         |       |          |            |                               |                           |          |
| Cost                                | 1,379 | 13,818   | 3,914      | 2,543                         | 3,723                     | 25,377   |
| Accumulated depreciation            | -     | (4,134)  | (2,492)    | (2,407)                       | (3,445)                   | (12,478) |
| Net book value                      | 1,379 | 9,684    | 1,422      | 136                           | 278                       | 12,899   |
| <b>Year ended December 31, 2020</b> |       |          |            |                               |                           |          |
| Opening net book value              | 1,379 | 10,239   | 2,102      | 28                            | 310                       | 14,058   |
| Additions                           | -     | -        | 77         | 159                           | 92                        | 328      |
| Disposals                           | -     | -        | (157)      | (15)                          | (19)                      | (191)    |
| Depreciation                        | -     | (276)    | (435)      | (21)                          | (53)                      | (785)    |
| Closing net book value              | 1,379 | 9,963    | 1,587      | 151                           | 330                       | 13,410   |
| <b>At December 31, 2020</b>         |       |          |            |                               |                           |          |
| Cost                                | 1,379 | 13,820   | 3,752      | 2,516                         | 3,723                     | 25,190   |
| Accumulated depreciation            | -     | (3,857)  | (2,165)    | (2,365)                       | (3,393)                   | (11,780) |
| Net book value                      | 1,379 | 9,963    | 1,587      | 151                           | 330                       | 13,410   |

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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#### 9 Subordinated liabilities

The Organization has issued subordinated debentures with an indefinite term and no maturity date. The debentures are a direct unsecured obligation of the Organization and are considered a component of capital required under the CUCP Act (note 21). The Organization has the right to increase the amount of debentures issued in order to maintain its capital. The Organization also has the right to pay the outstanding debenture in whole or in part. The Organization may be required to pay the debenture under certain conditions. At the discretion of the Organization, interest may be considered and paid, payable twice per year based on the rate of return paid to CUCM Class 2 shareholders. Payments of interest for the year then ended were \$399 (2020 - \$262) and are recorded in cost of funds within the consolidated statement of operations and comprehensive income (loss).

#### 10 Share capital

##### Authorized

Share capital consists of an unlimited number of Class 1 and 2 shares, to be issued and redeemed at \$5 each.

##### Membership

Pursuant to the Organization's by-laws, member credit unions maintain investments in both classes of shares proportionate to their statutory (Class 1) and excess (Class 2) liquidity deposits held by the Organization.

##### Rights and privileges

At the discretion of the Organization's directors, dividends may be declared and paid to either or both classes of shares. On dissolution, the holders of Class 2 shares have a preferential claim on the Organization's assets.

| <b>Issued and outstanding</b>                    | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|
| Class 1<br>26,107,008 shares (2020 – 19,304,645) | 130,535     | 96,523      |
| Class 2<br>55,380,564 shares (2020 – 61,822,527) | 276,903     | 309,113     |
|  | 407,438     | 405,636     |

During the year, a net total of \$1,802 of shares were issued (2020 - a net total of \$72,470 of shares were issued).

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars)

#### 11 Net cost and unrealized gains (losses) on financial instruments

|  | 2021      | 2020      |
|--|-----------|-----------|
| Liquidity pool investments   | (229,044) | 228,545   |
| Intermediation pool investments - FVTPL (note 25)  | 8,362     | (767)     |
| Intermediation pool investments - equity accounted investments notional purchase price allocation  | (225)     | (207)     |
| Members' deposits  | 248       | (966)     |
| Obligations under repurchase agreements  | 1         | -         |
|  | <hr/>     | <hr/>     |
| Unrealized gains (losses) on non-derivative instruments classified as FVTPL                        | (220,658) | 226,605   |
|  | <hr/>     | <hr/>     |
| Unrealized gains (losses) on derivative instruments used to manage interest rate risk (note 18 c)) | 211,040   | (159,365) |
| Net cost of derivative instruments used to manage interest rate risk (note 18 c))                  | (143,751) | (85,599)  |
|  | <hr/>     | <hr/>     |
| Net cost and unrealized gains (losses) on derivative instruments                                   | 67,289    | (244,964) |

Derivative instruments are economic hedges used to manage interest rate risk associated with the Organization's investment in long term debt instruments matched to short term members' deposits. Such derivative financial instruments have the economic effect of converting a long term fixed interest rate debt instrument to a synthetic floating rate instrument, however hedge accounting is not applied.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

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(in thousands of Canadian dollars)

#### 12 Net operating expense

|                                    | 2021   | 2020   |
|------------------------------------|--------|--------|
| Recoveries                         |        |        |
| Basic assessment                   | 6,269  | 7,264  |
| Fees for service                   | 2,657  | 2,601  |
| Liquidity management assessment    | 2,423  | 2,186  |
| Other recoveries                   | 547    | 658    |
| Net recovery from Celero (note 13) | 223    | 419    |
|                                    | 12,119 | 13,128 |
| Operating expenses                 |        |        |
| Personnel                          | 7,701  | 7,964  |
| General                            | 1,433  | 1,239  |
| Projects and professional services | 1,008  | 1,212  |
| Depreciation                       | 738    | 785    |
| Hardware and software maintenance  | 492    | 489    |
| Co-operative democracy             | 454    | 411    |
| National shared costs              | 387    | 1,747  |
|                                    | 12,213 | 13,847 |
| Net operating expense              | (94)   | (719)  |

#### 13 Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations. During the year, the Organization's charges to Celero aggregated to \$1,506 (2020 - \$1,510) and Celero's charges to the Organization aggregated to \$656 (2020 - \$468). The net recovery from Celero of \$850 (2020 - \$1,042) is classified in two areas: Rental income - net \$627 (2020 - \$623) and net operating recovery \$223 (2020 - \$419) (note 12). Interest charges to Celero on loans receivable were \$44 (2020 - \$62). Accounts receivable include \$281 due from Celero (2020 - nil) and accounts payable include \$167 due to Celero (2020 - \$138).

The Organization provides administrative services to CCWH. During the year, the Organization's charges to CCWH aggregated to \$53 (2020 - \$40). Interest charges to CCWH on a line of credit provided to CCWH were nominal. Accounts receivable include \$103 (2020 - \$75) due from CCWH and accounts payable were nil (2020 - nil).

# Credit Union Central of Manitoba Limited

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The Organization and PPJV provide various services to each other. During the year, the Organization's charges to PPJV aggregated to \$1,253 (2020 - \$1,280) and the Organization's charges from PPJV aggregated to \$23 (2020 - \$318). Interest charges to PPJV on loans receivable were \$644 (2020 - \$136). Accounts receivable include \$12 (2020 - \$170) due from PPJV and accounts payable were \$335 (2020 - nil).

#### Compensation of key management personnel

Key management personnel is comprised of the Organization's executive management group and the board of directors. The summary of compensation for key management personnel is as follows:

|   | 2021  | 2020  |
|---|-------|-------|
| Salaries and other short-term employee benefits | 2,238 | 2,240 |
| Other long-term benefits                        | 70    | 40    |
| Defined contribution pension plan (note 14)     | 36    | 56    |
|   | 2,344 | 2,336 |

Included in the compensation of key management personnel is board of directors' remuneration of \$367 (2020 - \$331).

#### 14 Pension plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2021 totaled \$345 (2020 - \$377). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

#### 15 Commitments

The Organization has entered into agreements for the provision of a treasury management system, the provision of a banking system, and the provision of technology services. The agreements have various terms, clauses, and renewal rights.

Commitments are as follows:

|      |         |
|------|---------|
| 2022 | \$1,587 |
| 2023 | 1,135   |
| 2024 | 448     |

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#### 16 Assets pledged as collateral

The Organization pledges assets to Central 1 Credit Union for collateral purposes for accessing Payments Canada's payments system through the *Group Clearing Agreement* (note 17). The Organization also pledges assets for margining purposes for over-the-counter derivative liabilities, for collateral purposes for issuing Letters of Credit on behalf of its members, and for collateral purposes for obligations under repurchase agreements. The assets pledged are included in the liquidity pool (note 4).

|  | 2021           | 2020           |
|--|----------------|----------------|
| Assets pledged under the <i>Group Clearing Agreement</i>   | 167,541        | 167,246        |
| Assets pledged for over-the-counter derivative liabilities | 414,373        | 549,117        |
| Assets pledged for obligations under repurchase agreements | 220,326        | -              |
| Total assets pledged                                       | <u>802,240</u> | <u>716,363</u> |

#### 17 Indemnifications

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Organization maintains liability insurance coverage for directors and officers.

The Organization participates in an arrangement with Credit Union Central of Saskatchewan, Credit Union Central of Alberta Limited, and Central 1 Credit Union (the "Group Clearing Agreement") whereby Central 1 Credit Union, on behalf of the participants, acts as the *Group Clearer* with Payments Canada. Under this agreement, the Organization has a line of credit to a maximum of \$100,000. Amounts are due on demand and bear interest at the Bank of Canada overnight rate, or such other rate charged by the Bank of Canada, for Canadian dollar advances. For US dollar advances, amounts bear interest at the rate charged to Central 1 by the correspondent US bank.

Under the Group Clearing Agreement, the Organization guarantees and indemnifies the *Group Clearer* and each member of the Group Clearing Agreement against any losses arising from the payment obligation for settlement drawn on or payable by the Organization and its member credit unions.

#### 18 Risk management

The Organization's primary financial objective is to manage the deposits of its members. A certain amount of financial risk is inherent in the Organization's operations. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to

# Credit Union Central of Manitoba Limited

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the creation of value for the Organization's members. The Organization manages and mitigates risk through the development of risk management policies. For the Organization this means striking a balance between risk and return.

In the normal course of business, the Organization is primarily exposed to the financial risks described below:

Credit risk - risk of a financial loss if an obligor does not fully honour its contractual commitments to the Organization. Obligors may include issuers of securities, counterparties or borrowers;

Liquidity risk - risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset; and

Market risk, comprised of:

Interest rate risk - risk of a change in income resulting from changes in interest rates;

Foreign exchange risk - risk of a change in income resulting from changes in foreign exchange rates; and

Market price risk - risk that the fair value of a financial instrument will fluctuate due to changes in market prices.

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

Risk management is the responsibility of the Audit and Risk Committee of the Board of Directors. Risk tolerance and overall risk management are documented within the Organization's enterprise risk management framework and its risk management policies which are approved by the Board. Management regularly reports to the Board on compliance with those policies. In addition, the Organization maintains an Internal Audit function which is partly responsible for review of risk management and the Organization's control environment.

Financial instruments comprise the vast majority of the Organization's assets and liabilities. The Organization accepts demand deposits and term deposits from members at floating and fixed rates respectively and invests those funds in floating and fixed rate securities and derivatives to earn interest rate margin.

The following describes the significant financial instrument activities undertaken by the Organization, the exposure to risks associated with such activities and the objectives, policies and processes used in managing those risks.

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| Financial instrument activity           | Risks  | Risk management  |
|---|--|--|
| Derivative instruments                  | Liquidity risk, interest rate risk, credit risk, foreign exchange risk and market price risk | Asset-liability matching, credit risk monitoring, and pledging of collateral.                |
| Debt instruments                        | Liquidity risk, interest rate risk, credit risk, foreign exchange risk and market price risk | Asset-liability matching, credit risk monitoring and use of derivative financial instruments |
| Intermediation pool investments         | Liquidity risk, interest rate risk, market price risk and credit risk                        | Asset-liability matching and credit risk monitoring  |
| Members' deposits                       | Liquidity risk, interest rate risk, foreign exchange risk and market price risk              | Asset-liability matching and use of derivative financial instruments                         |
| Obligations under repurchase agreements | Liquidity risk, interest rate risk and credit risk   | Asset-liability matching, credit risk monitoring, and pledging of collateral.                |
| Subordinated liabilities                | Liquidity risk   | Asset-liability matching   |

#### a) Credit risk

The Organization is exposed to credit risk primarily through its liquidity pool investments, intermediation pool investments, and derivative financial instruments. The financial assets recognized in the consolidated statement of financial position represent the Organization's maximum exposure to credit risk as at the consolidated statement of financial position date. The Organization does not hold any credit derivatives or similar instruments that mitigate the credit risk.

In managing credit risk, the Organization primarily relies on external rating agencies for liquidity pool investments and derivative financial instruments. All liquidity pool investments must be rated by at least two recognized rating agencies. The Organization defines its own Internal Credit Rating ("ICR") based on external rating agencies which is monitored daily to ensure compliance with policy.

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Liquidity pool investments by credit rating and term to maturity are:

|                  |                       |                     |                     | <b>2021</b>      |
|------------------|-----------------------|---------------------|---------------------|------------------|
|                  | <b>1 year or less</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b>     |
| AAA / R1 (High)  | 32,656                | 10,297              | -                   | 42,953           |
| AA / R1 (Middle) | 92,943                | 1,083,416           | 879,541             | 2,055,900        |
| A / R1 (Low)     | 2,465,606             | 2,745,262           | 118,967             | 5,329,835        |
|                  | <b>2,591,205</b>      | <b>3,838,975</b>    | <b>998,508</b>      | <b>7,428,688</b> |

  

|                  |                       |                     |                     | <b>2020</b>      |
|------------------|-----------------------|---------------------|---------------------|------------------|
|                  | <b>1 year or less</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b>     |
| AAA / R1 (High)  | 115,080               | 10,328              | -                   | 125,408          |
| AA / R1 (Middle) | 128,888               | 876,287             | 1,408,965           | 2,414,140        |
| A / R1 (Low)     | 1,441,929             | 3,649,079           | 83,403              | 5,174,411        |
|                  | <b>1,685,897</b>      | <b>4,535,694</b>    | <b>1,492,368</b>    | <b>7,713,959</b> |

The change in fair value of investments classified as FVTPL is primarily due to changes in market risk.

The Organization recognized a nominal ECL related to financial assets carried at amortized cost.

Intermediation pool investments:

- The Organization is committed to investing in 189226 Canada Inc., the Canadian Credit Union Association, and Central 1 Credit Union as required.
- Investments in associates, Celero, CCWH and PPJV require a credit risk assessment and approval by the Board of Directors.
- Loans and overdrafts to member credit unions are secured by a *Global Loan Agreement* which specifies that the Organization holds a security interest in all book debts and accounts. In the event of default, the Organization is authorized to realize on all security and apply the proceeds therefrom

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to its amount receivable. Due to the nature of such security, the ECL associated with such loans and overdrafts is nominal.

#### b) Liquidity risk

The Organization's liquidity risk management framework is designed to ensure that reliable and cost-effective sources of liquidity are available to satisfy current and prospective liquidity requirements of its members.

The contractual undiscounted cash flows of financial liabilities (excluding accounts payable) are as follows:

|  | <b>2021</b>                 |                       |                     |                     |              |
|--|-----------------------------|-----------------------|---------------------|---------------------|--------------|
|  | <b>Current<br/>accounts</b> | <b>1 year or less</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b> |
| Members' deposits                              | 2,386,125                   | 3,989,540             | -                   | -                   | 6,375,665    |
| Obligations under repurchase agreements        | -                           | 220,097               | -                   | -                   | 220,097      |
| Derivative financial instruments               | -                           | 130,403               | 174,597             | 117,469             | 422,469      |
| Subordinated liabilities                       | -                           | -                     | -                   | 20,909              | 20,909       |
| Undiscounted contractual amount of liabilities | 2,386,125                   | 4,340,040             | 174,597             | 138,378             | 7,039,140    |
| Carrying value of liabilities                  | 2,386,125                   | 4,340,587             | 171,834             | 123,135             | 7,021,681    |

  

|  | <b>2020</b>                 |                       |                     |                     |              |
|--|-----------------------------|-----------------------|---------------------|---------------------|--------------|
|  | <b>Current<br/>accounts</b> | <b>1 year or less</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b> |
| Members' deposits                              | 2,381,185                   | 4,356,007             | 3,512               | -                   | 6,740,704    |
| Derivative financial instruments               | -                           | 125,255               | 302,849             | 109,520             | 537,624      |
| Subordinated liabilities                       | -                           | -                     | -                   | 21,720              | 21,720       |
| Undiscounted contractual amount of liabilities | 2,381,185                   | 4,481,262             | 306,361             | 131,240             | 7,300,048    |
| Carrying value of liabilities                  | 2,381,185                   | 4,502,723             | 303,957             | 104,193             | 7,292,058    |

The change in fair value of members' deposits is associated with changes in market conditions and does not relate to changes in the Organization's credit risk.

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#### c) Interest rate risk

Interest rate risk is the risk that a change in market interest rates will impact the Organization's financial margin as reported in the consolidated statement of operations and comprehensive income (loss). Accordingly, the Organization establishes policy limits approved by the Board of Directors on the level of interest rate risk that may be undertaken, which is monitored by the Organization's management.

Interest-sensitive assets and interest-sensitive liabilities are matched by amount and interest rate re-pricing terms to minimize income fluctuations should market interest rates change. The Organization sets policy limits on the maximum amount of mismatch as follows:

Interest-sensitive assets/liabilities with term over 13 months

- All financial assets and liabilities (liquidity pool investments and members' deposits, respectively) maturing beyond 13 months must be matched.

Interest-sensitive assets/liabilities with term of 6 to 13 months

- Unmatched financial instruments maturing within 10 to 13 months and 6 to 10 months are permitted to a maximum of 2% and 4%, respectively, of total member deposits held with the Organization, net of loans.

Interest-sensitive assets/liabilities with term of less than 6 months

- The weighted average terms of these assets and liabilities are calculated and monitored daily. The difference between the two may not exceed 30 days.

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The following schedules summarize the carrying amounts by the earlier of the contractual repricing or maturity dates:

|   | Within 6 Months to<br>6 Months | 13 Months<br>13 Months | 13 Months<br>to 5 Years | Over<br>5 Years | Not Rate<br>Sensitive | Total             |
|---|--------------------------------|------------------------|-------------------------|-----------------|-----------------------|-------------------|
| <b>Assets</b>                                       |                                |                        |                         |                 |                       |                   |
| Liquidity pool                                      | 771,414                        | 167,929                | 5,556,698               | 853,918         | 99,894                | 7,449,853         |
| Derivative instruments                              | -                              | -                      | -                       | -               | 6,466                 | 6,466             |
| Income taxes recoverable                            | -                              | -                      | -                       | -               | 1,670                 | 1,670             |
| Intermediation pool                                 | 45,187                         | 34,000                 | -                       | -               | 29,890                | 109,077           |
| Property and equipment                              | -                              | -                      | -                       | -               | 12,899                | 12,899            |
| Other assets  | -                              | -                      | -                       | -               | 5,949                 | 5,949             |
| Deferred income taxes                               | -                              | -                      | -                       | -               | 2,061                 | 2,061             |
| <b>Total Assets - on-balance sheet</b>              | <b>816,601</b>                 | <b>201,929</b>         | <b>5,556,698</b>        | <b>853,918</b>  | <b>158,829</b>        | <b>7,587,975</b>  |
| Notional Derivative Assets                          | 8,363,528                      | 117,107                | 1,103,161               | 85,143          | -                     | 9,668,939         |
| <b>Total Assets - off-balance sheet</b>             | <b>9,180,129</b>               | <b>319,036</b>         | <b>6,659,859</b>        | <b>939,061</b>  | <b>158,829</b>        | <b>17,256,914</b> |
| <b>Liabilities</b>                                  |                                |                        |                         |                 |                       |                   |
| Accounts payable                                    | -                              | -                      | -                       | -               | 31,838                | 31,838            |
| Members' deposits                                   | 6,373,800                      | 500                    | -                       | -               | 1,332                 | 6,375,632         |
| Obligations under repurchase agreements             | 220,094                        | -                      | -                       | -               | 2                     | 220,096           |
| Derivative instruments                              | -                              | -                      | -                       | -               | 405,044               | 405,044           |
| Subordinated Liabilities                            | -                              | -                      | -                       | -               | 20,909                | 20,909            |
| <b>Members' equity</b>                              | <b>-</b>                       | <b>-</b>               | <b>-</b>                | <b>-</b>        | <b>534,456</b>        | <b>534,456</b>    |
| <b>Total Liabilities - on-balance sheet</b>         | <b>6,593,894</b>               | <b>500</b>             | <b>-</b>                | <b>-</b>        | <b>993,581</b>        | <b>7,587,975</b>  |
| Notional Derivative Liabilities                     | 2,431,102                      | 130,748                | 6,290,029               | 817,060         | -                     | 9,668,939         |
| <b>Total Liabilities - off-balance sheet</b>        | <b>9,024,996</b>               | <b>131,248</b>         | <b>6,290,029</b>        | <b>817,060</b>  | <b>993,581</b>        | <b>17,256,914</b> |
| On-balance sheet net assets (liabilities)           | (5,777,293)                    | 201,429                | 5,556,698               | 853,918         | (834,752)             | -                 |
| Off-balance sheet net assets (liabilities)          | 5,932,426                      | (13,641)               | (5,186,868)             | (731,917)       | -                     | -                 |
| <b>Net assets (liabilities) - December 31, 2021</b> | <b>155,133</b>                 | <b>187,788</b>         | <b>369,830</b>          | <b>122,001</b>  | <b>(834,752)</b>      | <b>-</b>          |

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|   | Within 6 Months to 6 Months | 6 Months to 13 Months | 13 Months to 5 Years | Over 5 Years     | Not Rate Sensitive | Total             |
|---|-----------------------------|-----------------------|----------------------|------------------|--------------------|-------------------|
| <b>Assets</b>                                       |                             |                       |                      |                  |                    |                   |
| Liquidity pool                                      | 1,439,519                   | 403,215               | 4,406,567            | 1,189,482        | 342,066            | 7,780,849         |
| Derivative instruments                              | -                           | -                     | -                    | -                | 19,010             | 19,010            |
| Intermediation pool                                 | 25,709                      | -                     | 13,000               | -                | 31,810             | 70,519            |
| Property and equipment                              | -                           | -                     | -                    | -                | 13,410             | 13,410            |
| Other assets  | -                           | -                     | -                    | -                | 3,167              | 3,167             |
| <b>Total Assets - on-balance sheet</b>              | <b>1,465,228</b>            | <b>403,215</b>        | <b>4,419,567</b>     | <b>1,189,482</b> | <b>409,463</b>     | <b>7,886,955</b>  |
| Notional Derivative Assets                          | 7,190,918                   | 91,773                | 587,714              | 94,832           | -                  | 7,965,237         |
| <b>Total Assets - off-balance sheet</b>             | <b>8,656,146</b>            | <b>494,988</b>        | <b>5,007,281</b>     | <b>1,284,314</b> | <b>409,463</b>     | <b>15,852,192</b> |
| <b>Liabilities</b>                                  |                             |                       |                      |                  |                    |                   |
| Accounts payable                                    | -                           | -                     | -                    | -                | 32,382             | 32,382            |
| Income taxes payable                                | -                           | -                     | -                    | -                | 11,749             | 11,749            |
| Members' deposits                                   | 6,722,287                   | 13,000                | 3,500                | -                | 1,885              | 6,740,672         |
| Derivative instruments                              | -                           | -                     | -                    | -                | 529,666            | 529,666           |
| Deferred income taxes                               | -                           | -                     | -                    | -                | 4,822              | 4,822             |
| Subordinated Liabilities                            | -                           | -                     | -                    | -                | 21,720             | 21,720            |
| <b>Members' equity</b>                              | <b>-</b>                    | <b>-</b>              | <b>-</b>             | <b>-</b>         | <b>545,944</b>     | <b>545,944</b>    |
| <b>Total Liabilities - on-balance sheet</b>         | <b>6,722,287</b>            | <b>13,000</b>         | <b>3,500</b>         | <b>-</b>         | <b>1,148,168</b>   | <b>7,886,955</b>  |
| Notional Derivative Liabilities                     | 1,823,969                   | 318,395               | 4,644,827            | 1,178,046        | -                  | 7,965,237         |
| <b>Total Liabilities - off-balance sheet</b>        | <b>8,546,256</b>            | <b>331,395</b>        | <b>4,648,327</b>     | <b>1,178,046</b> | <b>1,148,168</b>   | <b>15,852,192</b> |
| On-balance sheet net assets (liabilities)           | (5,257,059)                 | 390,215               | 4,416,067            | 1,189,482        | (738,705)          | -                 |
| Off-balance sheet net assets (liabilities)          | 5,366,949                   | (226,622)             | (4,057,113)          | (1,083,214)      | -                  | -                 |
| <b>Net assets (liabilities) - December 31, 2020</b> | <b>109,890</b>              | <b>163,593</b>        | <b>358,954</b>       | <b>106,268</b>   | <b>(738,705)</b>   | <b>-</b>          |

Investments and deposits may be sold or redeemed before maturity; however no projections or adjustments have been made for potential sales or redemptions.

The Organization enters into interest rate swap agreements and cross-currency interest rate swap agreements (collectively "swaps") for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counterparty involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The contracted terms of the swaps are specifically matched to specific terms of the Organization's assets. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, enters into swaps on behalf of its members. The credit risk associated with these swaps is the responsibility of the members and security is held by the Organization through Assignments of Book Debts.

At December 31, 2021 derivatives recorded included cross-currency swaps outstanding with a total notional value of \$291,018 (USD \$230,290) swapped for CAD dollars with a notional value of \$305,652 (2020 – cross-currency swaps outstanding had a total notional value of \$303,302 (USD \$238,295) swapped for CAD dollars with a notional value of \$315,652)

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Including the effect of the derivative financial instruments, the weighted average effective return for interest-sensitive assets is 3.71% (2020 – 4.27%) and the weighted average effective cost for interest-sensitive liabilities is 3.24% (2020 – 3.77%).

Sensitivity analysis is used to assess the change in reported value of the Organization's financial instruments against a range of incremental basis point changes in interest rates. Based on the characteristics of the Organization's financial instruments as at December 31, 2021, the Organization estimates that an immediate and sustained 25 basis point decrease in interest rates would generate unrealized gains of \$52,958 on non-derivative financial instruments and unrealized losses of \$50,870 on derivative financial instruments while an immediate and sustained 25 basis point increase in interest rates would generate unrealized losses of \$52,259 on non-derivative financial instruments and unrealized gains of \$50,177 on derivative financial instruments.

#### **d) Foreign exchange risk**

The Organization manages foreign exchange risk to minimize the risk of financial loss due to fluctuations in currency exchange rates. This is done by implementing a policy framework approved by the Board of Directors. The Organization enters into foreign exchange forward rate agreements with derivative counterparties to offset future contractual obligations of the Organization and for cash management purposes. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counterparty involving the commitment of a purchase or sale of US dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into foreign exchange forward rate agreements for speculative purposes.

The Organization also enters into cross-currency interest rate swap agreements with derivative counterparties to manage its interest rate risk (note 18 c)) and foreign exchange risk where asset (liability) matching involves mixed currencies. A cross-currency interest rate swap agreement is an interest rate swap agreement involving the exchange of US dollar funds and Canadian dollar funds between the counterparties at the outset, the exact amount of which are reversed on maturity, and under which the fixed and floating interest payments are of different currencies.

The net US dollar asset (liability) mismatch as of December 31, 2021 was USD (\$4,748) (2020 - USD \$(622)).

As at December 31, 2021, the Organization has entered into foreign exchange forward rate agreements to buy US dollars aggregating USD \$5,659 and to sell US dollars aggregating USD \$nil, (2020 - buy US dollars aggregating USD \$1,440 and to sell US dollars aggregating USD \$640, inclusive of transactions with member credit unions). The credit risk associated with these agreements is the responsibility of the Organization.

As at December 31, 2021, if the Canadian dollar had strengthened or weakened by 1% relative to the US dollar, with all other variables held constant, income before income taxes for the year would have increased or decreased by a nominal amount, respectively (2020 - impact was nominal).

#### **19 Fair value measurements**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources;

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unobservable inputs reflect the Organization's market assumptions. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs. Fair values established based on this hierarchy require the use of observable market data whenever available. Financial instruments and are classified pursuant to the following fair value hierarchy:

- 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 (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Organization considers relevant and observable market prices in its valuations where possible.

The Organization's policy is to recognize transfers into and transfers out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year the Organization had no transfers between fair value hierarchy levels.

The following tables summarize by class of asset or liability and by level according to the hierarchy of the inputs used in determining the measurements, the fair value measurements recognized in the consolidated statement of financial position and disclosed in the Organization's notes to the consolidated financial statements.

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| Recurring measurements                  |                |                |                | 2021                         |
|---|----------------|----------------|----------------|------------------------------|
|   | Level 1        | Level 2        | Level 3        | Total Carrying Amount        |
| Financial assets                        |                |                |                |                              |
| Governments                             | -              | 1,856,089      | -              | 1,856,089                    |
| Banks and trust companies               | -              | 5,350,430      | -              | 5,350,430                    |
| Corporate                               | -              | 222,169        | -              | 222,169                      |
| Derivatives                             | -              | 6,466          | -              | 6,466                        |
| Equity investments                      | -              | -              | 18,264         | 18,264                       |
| Total financial assets                  | -              | 7,435,154      | 18,264         | 7,453,418                    |
| Financial liabilities                   |                |                |                |                              |
| Members' deposits                       | -              | 6,375,632      | -              | 6,375,632                    |
| Obligations under repurchase agreements | -              | 220,096        | -              | 220,096                      |
| Derivatives                             | -              | 405,044        | -              | 405,044                      |
| Total financial liabilities             | -              | 7,000,772      | -              | 7,000,772                    |
| <b>Recurring measurements</b>           |                |                |                | <b>2020</b>                  |
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total Carrying Amount</b> |
| Financial assets                        |                |                |                |                              |
| Governments                             | -              | 1,824,840      | -              | 1,824,840                    |
| Banks and trust companies               | -              | 5,713,472      | -              | 5,713,472                    |
| Corporate                               | -              | 175,647        | -              | 175,647                      |
| Derivatives                             | -              | 19,010         | -              | 19,010                       |
| Equity investments                      | -              | -              | 9,904          | 9,904                        |
| Total financial assets                  | -              | 7,732,969      | 9,904          | 7,742,873                    |
| Financial liabilities                   |                |                |                |                              |
| Members' deposits                       | -              | 6,740,672      | -              | 6,740,672                    |
| Derivatives                             | -              | 529,666        | -              | 529,666                      |
| Total financial liabilities             | -              | 7,270,338      | -              | 7,270,338                    |

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

The Organization uses the following techniques to determine the fair value measurements categorized in Level 2:

- The fair value of debt instrument assets is determined using quoted market prices, executable dealer quotes for identical or similar instruments in active markets, or other inputs that are observable or can be corroborated by observable market data. On the basis of its analysis of the nature, characteristics and risks of debt instruments, the Organization has determined that presenting them by sector is appropriate.
- The fair value of derivatives is determined using observable market inputs, including forward exchange rates and interest rates as applicable, at the measurement date with the resulting value discounted back to present values. The calculated values are compared to statements received from counterparties.
- The fair value of members' deposits is determined by discounting future contractual cash flows at the measurement date using observable market inputs such as banker's acceptance rates and corresponding composite market yield curves on Schedule 1 bank senior debt.

The following table summarizes the changes in intermediation pool assets that are measured based on level 3 inputs to the fair value hierarchy:

|                                       | 2021          | 2020         |
|---------------------------------------|---------------|--------------|
| <b>Opening</b>                        | 9,904         | 10,121       |
| Gain (loss) on FVTPL assets (note 11) | 8,362         | (767)        |
| Purchase of investments               | -             | 550          |
| Disposals                             | (2)           | -            |
| <b>Closing</b>                        | <u>18,264</u> | <u>9,904</u> |

#### Non-recurring measurements:

The fair values of cash, other receivables and accounts payable approximate their carrying values due to their short term nature.

The fair value of intermediation pool assets carried at amortized cost was \$44,626 (2020 - \$23,904) and are classified as level 3 within the fair value hierarchy.

The fair value of subordinated liabilities approximate their carrying value due to the terms of the debentures.

#### 20 Offsetting of financial instruments

The following tables present the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, and the net impact on the Organization's consolidated statement of financial position had all offset rights been exercised.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

(in thousands of Canadian dollars)

The Organization is subject to an enforceable master netting arrangement in the form of an International Swap and Derivatives Association (“ISDA”) agreement with its derivative counterparties. Under the terms of the agreement, offsetting of derivative contracts is permitted only in the event of a bankruptcy or default of either party to the agreement.

The Organization receives and gives collateral in the form of cash and marketable securities as a part of interest rate swap, cross-currency swap, and repurchase agreement transactions. Such collateral is subject to the standard industry terms of ISDA’s Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transaction on the counterparty’s failure to post collateral.

|   |                   |                          |                       |                       |                    |         | 2021 |
|---|-------------------|--------------------------|-----------------------|-----------------------|--------------------|---------|------|
|   | Amounts offset    |                          |                       | Amounts not offset    |                    | Net     |      |
|   | Gross assets      | Gross liabilities offset | Net amounts presented | Financial instruments | Collateral pledged |         |      |
| <b>Financial assets</b>                 |                   |                          |                       |                       |                    |         |      |
| Derivative assets                       | 8,299             | (1,833)                  | 6,466                 | -                     | -                  | 6,466   |      |
|   | 8,299             | (1,833)                  | 6,466                 | -                     | -                  | 6,466   |      |
| <br>                                    |                   |                          |                       |                       |                    |         |      |
|   | Amounts offset    |                          |                       | Amounts not offset    |                    | Net     |      |
|   | Gross liabilities | Gross assets offset      | Net amounts presented | Financial instruments | Collateral pledged |         |      |
| <b>Financial liabilities</b>            |                   |                          |                       |                       |                    |         |      |
| Obligations under repurchase agreements | 220,096           | -                        | 220,096               | -                     | (220,326)          | (230)   |      |
| Derivative liabilities                  | 456,409           | (51,365)                 | 405,044               | -                     | (414,373)          | (9,329) |      |
|   | 676,505           | (51,365)                 | 625,140               | -                     | (634,699)          | (9,559) |      |

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

(in thousands of Canadian dollars)

2020

| Financial assets  | Amounts offset |                          |                       | Amounts not offset    |                    | Net    |
|-------------------|----------------|--------------------------|-----------------------|-----------------------|--------------------|--------|
|                   | Gross assets   | Gross liabilities offset | Net amounts presented | Financial instruments | Collateral pledged |        |
| Derivative assets | 21,272         | (2,262)                  | 19,010                | -                     | -                  | 19,010 |
|                   | 21,272         | (2,262)                  | 19,010                | -                     | -                  | 19,010 |

| Financial liabilities  | Amounts offset    |                     |                       | Amounts not offset    |                    | Net      |
|------------------------|-------------------|---------------------|-----------------------|-----------------------|--------------------|----------|
|                        | Gross liabilities | Gross assets offset | Net amounts presented | Financial instruments | Collateral pledged |          |
| Derivative liabilities | 537,489           | (7,823)             | 529,666               | -                     | (549,117)          | (19,451) |
|                        | 537,489           | (7,823)             | 529,666               | -                     | (549,117)          | (19,451) |

## 21 Capital management

Capital is managed in accordance with the CUCP Act and with policies established by the Board of Directors.

Pursuant to the regulations of the CUCP Act, the Organization is required to maintain a level of capital that is not less than 5% of the book value of its assets. The Organization's internally established target is 5.26% of the book value of its assets. FIRB also requires the Organization to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. Regulatory capital is defined as the sum of the Organization's stated share capital and reserves and subordinated liabilities reduced by assets specifically identified by FIRB. Specific reductions include net deferred tax assets and certain equity accounted investments. The Organization's internally established target for its borrowing multiple is 18:1.

The Organization has a capital adequacy assessment process through which management regularly forecasts future capital requirements in order to adhere to its internal target. All of the Organization's capital requirements are monitored throughout the year. The Organization has a clear and unencumbered process to access required capital from its members to attain certain capital ratios through same day notification capital calls and subordinated debenture calls and corresponding immediate reduction in members' deposits. The Organization also makes periodic capital, subordinated debenture, and dividend transactions within the context of its overall capital management plan.

The Organization is in compliance with its required level of capital under the CUCP Act. At December 31, 2021, the Organization's level of capital was 6.99% (2020 – 6.98%) of the book value of its assets.

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

The Organization is in compliance with FIRB's required borrowing multiple. At December 31, 2021, the Organization's borrowing multiple was 12.632:1 (2020 - 13.278:1).

#### 22 Investment in Celero Solutions

The information below reflects the amounts presented in the financial statements of Celero adjusted for differences in accounting policies between the Organization and Celero, as applicable.

Aggregated financial information of Celero, accounted for using the equity method, is as follows:

|                                     | 2021               | 2020               |
|-------------------------------------|--------------------|--------------------|
| Assets                              | 61,744             | 56,785             |
| Liabilities                         | 44,193             | 39,110             |
| Revenues                            | 90,796             | 80,157             |
| Net income                          | 6,703              | 1,083              |
| <br>                                |                    |                    |
| % interest held by the Organization | 33 $\frac{1}{3}$ % | 33 $\frac{1}{3}$ % |

There were no published prices for the investment in Celero. Furthermore, there are no significant restrictions on the ability of Celero to transfer funds to the Organization in the form of either cash dividends or repayments of loans/advances.

The Organization is liable in proportion to its 33 $\frac{1}{3}$ % ownership interest in Celero for all of Celero's covenants and obligations. The Organization's commitments related to Celero for the next year is \$3,441 and \$16,948 for the remainder of the agreement period.

#### 23 Investment in CU CUMIS Wealth Holdings Limited Partnership

The information below reflects the amounts presented in the financial statements of CCWH adjusted for differences in accounting policies between the Organization and CCWH, as applicable.

Aggregated financial information of CCWH, accounted for using the equity method, is as follows:

|                                     | 2021    | 2020    |
|-------------------------------------|---------|---------|
| Assets                              | 145,988 | 138,714 |
| Liabilities                         | 17,627  | 12,092  |
| Revenues                            | 26,506  | 25,474  |
| Net income                          | 21,197  | 24,210  |
| OCI                                 | (1,398) | 915     |
| <br>                                |         |         |
| % interest held by the Organization | 6.61%   | 6.61%   |

# Credit Union Central of Manitoba Limited

## Notes to Consolidated Financial Statements

### December 31, 2021

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(in thousands of Canadian dollars)

There were no published prices for the investment in CCWH. Furthermore, there are no significant restrictions on the ability of CCWH to transfer funds to the Organization in the form of either cash dividends or repayments of advances.

The Organization is liable in proportion to its 6.61% ownership interest in CCWH for all of CCWH's covenants and obligations. The Organization's commitments related to CCWH for the next year is \$nil and \$nil for the remainder of the agreement period.

#### 24 Investment in Prairie Payments Joint Venture

The information below reflects the amounts presented in the financial statements of PPJV adjusted for differences in accounting policies between the Organization and PPJV, as applicable.

Aggregated financial information of PPJV, accounted for using the equity method, is as follows:

|                                     | 2021               | 2020               |
|-------------------------------------|--------------------|--------------------|
| Assets                              | 82,462             | 56,929             |
| Liabilities                         | 126,331            | 67,435             |
| Revenues                            | 37,325             | 35,094             |
| Net loss                            | (33,363)           | (10,506)           |
| <br>                                |                    |                    |
| % interest held by the Organization | 33 $\frac{1}{3}$ % | 33 $\frac{1}{3}$ % |

There were no published prices for the investment in PPJV. Furthermore, there are no significant restrictions on the ability of PPJV to transfer funds to the Organization in the form of either cash dividends or repayments of advances.

PPJV has contractual agreements for the development and operation of the payments processing platform requiring minimum payments to August 2030. The Organization is liable in proportion to its 33 $\frac{1}{3}$ % ownership interest in PPJV for all of PPJV's covenants and obligations. The Organization's commitments related to PPJV for the next year is \$5,805 and \$44,568 for the remainder of the agreement period.

#### 25 Subsequent events

On February 7, 2022, a sale of Concentra Bank was announced. The Organization's board approved the sale of its equity interest in Concentra Bank which has a carrying value of \$11,317 and is classified as fair value through profit or loss. The transaction is subject to customary closing conditions and regulatory approvals. Management anticipates that the sale will close in the second half of 2022.

#### 26 Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.