



# *Thriving Together*





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Ian Thomas, Chief Executive Officer

## A message from our CEO

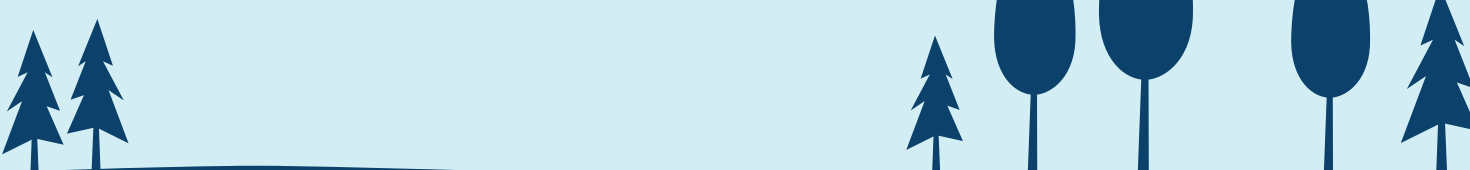
Kindred's purpose has never been clearer to me - **Cooperative banking that connects values and faith with finances, inspiring peaceful, just, and prosperous communities.** Over the past year, I have seen how Kindred has been able to live out our purpose, perhaps when it mattered most to our staff and members. Who could have predicted that COVID-19 would continue for another full year? It truly looks like we're coming out the other side and I'm pleased to say that we came out strong.

Kindred's success demonstrates the trust our members have placed in us and just how much we've risen to meet the needs of our members and address the challenges of a shifting financial services landscape. While we recognize that not everyone is in the same place personally or financially, we have implemented meaningful and tangible change to meet the needs of our members, staff members, and our communities while offering ongoing support to ensure that we thrive together - wherever each of us are at.

This past financial year marked the fifth full year of operations since we renamed and rebranded our credit union, and the results over that time period reflect the financial objectives we committed to in 2016.

In the five years prior to our rebrand, memberships, deposits, and loans grew on average 2.97%, 6.19%, and 7.44% respectively. Since our rebrand, those same key measures grew 4.28%, 12.16%, and 11.40% on average. These results are incredibly encouraging and confirm that Kindred's purpose, values, and our unique approach to cooperative banking continues to resonate with Ontarians seeking to connect their values and faith with their finances!

In reflection, *thriving together* is how I would describe 2021 and what we look to do in the future. Over the course of the last several years, Kindred has been in a position of growth and development and, therefore, in an even stronger position to help others thrive. It took careful planning to see the growth that Kindred attained during the past year, and our success comes from the talent and commitment of our staff, trusted partners and of course, the trust our members place in us; for these things we are grateful. Despite economic volatility and the ongoing pandemic, our total assets under administration grew to \$2.12 billion as of December 31, 2021.



Kindred continues to help members when they need us, whether that is a helping set up a new budget, purchase a new home, expanding their farm, plan for a life transition or planning for the next generation of farmers. This was demonstrated by a record year in loan growth with \$253 million in 2021. We helped members plan for their retirement, build their savings, and make a difference with socially responsible investments with investment growth of \$330 million – \$235 million in deposits and \$96 million in mutual fund portfolio growth.

Our members' trust is something that we do not take lightly and we're committed to earn, and improve upon, every day. When our members are successful, Kindred is successful. When Kindred thrives, we're in a better place to help others thrive by giving back to our members and partner organizations that are helping those in our communities. In 2021, Kindred shared \$1,450,000 with our personal and business members through our Profit Shares program. In addition, we provided nearly \$500,000 in charitable giving and approved \$85,000 through the Kindred Charitable Fund for grants in 2022.

This past year, we focused on building stronger foundations, deepening relationships with our members, and building on our strengths. We continue to invest in farmers, faith-inspired and not-for-profit organizations, and Ontarians who want to connect their values and faith with their finances. By keeping our values, faith, and finances interconnected, we're focusing on investing in innovative solutions that are impactful to our members. This past year, we launched our new website and online banking platform, and recently a digital lending platform. We expanded our Member Contact Centre hours and offered more options to allow our teams to meet with members when and where was most convenient. This also included adding staff members and new, enhanced processes in our branches such as our cash recyclers, streamlining our member service while providing more access to our members. We remain committed to investing in these areas in the coming years, ensuring we can meet the current and future needs of our members and communities.

We're not satisfied just living our values – we are sharing them with others and looking for new ways to live them out. We're a member of the Global Alliance for Banking on Values, a network of banking leaders from around the world committed to advancing positive change in the banking sector. Since 2016, Kindred has also been a Certified B Corporation, part of a growing movement that uses the power of business as a force for good. Kindred was honoured to be recognized on B Lab's 2021 Best for the World: Customers list. Kindred does not just look outward when it comes to our values and beliefs – we're a living wage employer, and recognized as a Living Wage Champion by the Ontario Living Wage Network.

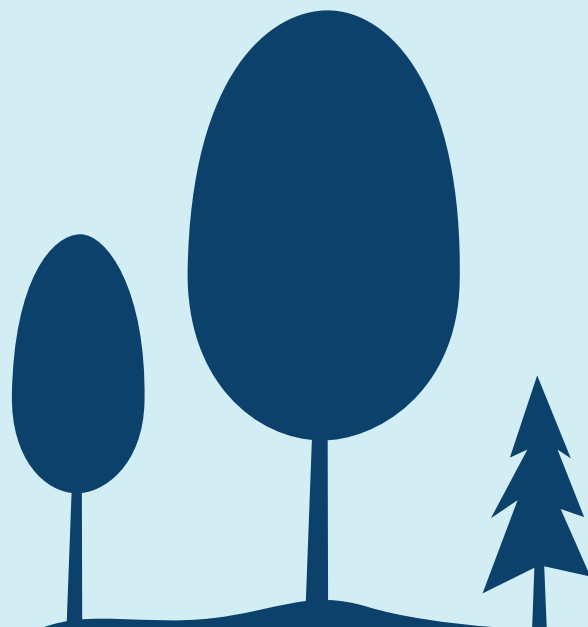
With all that has happened this past year, staying true to our purpose ensures that Kindred is building a strong foundation of partnership and opportunity. Thank you to our members for your continued support and trust, as well as our community partners and their important work that helps us live out our purpose. A "thank you!" to our staff members at all levels, for their hard work and dedication, and for rising to every occasion and challenge that 2021 gave us.

By working together, we thrive together, and will continue to do so in 2022 and beyond.

With appreciation,



Ian Thomas, Chief Executive Officer





**Susan Taves**, Board Chair

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## A message from our Board Chair

Since 1964, Kindred Credit Union has lived out our founders' vision to see mutual aid put into faithful practice through the products we offer, the services we provide, and our relationships with partners who share our values and work with us to impact the world in amazing ways.

On behalf of the Board of Directors, it is our privilege and pleasure to help shape Kindred's strategic direction, and to share in the pages that follow the overall strength and financial performance of the organization and what we accomplished in 2021.

Upon reviewing Kindred's General By-Law, our legal counsel identified the need to adjust the revision to subsection 4.01, Number of Directors and Quorum, that members approved in 2021. As such, we will

be holding a vote on this revision at our Annual General Meeting on April 12, 2022. You will also see a vote for three new Directors to join the Board as we unfortunately are saying goodbye to long-time board members Leroy Shantz and John Wiebe (see page 14). Their hard work, dedication, and commitment, during the transition of our CEO in 2019, helped shape Kindred into who we are today; a credit union that attracted an additional 1,040 new members in the past year, supporting our strategic plans for ongoing financial sustainability and growth. Their belief in Kindred's purpose helped us thrive. We also say goodbye to Jim Erb, who joined the Board during the pandemic and leaves due to other commitments.



Through another year of ups and downs due to the pandemic, Kindred's now 25,000+ members have shown that our relationship with them is strong and meaningful.

Our engagement together is not just financial – we thrive and make meaningful impact with and for each other, faith groups, not-for-profits, partners, and our communities on issues that connect us all. In 2021, Kindred reached the end of our first-year Equity, Diversity, and Inclusion (EDI) plan. We took the time to pause staff member activities so we could focus efforts on reflecting on the first steps of our journey to learn from organizations with similar values and roots as Kindred.

We have brought forward more explicitly the heart of our credit union to advance economic justice through community. Our efforts will continue to focus on putting thought into practice, resulting in the ability to serve the most economically vulnerable and underbanked populations in our communities. Our EDI work will emphasize understanding our own biases and leveraging our differences, as well as understanding and building our capability to welcome and serve our underbanked neighbours.

In closing, I want to say “thank you” to our Council of Members, Board of Directors, the Senior Leadership Team, and all Kindred staff members. This second year of the global pandemic required continued perseverance and adaptability as society focused on conversation around economic inequality, social justice, climate change, and accountability. To our community and industry partners, for your ongoing impact in our local communities, thank you. Ensuring that we thrive meant that it took all of us, working together, to create the communities that our purpose envisions. Kindred has and will continue to inspire peaceful, just, and prosperous communities.

Cooperatively yours,



Susan Taves, Board Chair





## Financial Position Summary

Year ended December 31, 2021 with comparative figures for 2020.

Detailed audited financial statements are found on page 16.

Thousands of dollars

	December 31, 2021	December 31, 2020
<b>Assets</b>		
Cash resources	\$ 40,583	\$ 12,364
Investments	120,667	163,420
Loans to members	1,634,836	1,381,755
Property and equipment	15,189	14,966
Other assets	5,505	13,640
<b>Total Assets</b>	<b>\$ 1,816,780</b>	<b>\$ 1,586,145</b>
<b>Liabilities and Members' Equity</b>		
Total deposits of members	\$ 1,638,747	\$ 1,405,208
Mortgage securitization liabilities	26,227	36,056
Lease liability	11,115	10,302
Other liabilities	9,451	11,850
Member shares	565	537
Profit shares	19,888	18,900
Investment shares <sup>1</sup>	49,964	48,209
Accumulated other comprehensive loss	(848)	(7)
Retained earnings	61,671	55,090
<b>Total Liabilities and Members' Equity</b>	<b>\$ 1,816,780</b>	<b>\$ 1,586,145</b>

<sup>1</sup>Please note: As part of the 2021 audited financial statements, Investment shares have moved in categorization from "Liabilities qualifying as regulatory capital" to "Members' Equity". Overall capital totals and ratios remain unaffected.





## Earnings Summary

Year ended December 31, 2021 with comparative figures for 2020.

Detailed audited financial statements are found on page 16.

	Thousands of dollars	
	December 31, 2021	December 31, 2020
<b>Income from interest and investments</b>	\$ 53,083	\$ 50,204
Other revenue	7,543	6,336
<b>Total Income</b>	<b>\$ 60,626</b>	<b>\$ 56,540</b>
Less:		
Interest expense on member deposits	\$ 18,108	\$ 20,366
Profit shares (patronage return)	1,450	1,120
Loss (gain) on derivative financial instruments	–	(1,477)
Gain on exchange of liquidity reserve deposits	(494)	–
Mortgage securitization cost of funds	652	1,027
Interest on external borrowings	88	107
Personnel expense	18,866	17,708
Occupancy expense	874	866
Lease finance cost	250	269
Administration expense	6,991	6,103
Amortization of property and equipment	2,032	2,031
Insurance expense	1,356	1,164
Provision for loan losses (gains)	186	411
Charitable giving	514	622
Income tax provision (recovery)	1,110	1,032
Net earnings	\$ 8,643	\$ 5,191
Other comprehensive income (loss) net of tax	\$ (841)	\$ 21
<b>Comprehensive income</b>	<b>\$ 7,802</b>	<b>\$ 5,212</b>



## Net Earnings

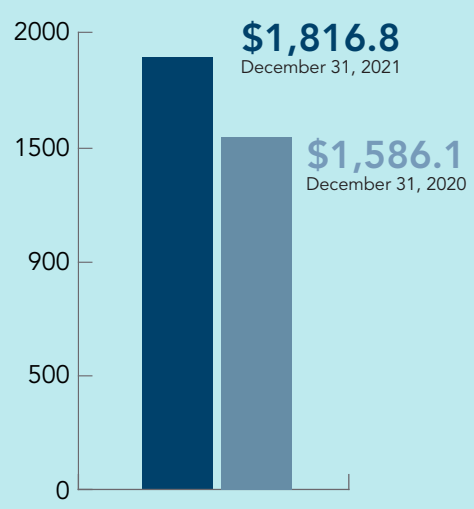
Thousands of dollars

	December 31, 2021	December 31, 2020
Earnings from core operations	\$ 8,999	\$ 5,500
Profit shares (patronage return)	(1,450)	(1,120)
Adjustment for Investment shares dividend expense <sup>1</sup>	\$ 2,060	1,991
Extraordinary Charitable Gift	\$ (150)	\$ (250)
Net earnings after above	9,461	6,121
Unrealized fair market value gain (loss)	\$ (202)	\$ 102
<b>Earnings from operations before tax</b>	<b>9,753</b>	<b>6,223</b>
Income tax (provision) recovery	\$ (1,110)	\$ (1,032)
<b>Net earnings (losses) from operations</b>	<b>8,643</b>	<b>5,191</b>
Other comprehensive income (loss) net of tax	(841)	21
<b>Comprehensive income</b>	<b>\$ 7,802</b>	<b>\$ 5,212</b>

<sup>1</sup>This restatement reflects a change in accounting practice whereby Investment Share dividend expense has moved from the Statement of Earnings to the Statement of Change in Members' Equity

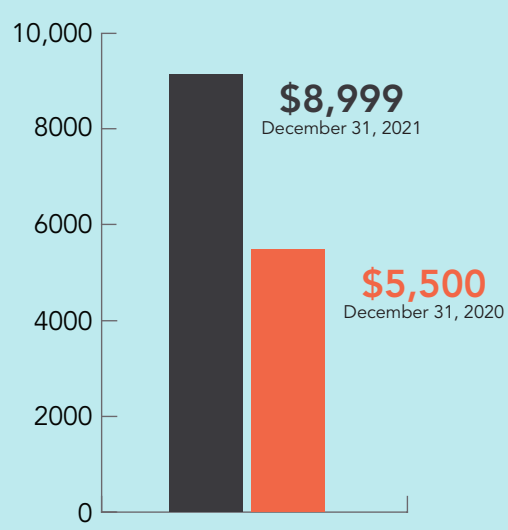
## Assets

(millions of dollars)



## Core Earnings<sup>2</sup>

Before Tax and Profit Shares  
(thousands of dollars)



<sup>2</sup>Core earnings include investment share dividend expense while excluding the impact of unrealized fair market value adjustments, taxes, Profit shares (patronage return), and extraordinary items

# Kindred is a financial cooperative!

The cooperative principles are guidelines by which cooperatives put their values into practice.

## 1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

## 2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Those serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

## 3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

## 4. Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

## 5. Education, Training, and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

## 6. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

## 7. Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Source: [International Cooperative Alliance](#)

Source: [International Cooperative Alliance](#)



## *Fostering the Real Economy :* Enhancing our Relationships

The Global Alliance for Banking on Values (GABV) is a group of more than 65 financial institutions from around the world working together to redefine banking by prioritizing social, environmental, and economic sustainability.

Our membership in GABV provides a window into the crucial conversations and innovative ideas taking root in visionary financial institutions around the world. We're a small player on the global scale, yet our commitment to values-centred, faith-inspired banking propels us to speak loudly and to act locally.

GABV uses the term 'real economy' as a principle to help ground us in community and focus our service on members' direct needs. This contrasts with the layered financial economy, where an investment or loan may pass through several institutions before eventually being used by a business in service to a community. While some of these layers are important at a macro level to our economy, focusing on closer connections reinforces real relationships.

At Kindred, we're committed to being good stewards our members' resources. This includes financial assets as well as human connections, local knowledge, digital infrastructure, and physical spaces. As we build the technologies and systems that improve the speed and efficiency of our services, we're working to enhance the relationships with our members and community partners so that we become better equipped to live out our purpose. We're connecting values and faith with finances in a real economy of real relationships, **INSPIRING PEACEFUL, JUST, AND PROSPEROUS COMMUNITIES.**

## Putting a Real Economy Lens on Kindred's Financial Activity

The real economy relates to economic activities that generate goods and services as opposed to the financial economy that is concerned exclusively with activities in the financial markets. GABV defines financial economy as more than one layer away from a real activity.

	December 31, 2021 \$ in thousands			December 31, 2020 \$ in thousands		
<b>Assets</b>	<b>On-book<sup>1</sup></b>	<b>% of total</b>	<b>Off-book<sup>2</sup></b>	<b>On-book<sup>1</sup></b>	<b>% of total</b>	<b>Off-book<sup>2</sup></b>
Financial Economy (Cash, impact investments, accruals, taxes, leases)	\$177,850	9.8%		\$194,078	12.2%	
Real Economy (Loans to members, receivables)	\$1,638,930	90.2%	\$52,587	\$1,392,067	87.8%	\$60,818
Total Assets	\$1,816,780		\$52,587	\$1,586,145		\$60,818
<b>Liabilities/Equity</b>						
Financial Economy (reserves, net income, taxes, leases, off-book mutual funds)	\$115,558	6.4%	\$302,072	\$120,780	7.6%	\$242,014
Real Economy (savings/combinations, deposits, shares)	\$1,701,222	93.6%		\$1,465,365	92.4%	
Total Liabilities/Equity	\$1,816,780		\$302,072	\$1,586,145		\$242,014

This view of Kindred's financial activities is intended only to show trends from financial to real, highlighting how we're working to increase the amount of business that supports our members and communities directly.

<sup>1</sup>'On-book' assets are deposits placed with Kindred, such as chequing accounts and GICs.

<sup>2</sup>'Off-book' assets are investments with a third party, such as Credential Asset Management mutual funds.

# Governance at Kindred

The Council of Members (Council) is a committee of 16 member volunteers with representation from all eight Kindred branches (two volunteers from each branch). Each year the Council seeks volunteers for governance roles on the Board of Directors (Board). This approach to discerning qualified candidates has resulted in diverse and competent boards for Kindred that have served the membership well and been excellent guardians of our values.

Appointments to the Board are for three-year terms and require a ratification vote with a two-thirds majority at the Annual General Meeting. If you're interested in serving on either the Board or Council, please speak with your Branch Manager or one of the Council representatives for your local branch.

## New Board Nominees

The Council, with support of the Board of Directors, recommends for member ratification three new nominees for the Board. The Board nominees are presented below.

## Outgoing Council and Board

On behalf of Kindred's Board of Directors, the Council of Members, and members, thanks to Leroy Shantz (Board Vice-Chair), Jim Erb (Finance), and John D. Wiebe (Corporate Secretary) as well as Joan Schooley (Council) and July Hiller (Council) for their important contributions over the past number of years.

Thanks to all Board and Council representatives for their valuable and ongoing contributions to the governance of our credit union.

## Board of Directors – New



**Wanda Wagler-Martin, MSW, RSW**

- Waterloo branch member
- Social work consultant and educator
- Private practice and Part-time Professor in the MSW program at Wilfrid Laurier
- 33 years experience in the field of mental health and well-being – as a therapist, administrator and educator



**James Schenk, c.Dir**

- Waterloo branch member
- Bachelor of Arts in Economics from Wilfrid Laurier University
- Board of Directors with Holland Christian Homes, retirement complex and LTC home in Brampton
- Served on various committees and boards at church and local Christian schools



**Rick Martin**

- Elmira branch member
- General Manager and President, Wallenstein Feed & Supply Ltd.
- Serves on the boards of Kids Ability, Chelsey Lake Camp, Floradale Mennonite Church (Chair of Church Council), Hallman Chapel (treasurer), and Wallenstein Feed Charitable Foundation (President)

## 2021 Board of Directors



**Carolyn Albrecht**  
Governance  
Committee



**Gregory Brimblecombe**  
Audit and Risk  
Committee



**Jim Erb**  
Finance and Loan  
Committee



**Gerry Frey**  
Finance and Loan  
Committee  
Chair



**Gloria Martin**  
Finance and Loan  
Committee



**Rosemary McCrie**  
Finance and Loan  
Committee



**Henry Paetkau**  
Audit and Risk  
Committee



**Leroy Shantz**  
Board Vice-Chair,  
Governance  
Committee



**Susan Taves**  
Board Chair,  
Governance  
Committee



**Kaylie Tiessen**  
Audit and Risk  
Committee



**Tim Wagler**  
Audit and Risk  
Committee Chair



**John D. Wiebe**  
Corporate Secretary,  
Governance  
Committee

## Management's Responsibility for Financial Reporting

The accompanying financial statements of Kindred Credit Union Limited are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with International Financial Reporting Standards. When required, Management has used reasonable and informed judgments and estimates in order to ensure that the financial statements are presented fairly and accurately in all material respects.

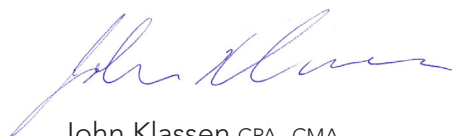
To meet its responsibility for the integrity and fairness of the financial statements, Management has designed and maintains accounting processes and systems of internal controls to provide reasonable assurance regarding the accuracy of financial records and to establish reliable data for the preparation of financial statements, and the necessary safeguarding of Credit Union assets.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its regular review of financial results and operations, and through the Board-appointed Audit and Risk Committee. The Audit and Risk Committee has the responsibility of meeting with management and external auditors to discuss internal controls over the financial reporting process, matters arising from periodic audits, and other financial reporting issues. The Audit and Risk Committee regularly reports its findings to the Board for consideration.

The financial statements have been audited on behalf of the membership by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit and Risk Committee. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements of the Credit Union.



Ian Thomas MBA, ICD.D  
Chief Executive Officer



John Klassen CPA, CMA  
Chief, Finance and Compliance



## Audit and Risk Committee Report

The Audit and Risk Committee assists the Board of Directors in fulfilling its oversight responsibilities. It does this by reviewing the financial information and reporting processes, including the risks and controls related to those processes which management and the Board have established. The committee is comprised of four directors and has a mandate that includes all of the duties specified for an audit committee in the Credit Union and Caisses Populaires Act, 1994 (The Act) and the associated regulations.

The Audit and Risk Committee met four times during 2021 to complete its responsibilities. Key activities included:

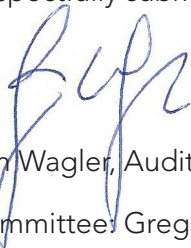
- Reviewing the financial statements and results of the year end audit with the external auditor;
- Reviewing the performance of the external auditor and their proposed engagement letter;
- Ensuring that regulatory filings were submitted on time;
- Reviewing the credit union's policies, procedures, and controls for legislative compliance;
- Reviewing the disaster recovery and business continuity plans;
- Monitoring the adherence of Directors, Officers, and employees with the credit union's policies and code of conduct;
- Reviewing management's identification of the credit union's significant risks and ensuring that enterprise risk management processes are in place to measure, monitor, manage and mitigate them;
- Approving the annual internal audit plan and reviewing internal audit activities;
- Completing a self-assessment on the effectiveness of the Committee and taking the necessary steps to ensure effectiveness.

Based on its findings, the Audit and Risk Committee provides reports and makes recommendations to the Board of Directors or senior management, as appropriate. These recommendations are reviewed to ensure they are considered and appropriate action taken.

The Audit and Risk Committee is pleased to report to the members of Kindred Credit Union that, pursuant to The Act and its regulations, it continues to meet the requirements of its mandate. The committee receives full cooperation and support from management, thus enabling it to play an effective role in improving the quality of financial reporting to its members, and enhancing the overall control environment at Kindred.

In addition, there are no other matters that the Audit and Risk Committee believes should be reported to the members, nor are there any further matters that are required to be disclosed pursuant to The Act or its regulations.

Respectfully submitted,



Tim Wagler, Audit and Risk Committee Chair

Committee: Gregory Brimblecombe, Kaylie Tiessen, Henry Paetkau

# **Kindred Credit Union Limited**

Financial Statements  
**December 31, 2021**



## Independent auditor's report

To the Members of Kindred Credit Union Limited

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kindred Credit Union Limited (the credit union) as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The credit union's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in members' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the 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 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 credit union in accordance with the ethical requirements that are relevant to our audit of the 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 financial statements

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



the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

London, Ontario  
February 28, 2022

# Kindred Credit Union Limited

## Statement of Financial Position

As at December 31, 2021

(in thousands of dollars)

	December 31, 2021 \$	December 31, 2020 \$ (Restated – note 2)	January 1, 2019 \$ (Restated – note 2)
<b>Assets</b>			
Cash	40,583	12,364	9,640
Investments – liquidity reserve (note 5)	107,775	93,570	81,088
Loans to members (note 6)	1,634,836	1,381,755	1,244,313
Investments – other (note 5)	12,892	69,850	15,062
Income tax receivable	-	165	-
Derivative financial assets (note 19)	-	202	100
Property and equipment (note 7)	15,189	14,966	16,388
Deferred income tax asset (note 16)	1,327	1,000	1,102
Prepaid expenses and other receivables	4,178	12,273	3,898
<b>Total assets</b>	<b>1,816,780</b>	<b>1,586,145</b>	<b>1,371,591</b>
<b>Liabilities</b>			
<b>Deposits of members</b>			
Members' deposits (note 8)	1,630,805	1,395,930	1,182,515
Accrued interest payable	7,942	9,278	9,016
	<b>1,638,747</b>	<b>1,405,208</b>	<b>1,191,531</b>
<b>Liabilities to non-members</b>			
Accounts payable and accrued charges (note 11)	9,080	11,850	9,734
Income taxes payable	371	-	281
Lease liabilities (note 10)	11,115	10,302	10,992
Mortgage securitization liabilities (note 20)	26,227	36,056	41,983
	<b>46,793</b>	<b>58,208</b>	<b>62,990</b>
<b>Liabilities qualifying as regulatory capital</b>			
Profit shares (note 12)	19,888	18,900	18,175
Member shares (note 12)	565	537	511
	<b>20,453</b>	<b>19,437</b>	<b>18,686</b>
<b>Total liabilities (note 2)</b>	<b>1,705,993</b>	<b>1,482,853</b>	<b>1,273,207</b>
<b>Members' Equity</b>			
Investment shares (notes 2 and 12)	49,964	48,209	46,522
Retained earnings (note 2)	61,671	55,090	51,862
Accumulated other comprehensive loss	(848)	(7)	-
<b>Total members' equity</b>	<b>110,787</b>	<b>103,292</b>	<b>98,384</b>
	<b>1,816,780</b>	<b>1,586,145</b>	<b>1,371,591</b>

Approved by the Board of Directors

Director

Director

The accompanying notes are an integral part of these financial statements.

**Kindred Credit Union Limited**  
Statement of Income and Comprehensive Income  
For the year ended December 31, 2021

(in thousands of dollars)

	2021 \$	2020 \$ (Restated – note 2)
<b>Revenue</b>		
Interest income	51,594	48,796
Investment income	1,489	1,408
	<hr/> 53,083	<hr/> 50,204
<b>Interest expense (income)</b>		
Interest on members' deposits	18,108	20,366
Patronage refund (note 15)	1,450	1,120
Interest on external borrowings	88	107
Gain on derivative financial instruments (note 19(b))	-	(1,477)
Gain on exchange of liquidity reserve deposits	(494)	-
Mortgage securitization cost of funds	652	1,027
Lease finance cost	250	269
	<hr/> 20,054	<hr/> 21,412
<b>Financial margin</b>	<hr/> 33,029	<hr/> 28,792
<b>Fee revenue</b>	5,297	4,574
<b>Commission revenue</b>	2,246	1,762
	<hr/> 7,543	<hr/> 6,336
<b>Income before the undernoted</b>	<hr/> 40,572	<hr/> 35,128
<b>Operating expenses</b>		
Personnel	18,866	17,708
Administration	6,991	6,103
Occupancy	2,906	2,897
Insurance	1,356	1,164
	<hr/> 30,119	<hr/> 27,872
<b>Income before provision for loan losses and charitable giving</b>	<hr/> 10,453	<hr/> 7,256
<b>Provision for loan losses</b> (note 6)	(186)	(411)
<b>Charitable giving</b>	(514)	(622)
	<hr/> 9,753	<hr/> 6,223
<b>Income before income taxes</b>	9,753	6,223
<b>Provisions for income taxes</b> (note 16)	1,110	1,032
	<hr/> 8,643	<hr/> 5,191
<b>Net income for the year</b>	8,643	5,191
<b>Other comprehensive income (loss)</b> – net of tax		
Net change in unrealized (loss) gain on investments (note 5)	(841)	21
<b>Comprehensive income for the year</b>	<hr/> 7,802	<hr/> 5,212

The accompanying notes are an integral part of these financial statements.

**Kindred Credit Union Limited**  
Statement of Changes in Members' Equity  
For the year ended December 31, 2021

(in thousands of dollars)

	Investment shares \$ (Restated – note 2)	Retained earnings \$ (Restated – note 2)	Accumulated other comprehensive loss \$	Total \$
<b>Balance – January 1, 2020</b>	46,522	51,862	-	98,384
Net income before the following:	-	5,191	-	5,191
Other comprehensive income (loss) – net of taxes (note 16(c))	-	28	(7)	21
Net shares issued (note 12)	1,687	-	-	1,687
Dividend on investment shares	-	(1,991)	-	(1,991)
<b>Balance – December 31, 2020</b>	48,209	55,090	(7)	103,292
Net income before the following:	-	8,643	-	8,643
Other comprehensive income (loss) – net of taxes (note 16(c))	-	-	(841)	(841)
Net shares issued (note 12)	1,755	-	-	1,755
Dividend on investment shares	-	(2,062)	-	(2,062)
<b>Balance – December 31, 2021</b>	49,964	61,671	(848)	110,787

The accompanying notes are an integral part of these financial statements.



# Kindred Credit Union Limited

## Statement of Cash Flows

For the year ended December 31, 2021

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(in thousands of dollars)

	2021 \$	2020 \$ (Restated – note 2)
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the year	8,643	5,191
Adjustments for		
Interest and investment income	(53,083)	(50,204)
Interest expense	20,258	22,464
Lease finance cost	250	269
Provision for income taxes	1,110	1,032
Patronage refund	1,450	1,120
Provision for loan losses	186	411
Amortization of property and equipment (note 7)	2,032	2,031
Net change in unrealized losses (gains) on derivative instruments	202	(102)
Change in non-cash working capital	3,993	2,675
Changes in member activities, net		
Change in loans to members	(253,267)	(137,853)
Change in members' deposits	234,875	213,415
Cash flows relating to interest and income taxes		
Interest received on loans to members	54,741	48,644
Interest paid on members' deposits	(21,594)	(22,181)
Income taxes paid	(1,051)	(1,211)
	<u>(1,255)</u>	<u>85,701</u>
<b>Financing activities</b>		
Repayments of lease liabilities	(954)	(959)
Decrease on mortgage securitization	(9,829)	(5,927)
Redemption of profit shares (note 12)	(462)	(395)
Dividend paid on investment shares	(307)	(304)
Net increase in member shares (note 12)	28	26
	<u>(11,524)</u>	<u>(7,559)</u>
<b>Investing activities</b>		
Net redemption (purchase) of investments	41,725	(74,813)
Purchase of property and equipment (note 7)	(727)	(605)
	<u>40,998</u>	<u>(75,418)</u>
<b>Increase in cash during the year</b>	28,219	2,724
<b>Cash – Beginning of year</b>	<u>12,364</u>	<u>9,640</u>
<b>Cash – End of year</b>	<u>40,583</u>	<u>12,364</u>

The accompanying notes are an integral part of these financial statements.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

### **1 Reporting entity**

Kindred Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act 1994 (the Act) of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union was formerly known as Mennonite Savings and Credit Union (Ontario) Limited. The Credit Union officially changed its name to become known as Kindred Credit Union Limited on July 4, 2016. The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, guaranteed investment certificates (GICs), RRSPs, RRIFs, automated banking machines, debit and credit cards and internet banking. The Credit Union head office is located at 1265 Strasburg Rd., Kitchener, Ontario.

The financial statements have been authorized for issue by the Board of Directors on February 24, 2022.

As the COVID-19 pandemic continued throughout 2021 and into 2022, there continues to be significant disruption to business globally. Mass vaccination campaigns have been rolled out worldwide with strong uptake by populations. While some restrictions are easing, there are continued quarantine periods, social distancing and travel bans. While stock prices and bond yields have become more stable, there are lingering effects of supply chain slowdowns. Emergency financial assistance used by governments to combat the continued economic slowdown have become more focused to specific sectors in need. It is still difficult to predict the duration and impact of the pandemic.

### **2 Basis of presentation**

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

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

### Restatement of prior period balances

The Credit Union has restated the comparative financial statements as result of a change to the classification of investment shares and dividends paid thereon whereby investment shares of \$48,209,000 were reclassified from liabilities qualifying as regulatory capital to members' equity due to the redemption rights within those shares. The dividends paid on those shares of \$1,991,000 were also reclassified from interest on investment shares on the statement of income and comprehensive income to dividends on investment shares within the statement of changes in members' equity. The revisions have resulted in the following changes to the financial statements as at January 1, 2020 and December 31, 2020:

	Previously reported \$	Adjustment \$	Adjusted amount \$
<b>January 1, 2020</b>			
Total liabilities	1,319,729	(46,522)	1,273,207
Total members' equity	51,862	46,522	98,384
<b>December 31, 2020</b>			
Total liabilities	1,531,062	(48,209)	1,482,853
Total members' equity	55,083	48,209	103,292
Comprehensive income for the year	3,221	1,991	5,212
Dividend on investment shares	-	1,991	1,991

These financial statements were prepared under the historical cost convention, as modified by the revaluation of certain financial assets and derivative financial instruments measured at fair value.

The financial statements' values are presented in Canadian dollars (\$), which is the functional and presentation currency of the Credit Union.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period in which the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Credit Union's financial statements therefore present its financial position and performance fairly.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are the fair value of financial instruments and the member loan loss provisions. These areas are further disclosed in note 4.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

### 3 Significant accounting policies

#### a) Allowance for impaired loans

At initial recognition, the Credit Union recognizes allowances for expected credit loss (ECL) on all debt instruments measured at amortized cost. ECLs are also recognized for loan commitments and financial guarantees.

IFRS 9, Financial Instruments (IFRS 9), outlines a three-stage model for impairment base on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Credit Union.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is move to Stage 2 but is not yet deemed to be credit impaired.
- If the financial instrument is credit impaired, the financial instrument is then moved to Stage 3.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on ECLs on a lifetime basis.

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost are credit impaired.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument.

ECLs are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD). The PD represents the likelihood of a member defaulting on its financial obligation, either over the next 12 months or the remaining lifetime (depending on the stage to which the financial asset belongs). The EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months or the remaining lifetime. For example, on revolving facilities, the Credit Union considers the amount that is expected to be drawn upon leading up to default. On term facilities, the Credit Union considers the amount it expects to be paid down leading up to default. The LGD represents the Credit Union's expectation of the extent of a loss on a defaulted exposure. The LGD is expressed as a percentage of EAD.

These inputs are combined to project ECL over either the next 12 months or the entire lifetime of a credit exposure and discounted back to present using the instrument's effective interest rate.

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

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

The Credit Union uses the following when determining whether there has been a significant increase in credit risk:

- quantitative criteria: 30 days overdue is classified as Stage 2 and 90 days overdue is designated as Stage 3; and
- qualitative indicators including but not limited to: deteriorating or lack of financial statements, adverse management changes, covenant breaches, frequent overdrafts or arrears, debt service shortfalls, deterioration of security, cessation of operations, receivership or bankruptcy.

The Credit Union allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

- i) the remaining lifetime PD as at the reporting date; with
- ii) the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

PD is estimated using a two-step process. The first step considers a historical anchor parameter (the 12-month PD). This is designed to represent the long-run average default of the borrower. This anchor parameter is then adjusted to reflect forecasted future economic conditions.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Credit Union collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

### **Loan writeoffs**

The Credit Union writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Credit Union's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Credit Union may write off financial assets that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended December 31, 2021 was \$16,421 (2020 – \$28,735). The Credit Union still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Further information on credit impairment can be found in note 22.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

b) Fees and commission

Fee and commission revenue and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see c) below). Other fee and commission revenue from contracts with members or other third parties are measured based on the consideration specified in a contract with the counterparty. The Credit Union recognizes revenue as the related performance obligation is satisfied, either over time or at a point in time.

The Credit Union provides retail and corporate banking services to its members, including account management, provision of overdraft facilities, foreign currency transactions and credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees for foreign currency transactions and overdrafts are charged to the member's account when the transaction takes place.

Servicing fees for the administration of loans that have been sold to a third party are based on fixed rates outlined in the respective contract and are recorded monthly.

The Credit Union receives commission revenue primarily through its relationship with Aviso Wealth resulting from sales of mutual fund and insurance products. Commission income is recognized monthly when received.

c) Financial assets and liabilities

The Credit Union has applied IFRS 9 and classifies its financial assets in the following measurement categories: FVTPL, FVOCI, or amortized cost. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions. All financial assets and liabilities including derivative financial instruments are recognized in the statement of financial position and measured in accordance with their assigned category.

The accounting policies related to financial assets and liabilities are as follows:

### **Measurement methods**

#### *Amortized cost and effective interest rate*

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

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortized cost before any loss allowance) or to the amortized cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Credit Union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

### *Interest income and expense*

Interest income and expense are calculated by applying the effective interest rate to the gross carrying amount of financial assets and liabilities, except for financial assets that have subsequently become credit impaired (or Stage 3), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e., net of the ECL provision).

### *Initial recognition and measurement*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Credit Union measures a financial asset or financial liability at its fair value plus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in net income. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and FVOCI, which results in an accounting loss being recognized in net income when an asset is newly originated.

## **Classification and subsequent measurement**

### *Financial assets*

Financial assets are initially recognized at fair value and are classified and are subsequently measured at amortized cost, FVOCI or FVTPL. A financial asset is classified as amortized cost if it meets both of the following conditions and is not designated as FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment by investment basis.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

Financial assets that are held within a business model whose objective is to hold assets to collect and sell contractual cash flows and those cash flows are SPPI are classified as FVOCI. All other financial assets are classified and subsequently measured at FVTPL.

The business model reflects how the Credit Union manages the assets in order to generate cash flows, which is based on whether the Credit Union'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 (i.e., financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at FVTPL. Factors considered by the Credit Union in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed. For example, the Credit Union's business model for the mortgage loan book is to hold to collect contractual cash flows.

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

- i) contingent events that would change the amount and timing of cash flows;
- ii) leverage features;
- iii) prepayment and extension terms;
- iv) terms that limit the Credit Union's claim to cash flows from specified assets; and
- v) features that modify consideration of the time value of money.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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 and that evidence a residual interest in the issuer's net assets.

The Credit Union's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in net income as other income when the Credit Union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in investment income in the statement of income and comprehensive income.



# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

The measurement categories of financial assets in accordance with IFRS 9 are as follows:

<b>Financial asset</b>	<b>Measurement category</b>
Cash	Amortized cost
Loans to members	Amortized cost
Excess liquidity deposits	Amortized cost
Loans to MEDA	Amortized cost
Derivatives	FVTPL
Shares in Central 1	FVOCI
Liquidity Reserves	FVOCI
Oikocredit shares	FVTPL
Canadian Cooperative Investment Fund	FVOCI

### *Financial liabilities*

The Credit Union classifies and subsequently measures its financial liabilities at amortized cost or FVTPL.

### **Derecognition**

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

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

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as FVOCI is not recognized in profit or loss on derecognition of such securities.

The Credit Union enters into transactions whereby it transfers assets recognized on its statement of financial position. The transferred asset is derecognized if it meets the derecognition criteria. In certain transactions, the Credit Union retains the obligation to service the transferred financial asset for a fee. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Any remaining interest in transferred financial assets that qualify for derecognition by the Credit Union is recognized as a separate asset or liability.

As outlined in note 3(f), in transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

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

### **CEBA loans**

The Government of Canada (GoC) launched the Canada Emergency Business Account (CEBA) program to provide interest-free loans to qualifying small businesses and not-for-profits, to help cover their operating costs during a period where their revenues have been temporarily reduced. The Credit Union acts as a credit facilitator for its eligible members to access loans from the GoC through the CEBA program. Loans advanced to borrowers do not appear on the statement of financial position for the Credit Union as substantially all the risks and rewards associated with the loans, including exposure to payment defaults and principal forgiveness, are assumed by the GoC.

The Credit Union receives a loan administration fee which is recognized in the statement of income and comprehensive income.

### **Modification of financial assets**

The Credit Union sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that scheduled repayments will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Credit Union monitors the subsequent performance of modified assets. The Credit Union may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets held as at December 31, 2021 was \$nil (2020 – \$nil).

The Credit Union continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

#### d) Comprehensive income

For the Credit Union, OCI represents the change in members' equity during the year that is attributable to unrealized gains and losses on financial assets classified as FVOCI and remeasurements of the present value of the post-employment obligation.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

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(tabular amounts in thousands of dollars)

Consequently, the changes in these items during the year are recognized in the statement of income and comprehensive income, net of taxes, which is presented as part of members' equity on the statement of financial position.

e) Sale of receivables

The Credit Union periodically sells assets, such as agricultural loans, to other financial institutions to manage its portfolio diversification risk. These transactions satisfy the requirements for derecognition under IFRS and accordingly the agricultural loans sold are removed from the statement of financial position. In these instances, the contractual rights to receive the cash flows from the assets and substantially all the risks and rewards associated with the assets are transferred to the purchasing institution. A nominal administration fee, which is recorded as income when received, is paid to the Credit Union each month.

f) Mortgage securitizations

As part of an ongoing program to manage liquidity, capital and interest rate risk, the Credit Union enters into mortgage securitization transactions. These transactions allow for the packaging of insured mortgage loan receivables into mortgage backed securities (MBS) and for the subsequent sale of these MBS to unrelated third parties.

As outlined in note 3(c), securitized financial instruments are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value plus transaction costs and subsequently measured at amortized cost, using the effective interest rate method.

Costs related to the issuance of MBS are amortized over the life of the issue and are included in interest expense.

g) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line method over the expected useful lives of the assets as follows:

<b>Assets</b>	<b>Useful life</b>
Buildings	40 years
Leasehold improvements	Term of lease
Furniture and fixtures, and computer equipment	3-10 years

Land is not subject to amortization and is carried at cost.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and comprehensive income in the year the asset is derecognized.

# Kindred Credit Union Limited

## Notes to Financial Statements

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(tabular amounts in thousands of dollars)

### h) Leases

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally, the Credit Union uses its incremental borrowing rate as the discount rate of 0.75% to 2.00%.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under a residential value guarantee; and
- the exercise price under a purchase option that the Credit Union is reasonably certain to exercise, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Credit Union is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Credit Union's estimate of the amount expected to be payable under a residential value guarantee, or if the Credit Union changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Credit Union presents right-of-use assets in property and equipment and lease liabilities as lease liabilities in the statement of financial position.

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The Credit Union has elected not to recognize the right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Credit Union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

i) Impairment of non-financial assets

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than its carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognized in the statement of income and comprehensive income when there is objective evidence that a loss event has occurred that has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the statement of income and comprehensive income at that time.

j) Derivative financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments at a future date and by which their value changes in response to a change in specified rates, prices or indices and do not require an initial net investment or that initial net investment is smaller than would be required for other similar types of contracts. The Credit Union uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate risk exposure. The Credit Union's policy is not to utilize derivative financial instruments for speculative purposes. The Credit Union provides index-linked deposits to its members. The embedded options in the index-linked term deposit products are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

Derivative financial instruments are carried at fair value and are reported in the statement of financial position as derivative financial instrument assets, where they have a positive fair value, and as derivative financial instrument liabilities, where they have a negative fair value. Changes in the fair value of the derivative instruments are recognized in the statement of income and comprehensive income as net unrealized gain on derivative financial instruments. The Credit Union does not apply hedge accounting on its derivative portfolio.

k) Member entitlements

Member shares, profit shares and investment shares have certain characteristics that are outlined in note 12 that require them to be classified as liabilities on the statement of financial position. Accordingly, any dividends authorized on these shares are recorded as interest expense.

l) Foreign currency

Assets and liabilities denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the statement of financial position date. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in other revenue in the statement of income and comprehensive income.

# Kindred Credit Union Limited

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m) Income taxes

The Credit Union uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Deferred income tax assets are recognized to the extent that realization is considered more likely than not.

n) Employee benefit plan

The Credit Union accrues its obligations under the post-retirement benefit plan and the related costs and has the following policy:

- the cost of the benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected future costs, discount rate and retirement ages of employees.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in other comprehensive income with an immediate allocation to retained earnings. Past-service costs are recognized immediately in income.

#### 4 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in the statement of income and comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

# Kindred Credit Union Limited

## Notes to Financial Statements

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(tabular amounts in thousands of dollars)

The estimates, assumptions and judgments that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Fair value of financial instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 21.

b) Member loan loss provision

The measurement of the ECL allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECLs, such as:

- determining the criteria for identifying a significant increase in credit risk;
- establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECLs.

The judgments, inputs, methodology and assumptions used for estimating the ECL allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The methods and assumptions applied and the valuation techniques used are disclosed in notes 6 and 22.

Due to COVID-19, there is estimation uncertainty with respect to the recoverability of loans to members and the measurement of ECLs. Certain of the inputs and assumptions related to the model are impacted by this uncertainty.

c) Recognition of securitization arrangements

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

# Kindred Credit Union Limited

## Notes to Financial Statements

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(tabular amounts in thousands of dollars)

### 5 Investments

	2021 \$	2020 \$
Shares in Central 1 (a)	2,574	6,743
Liquidity reserves (b)	107,775	93,570
Excess liquidity deposits (c)	9,421	62,240
Oikocredit shares (d)	250	250
Loans to MEDA (e)	600	600
Canadian Cooperative Investment Fund (f)	47	17
	<hr/>	<hr/>
	120,667	163,420

#### a) Shares in Central 1

As a condition of maintaining membership in Central 1, the Credit Union is required to hold an investment in Central 1 shares as determined by the Central 1 Board of Directors from time to time. These shares are held by the Credit Union principally for the benefits of membership with Central 1 including realization of savings through cost sharing and other operational synergies as well as access to a variety of products and services and not for the purpose of selling in the near term. Accordingly, the shares have been designated as FVOCI.

Central 1 Class A shares are subject to an annual rebalancing mechanism based on credit union asset growth and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis. The Credit Union's holding of Central 1 Class A shares had a net increase from \$458,243 to \$487,971 during 2021 as a result of capital calls.

The Central 1 Class F shares were fully redeemed in January 2021 for proceeds of \$4,198,045. There was no gain or loss recorded on the redemption of these shares.

Central 1 Class E shares were issued with a par value of \$0.01 per share; however, they are redeemable at \$1 per share. There is no separately quoted market value for these shares, the shares are not subject to rebalancing and new members are not required to subscribe to this class of shares. There has not been a sufficient volume of redemptions of Class E shares nor has a communication plan been released by Central 1 to redeem these shares that could be used to reliably estimate a fair value for the Class E shares. As such, the Credit Union has measured these shares at par value of \$20,861, which is an approximation of fair value as at December 31, 2021.



# Kindred Credit Union Limited

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(tabular amounts in thousands of dollars)

b) Liquidity reserves

The Credit Union is required to maintain liquidity reserves with Central 1 equal to 6.00% of the Credit Union's total assets. The amount of the required liquidity reserve is determined monthly based on the amount of total assets in the previous month's financial statements. The instruments bear interest at fixed and variable rates, which averaged approximately 0.75% (2020 – 0.81%) at year-end. These are measured at FVOCI on the basis that the business model is hold to collect and sell contractual cash flows and those cash flows are SPPI.

c) Excess liquidity deposits

The Credit Union has invested excess funds in term deposits, GICs and short-term funds with Central 1 and Manulife. These excess liquidity deposits are measured at amortized cost.

d) Oikocredit shares

Oikocredit, Ecumenical Development Cooperative Society U.A. (Oikocredit) provides financial services and supports organizations internationally to improve the quality of life of low-income people and communities. Oikocredit mobilizes the capital needed to carry out its mission by issuing shares to its member organizations.

As at December 31, 2021, the Credit Union's holdings of these shares are \$250,020 (2020 – \$250,200).

Oikocredit shares are classified as FVTPL. Par value has been determined by management to be representative of fair value due to the fact that share issue and redemption transactions occur at par value on a regular and recurring basis.

e) Loans to MEDA

MEDA is an international economic development organization whose mission is to create business solutions to poverty. The Credit Union supports this work through the provision of fixed term promissory notes to the organization, which are classified and measured at amortized cost.

f) Canadian Cooperative Investment Fund (CCIF)

Supported by selected cooperative organizations across Canada, the CCIF is designed to address a gap in the cooperative sector's access to financing. The fund invests in the cooperative sector in the form of loans, equity and quasi-equity investments. The Credit Union has a maximum \$150,000 commitment to the fund to be invested over the next several years. CCIF shares are classified as FVOCI.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

(tabular amounts in thousands of dollars)

### 6 Loans to members

- a) The Credit union's loan portfolio and related allowance for impaired loans

An analysis of the Credit Union's loan portfolio and related allowance for impaired loans is as follows:

	December 31, 2021				
	Gross amount	ECL allowance			Carrying amount
		Stage 1	Stage 2	Stage 3	
	\$	\$	\$	\$	\$
Residential	470,787	(216)	(35)	(129)	470,407
Personal	8,971	(74)	(18)	(47)	8,832
Agricultural	793,783	(185)	-	(1,016)	792,582
Commercial	363,613	(99)	-	(499)	363,015
	<u>1,637,154</u>	<u>(574)</u>	<u>(53)</u>	<u>(1,691)</u>	<u>1,634,836</u>

	December 31, 2020				
	Gross amount	ECL Allowance			Carrying amount
		Stage 1	Stage 2	Stage 3	
	\$	\$	\$	\$	\$
Residential	414,690	(150)	(38)	(22)	414,480
Personal	8,663	(70)	(21)	(5)	8,567
Agricultural	663,693	(229)	(4)	(662)	662,798
Commercial	296,857	(123)	(3)	(821)	295,910
	<u>1,383,903</u>	<u>(572)</u>	<u>(66)</u>	<u>(1,510)</u>	<u>1,381,755</u>

The Credit Union has an agreement in place to sell loans to Farm Credit Canada (FCC). The Credit Union continues to service all of these loans as an agent for FCC. Cumulatively, the balance of loans that continue to be serviced by the Credit Union on behalf of FCC is approximately \$23,262,274 (2020 – \$39,718,524).

During the year, the Credit Union sold \$nil (2020 – \$nil) of agricultural loans to FCC.

The Credit Union acts as a credit facilitator for its eligible members to access loans from the Government of Canada through the Canada Emergency Business Account (CEBA) program. The Credit Union has advanced total loans under the CEBA program of \$29,324,683 (2020 – \$20,163,000). These loans have been derecognized and do not appear on the statement of financial position.

# Kindred Credit Union Limited

## Notes to Financial Statements

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(tabular amounts in thousands of dollars)

b) Allowance for impaired loans

The following table shows the reconciliation from the opening to the closing balance of the loss allowance by class of loans to members:

	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
<b>Residential</b>				
Opening balance – December 31, 2020	(150)	(38)	(22)	(210)
Movement	(66)	3	(107)	(170)
Writeoffs	-	-	-	-
Ending balance – December 31, 2021	(216)	(35)	(129)	(380)
<b>Personal</b>				
Opening balance – December 31, 2020	(70)	(21)	(5)	(96)
Movement	(4)	3	(58)	(59)
Writeoffs	-	-	16	16
Ending balance – December 31, 2021	(74)	(18)	(47)	(139)
<b>Agricultural</b>				
Opening balance – December 31, 2020	(229)	(4)	(661)	(894)
Movement	44	4	(355)	(307)
Writeoffs	-	-	-	-
Ending balance – December 31, 2021	(185)	-	(1,016)	(1,201)

# Kindred Credit Union Limited

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	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
<b>Commercial</b>				
Opening balance – December 31, 2020	(123)	(3)	(822)	(948)
Movement	24	3	323	350
Writeoffs	-	-	-	-
Ending balance – December 31, 2021	(99)	-	(499)	(598)
<b>Total</b>				
Opening balance – December 31, 2020	(572)	(66)	(1,510)	(2,148)
Movement	(2)	13	(197)	(186)
Writeoffs	-	-	16	16
Ending balance – December 31, 2021	(574)	(53)	(1,691)	(2,318)

The Credit Union is holding security against the Stage 3 loans in the estimated amounts of \$nil (2020 – \$nil) for personal loans, \$nil (2020 – \$1,141,981) for residential mortgages, \$31,365,370 (2020 – \$24,539,749) for agricultural loans and \$34,243,393 (2020 – \$37,860,928) for commercial loans.

The Credit Union is holding security in the form of member deposits in the estimated amount of \$3,955,209 (2020 – \$4,345,308) as security for loans to members.

### c) Loan loss provisions

The loss allowance recognized in the period is impacted by a variety of factors, such as:

- restructuring due to COVID-19 shut-downs affecting cash flows for commercial members;
- transfers between Stage 1 and Stages 2 or 3 due to loans to members experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent step up (or step down) between 12-month and Lifetime ECLs (see note 3);
- additional allowances for new loans to members recognized during the period, as well as releases for financial instruments de-recognized in the period;
- impact on the measurement of ECL due to changes in probability of default, exposure at default and loss given default in the period, arising from regular refreshing of inputs to models;
- impacts on the measurement of ECLs due to changes made to models and assumptions;
- discount unwind within ECLs due to the passage of time, as ECL are measured on a present value basis; and
- loans to members derecognized during the period and writeoffs of allowances related to loans that were written off during the period.

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The key inputs into the measurement of ECLs are the following variables:

- probability of default;
- loss given default; and
- exposure at default.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month probability of default by the loss given default and exposure at default. Lifetime ECL is calculated by multiplying the lifetime probability of default by the loss given default and exposure at default.

The methodology of estimating the PD is discussed above under note 3.

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios as described in note 22 and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The exposure at default (EAD) represents the expected exposure in the event of default. EAD is calculated for loans with regular instalments (payments) by using the loan's amortization schedule to estimate the outstanding loan amount remaining in future years. This is done by using the current outstanding balance (principal and interest) and deducting from it future payments, producing a list of outstanding balances which decrease over time.

d) Loan portfolio by maturity date

The following table analyzes the Credit Union's loan portfolio by maturity date.

	<b>Variable rates</b> \$	<b>Fixed rates less than 1 year</b> \$	<b>Fixed rates 1-5 years</b> \$	<b>2021 Total</b> \$	<b>2020 Total</b> \$
Total loans	273,176	347,162	1,016,816	1,637,154	1,383,903
Average effective yield	3.32%	3.45%	3.26%	3.30%	3.56%

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(tabular amounts in thousands of dollars)

e) Impaired loans

The following table identifies the portion of the Credit Union's loan portfolio that is past due but not considered Stage 3 at December 31, 2021. For each loan type, the aging category, the carrying value of the loan and the value of the security held have been presented. There were no residential, agricultural or commercial loans that were past due but not considered Stage 3.

	<b>Past Due</b>	<b>Carrying Amount \$</b>	<b>Security Held \$</b>
Personal	30-60 days	18	-
	60-90 days	1	-
	90-120 days	-	-
	120+ days	-	-
			<hr/>
		19	-

# Kindred Credit Union Limited

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### 7 Property and equipment

The movements in property and equipment were as follows:

	Right- of-use assets \$	Land \$	Buildings \$	Leasehold improvements \$	Computers \$	Furniture and fixtures \$	Total \$
<b>Cost</b>							
Balance on January 1, 2020	10,400	777	2,320	4,049	1,553	2,865	21,964
Additions	-	-	-	77	409	119	605
Disposals	-	-	-	-	432	83	515
Balance on December 31, 2020	10,400	777	2,320	4,126	1,530	2,901	22,054
Additions	1,524	-	9	24	591	107	2,255
Disposals	-	-	-	463	352	115	930
Balance on December 31, 2021	11,924	777	2,329	3,687	1,769	2,893	23,379
<b>Accumulated amortization</b>							
Balance on January 1, 2020	721	-	694	2,157	800	1,204	5,576
Amortization	721	-	98	441	482	289	2,031
Disposals	-	-	-	-	432	87	519
Balance on December 31, 2020	1,442	-	792	2,598	850	1,406	7,088
Amortization	728	-	99	445	456	304	2,032
Disposals	-	-	-	463	352	115	930
Balance on December 31, 2021	2,170	-	891	2,580	954	1,595	8,190
<b>Net book value</b>							
December 31, 2020	8,958	777	1,528	1,528	680	1,495	14,966
December 31, 2021	9,754	777	1,438	1,107	815	1,298	15,189

Amortization expense of \$2,032,805 (2020 – \$2,031,198) is included in occupancy expense in the statement of income and comprehensive income.

The right-of-use assets consist entirely of leases for premises.

# Kindred Credit Union Limited

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### 8 Members' deposit

The following table provides a breakdown and analysis of the Credit Union's member deposit portfolio by maturity date:

	Variable rates \$	Fixed rates less than 1 year \$	Fixed rates 1-5 years \$	2021 Total \$	2020 Total \$
Chequing and savings accounts	695,425	-	-	695,425	533,049
GICs	-	376,445	241,762	618,207	549,595
RRSP and other registered plans	9,935	44,113	61,431	115,479	119,694
RRIF	2,165	24,361	43,991	70,517	68,519
Tax-free savings accounts	19,173	62,364	49,640	131,177	125,073
Total	726,698	507,283	396,824	1,630,805	1,395,930
Average effective interest rates	0.20%	1.39%	2.23%	1.07%	1.38%

Average effective interest rates are based on book values of deposits and contractual interest rates. All types of member deposits are financial liabilities and are carried at amortized cost using the effective interest method.

Concentra Trust Company of Canada acts as trustee in connection with Registered Plans.

### 9 Demand loan

The Credit Union has access to a line of credit facility totalling \$2,500,000 and US\$250,000 at Central 1. These facilities are included in demand loan facilities totalling \$53,550,000 (2020 – \$42,981,500) with interest rates to be agreed upon when amounts are drawn. The facilities are secured by an assignment of loans to members and a general security agreement covering all assets of the Credit Union. At year-end, the Credit Union has drawn \$nil under its line of credit facility (2020 – \$nil) and has borrowings of \$nil under the demand loan facility (2020 – \$nil).

The Credit Union also has access to a standby letter of credit line of \$700,000 (2020 – \$700,000), of which \$582,741 (2020 – \$471,607) was utilized at year-end and a financial guarantee line of \$50,000,000, of which \$10,000,000 is utilized (2020 – \$10,000,000).

In the ordinary course of business, the Credit Union is temporarily allowed to exceed the maximum line of credit facility due to timing of clearing outstanding deposits and cheques.



# Kindred Credit Union Limited

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### 10 Lease liabilities

The Credit Union has various leases that are included in property and equipment.

	Minimum lease payments		Present value of minimum lease payments	
	2021 \$	2020 \$	2021 \$	2020 \$
Not later than 1 year	968	959	742	707
Later than 1 year and not later than 5 years	4,130	4,310	3,218	3,319
Later than 5 years	8,557	7,771	7,155	6,276
	13,655	13,040	11,115	10,302
Less: Future finance charges	2,540	2,738	-	-
Present value of minimum lease payments	11,115	10,302	11,115	10,302

### 11 Post-retirement employee future benefits

The Credit Union sponsors a post-retirement benefit plan providing health, dental and life insurance coverage to eligible employees. The Credit Union's post-retirement benefit plan is administered by Great West Life Assurance Company.

Actuarial valuations of the plan are made based on market-related discount rates. The following table presents information related to the Credit Union's benefit plan as at December 31, including the amounts recorded in accounts payable and accrued charges on the statement of financial position and the components of the net benefit plan expense:

#### a) Accrued benefit obligation

	2021 \$	2020 \$
Balance – Beginning of year	3,460	3,290
Current service cost	147	158
Interest cost	101	120
Benefits paid	(44)	(73)
Remeasurements:		
Gain from change in assumptions	-	(35)
Balance – End of year, included in accounts payable and accrued charges	3,664	3,460

There are no separate plan assets.

# Kindred Credit Union Limited

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The Credit Union's benefit plan expenses, included in personnel expenses in the statement of income and comprehensive income were as follows:

	2021 \$	2020 \$
Current service cost	147	158
Interest cost	101	120
	<hr/>	<hr/>
Net benefit plan expense	248	278

Through its post-employment medical plan, the Credit Union is exposed to a number of risks, the most significant of which are detailed below:

- changes in bond yields – a decrease in corporate bond yields will increase plan liabilities; and
- trend rates – an increase in expected health care and dental care costs will increase plan liabilities.

The assumptions used in the measurement of the accrued benefit obligation are as follows:

- the discount rate was established at 2.90% (2020 – 2.90%). The rate of increase in expected health care rates is presumed to be 6.50% and this rate will reduce linearly to 5.00% after six years. Dental care costs are presumed to increase 5.00% per year.

### b) Sensitivity of assumptions

	2021 \$	2020 \$
Liability change resulting from:		
1% increase in trend rate	587	556
1% decrease in trend rate	(446)	(421)
1-year increase in retirement age	(39)	(37)
1% increase in discount rate	(653)	(618)
1% decrease in discount rate	878	831

Each sensitivity analysis above is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected benefit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

The most recent actuarial valuation was prepared as at December 31, 2020. The average remaining service period of the active employees covered by the benefit plan is 8.0 years.

The weighted average duration of the defined benefit obligation is 15.5 years.

# Kindred Credit Union Limited

## Notes to Financial Statements

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(tabular amounts in thousands of dollars)

### 12 Liabilities and equity qualifying as regulatory capital

	2021 \$	2020 \$
Investment shares – 49,963,702 (2020 – 48,208,869)	49,964	48,209
Profit shares – 18,438,483 (2020 – 17,780,302)	18,438	17,780
Provision for the issuance of profit shares – 1,450,000 (2020 – 1,120,000)	1,450	1,120
Member shares – 564,707 (2020 – 536,788)	565	537
	<u>20,453</u>	<u>19,437</u>

a) Investment shares

An unlimited number of non-voting, non-cumulative Class B special shares have been authorized with a stated value of \$1 per share. The holder of investment shares may request redemption, five years following issuance. All redemptions are subject to the discretion of the Board of Directors. These special shares are issuable in series and rank ahead of profit shares and member shares. Investment shares form part of regulatory capital and have been classified as equity on the basis of their redemption features.

b) Profit shares

An unlimited number of Class A non-voting, non-cumulative patronage shares have been authorized with a stated value of \$1 per share. Profit shares, which represent cumulative patronage refunds for existing members, form part of regulatory capital. These shares rank ahead of member shares and are payable to members upon termination of membership, or at the discretion of the Board of Directors. Profit shares form part of regulatory capital and have been designated as other liabilities.

c) Member shares

An unlimited number of voting, non-cumulative member shares have been authorized with a stated value of \$5 per share. Member shares are the minimum share deposit requirement for membership and form part of regulatory capital. These shares are non-interest bearing and are payable to members upon termination of membership. Member shares form part of regulatory capital and have been designated as other liabilities.

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	Opening balance 2021 \$	Issued \$	Redeemed \$	Closing balance 2021 \$
Investment shares	48,209	1,755	-	49,964
Profit shares	18,900	1,450	(462)	19,888
Member shares	537	52	(24)	565

	Opening balance 2020 \$	Issued \$	Redeemed \$	Closing balance 2020 \$
Investment shares	46,522	1,687	-	48,209
Profit shares	18,175	1,120	(395)	18,900
Member shares	511	49	(23)	537

### 13 Capital and liquidity management

The Act requires credit unions to maintain minimum levels of liquidity and regulatory capital. Liquidity is measured as cash resources and liquidity term deposits, expressed as a percentage of the total of members' deposits and demand loan. As per the Act, regulatory capital must not total less than 4.00% (2020 – 4.00%) of total assets, and not less than 8.00% (2020 – 8.00%) of risk-weighted assets. Regulatory capital, comprised of Tier 1 and Tier 2 capital, includes investment shares, profit shares, member shares, retained earnings and accumulated other comprehensive income, adjusted for certain items under the Regulations to the Act. In the calculation of regulatory capital as a percentage of total assets, total assets are also adjusted for certain items under the Regulations to the Act. In accordance with the Act, no payments shall be made from regulatory capital that would cause regulatory capital to fall below regulatory requirements. Liquidity and regulatory capital as a percentage of assets are as follows:

	Required	2021	2020
Liquidity		9.67%	12.05%
Regulatory capital			
As percentage of total assets	4.0%	7.23%	7.75%
As percentage of risk-weighted assets	8.0%	11.20%	12.37%
		\$	\$
Tier 1 capital		122,478	115,071
Tier 2 capital		8,888	7,897
Total regulatory capital		<u>131,366</u>	<u>122,968</u>

The Credit Union's liquidity plan is designed to ensure that the Credit Union will be able to pay obligations when they fall due, be able to repay depositors when funds are withdrawn, and be able to meet commitments to provide loans to members. Under normal operating conditions, Board policy requires management to manage liquidity, inclusive of amounts borrowed, in the range of 6% to 12%.

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The Credit Union met its regulatory liquidity requirements as at and during the year ended December 31, 2021 and exceeded the minimum requirements of the Act and Regulations regarding regulatory capital as at December 31, 2021.

Beyond the regulatory requirements outlined above, the Board has established even higher targets with respect to regulatory capital, which it requires management to attain as it undertakes its responsibilities on behalf of the Board.

The Credit Union's capital management plan is designed to establish a strong base for future growth, the payment of dividends and member patronage refunds, as well as provide a cushion in the event of market volatility. By Board policy, the Credit Union is to attain a regulatory capital as a percentage of total assets of 6.50% and 10.50% as a percentage of risk-weighted assets, which was met as at December 31, 2021.

### 14 Required disclosures under the Act and related party transactions

- a) Outstanding loans to key management personnel, their spouses, dependants, children and related corporations amounted to \$2,756,715 (2020 – \$2,383,950). None of these loans are considered impaired.

Outstanding deposits from key management personnel, their spouses, dependants, children and related corporations amounted to \$4,174,511 (2020 – \$3,644,814).

- b) Remuneration paid to directors of the Credit Union is \$172,931 (2020 – \$159,042). Other expenses of the Board amounted to \$849 (2020 – \$153).
- c) The Act requires credit unions to disclose remuneration paid during the year to employees whose total remuneration exceeds \$150,000. If there are more than five employees in this category, the five employees with the highest total remuneration for the year are disclosed. The table below provides this information for the current year.

Name	Position	Salary \$	Benefits \$	Bonus \$	Total \$
Ian Thomas	Chief Executive Officer	343	22	94	459
John Klassen	Chief, Finance and Compliance	209	14	46	269
Nolan Andres	Chief, Technology and Innovation	184	13	43	240
Rebecca Smith	VP, Culture and Wellness	172	12	40	224
Nick Savva	VP, Credit Strategy and Underwriting	169	8	40	217

# Kindred Credit Union Limited

## Notes to Financial Statements

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d) Compensation of key management personnel

Key management personnel of the Credit Union include all directors, officers and key management. The summary of compensation for key management personnel is as follows:

	2021 \$	2020 \$
Salaries and other short-term employee benefits	1,396	1,343
Other long-term benefits	254	78
Bonus	300	340
	<hr/> 1,950	<hr/> 1,761

### 15 Patronage refund

The patronage refund is authorized by the Board of Directors and is allocated to members in two ways. Firstly, members were allocated a dividend of 1.01% (2020 – 0.57%) on their December 31, 2021 profit shares. Secondly, members received an allocation based on the volume of business conducted with the Credit Union during the year. The patronage refund is classified as part of interest expense in the statement of income and comprehensive income as outlined in note 12(b).

### 16 Income taxes

a) Income tax expense is calculated as follows:

	2021 \$	2020 \$
Earnings before income taxes	9,753	6,223
Combined Canadian federal and provincial income tax rate applicable to the Credit Union	<hr/> 18.2%	<hr/> 18.2%
Income tax provision based on combined federal and provincial income tax rate	1,775	1,133
Differences from statutory rate		
Other	<hr/> (665)	<hr/> (101)
	<hr/> 1,110	<hr/> 1,032
Provision for (recovery of) income taxes		
Current	1,250	935
Deferred	<hr/> (140)	<hr/> 97
	<hr/> 1,110	<hr/> 1,032

# Kindred Credit Union Limited

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b) Deferred income taxes resulted from the following:

	2021 \$	2020 \$
Deferred income tax asset arising from the following:		
Property and equipment and leases	360	230
Allowance for impaired loans	114	143
Post-retirement employee future benefit plan	667	636
Liquidity reserve	187	-
Other	(1)	(9)
	1,327	1,000
Deferred tax asset:		
To be recovered after more than 12 months	1,213	857
To be recovered within 12 months	114	143
	1,327	1,000

	Opening balance December 31, 2020 \$	Recognized in statement of income and comprehensive income \$	Recognized in other comprehensive income (loss) \$	Closing balance December 31, 2021 \$
Deferred tax asset				
Property and equipment and leases	230	130	-	360
Allowance for impaired loans	143	(29)	-	114
Post-retirement employee future benefit plan	630	37	-	667
Liquidity reserve	-	-	187	187
Other	(3)	2	-	(1)
	1,000	140	187	1,327
Net deferred tax asset				

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	Opening balance January 1, 2020 \$	Recognized in statement of income and comprehensive income \$	Recognized in other comprehensive income (loss) \$	Closing balance December 31, 2020 \$
Deferred tax asset				
Property and equipment	354	(124)	-	230
Allowance for impaired loans	112	31	-	143
Post-retirement employee future benefit plan	641	(4)	(7)	630
Other	(5)	-	2	(3)
Net deferred tax asset	1,102	(97)	(5)	1,000

c) Tax amounts related to other comprehensive income (loss) are as follows:

	2021		
	Gross \$	Taxes \$	Net of taxes \$
Tax recovery on investments designated as FVOCI and post-retirement employee future benefit plan	1,028	(187)	841
	2020		
	Gross \$	Taxes \$	Net of taxes \$
Net tax on investments designated as FVOCI	(9)	2	(7)

## 17 Commitments and contingencies

### Members' loans

The Credit Union has made commitments to members for loans of approximately \$81,425,707 (2020 – \$89,191,493), which have not been disbursed by December 31, 2021. In addition, unutilized portions of lines of credit extended to members at December 31, 2021 amounted to approximately \$289,504,281 (2020 – \$275,978,690).



# Kindred Credit Union Limited

## Notes to Financial Statements

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### 18 Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The Credit Union matches employee contributions up to 5% of the employee's salary (7% for staff hired pre-January 1, 2017). The expenses and payments for the year ended December 31, 2021 were \$810,870 (2020 – \$773,445). The Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

### 19 Derivative financial instruments

#### a) Index-linked purchase option agreements

Included in GICs, RRSPs and tax-free savings accounts are a total of \$538,862 (2020 – \$205,452) of index-linked deposits. The index-linked deposits are for a three or five-year period with the return based on the performance of various stock market indices.

The Credit Union has entered into purchase option agreements with Central 1 for a notional amount of \$538,862 (2020 – \$205,452) to offset the exposure to the various indices associated with these products, whereby the Credit Union pays Central 1 a fixed amount of interest at the start of the contract based on the face value of the index-linked deposits sold. At the end of the three or five-year term, Central 1 pays to the Credit Union an amount equal to the amount that will be paid to the depositor based on the performance of the particular indices.

The purpose of these purchase option agreements is to provide an economic hedge against market fluctuations. These agreements have fair values that vary based on changes in various indices. The fair value of these purchase option agreements included in other assets amounted to \$60,291 as at December 31, 2021 (2020 – \$21,470). The fair value of the options embedded in the index-linked deposits included in members' deposits amounted to \$60,291 as at December 31, 2021 (2020 – \$21,470).

#### b) Interest rate swaps

The Credit Union enters into interest rate swap agreements in order to provide an economic hedge against exposure to interest rate fluctuations. As at December 31, 2021, the Credit Union was not party to any interest rate swap agreements. The agreements in aggregate represent a notional principal amount of \$nil (2020 – \$125,000,000), which is used as the basis for determining payments under the contracts and is not actually exchanged between the Credit Union and Central 1, its counterparty.

Under the term of the agreements, the Credit Union has contracted with the counterparty to pay interest at a variable rate to be re-priced monthly or quarterly, while receiving interest at a fixed rate on the notional principal amount.

# Kindred Credit Union Limited

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These derivative instruments are recorded in the statement of financial position at fair value. Interest rate swaps have a fair value that varies based on the particular contract, considering such factors as the notional value, the term to maturity, and change in interest rates. As at December 31, 2021, the fair value of these agreements was an asset of \$nil (2020 – \$201,986). Included as components of loss (gain) on derivative financial instruments in the statement of income and comprehensive income is (gain) loss on derivative financial instruments of net interest revenue of \$(202,163) (2020 – net interest revenue of \$(1,374,788)) and net unrealized losses on interest rate swap transactions of \$201,968 (2020 – net unrealized gains of \$101,730).

### 20 Mortgage securitizations

The following table summarizes the carrying and fair values of mortgages of the Credit Union that have been securitized and sold by the Credit Union to third parties as well as the carrying and fair values of the corresponding mortgage securitization liabilities.

	Carrying value \$	Fair value \$
Securitized mortgages sold as NHA MBS	26,235	26,388
Principal payments to be applied (included in cash)	424	424
	<hr/>	<hr/>
Total securitized assets	26,659	26,812
Mortgage securitization liabilities	26,227	26,380
	<hr/>	<hr/>
Net amount	432	432
	<hr/>	<hr/>

All mortgages securitized by the Credit Union are required to be fully insured prior to sale and therefore give rise to minimal credit risk. However, the Credit Union remains exposed to interest rate risk, timely payment and prepayment risk associated with the underlying assets. Accordingly, the assets, liabilities, revenues and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in the Credit Union's balance sheet and statement of income and comprehensive income as outlined in note 3.

### 21 Fair value of financial instruments

The fair values of the Credit Union's financial instruments were estimated using the valuation methods and assumptions described below. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

# Kindred Credit Union Limited

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Fair values of floating rate loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market insofar as the spread remains appropriate. Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks. Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms. A credit valuation adjustment is applied to the calculated fair value of uninsured deposits to account for the Credit Union's own risk.

Derivative financial instruments are recorded at fair value in the statement of financial position. The fair value is determined based on prevailing market rates and notional value.

The fair value for the Credit Union's investments as detailed in note 5 is determined as follows.

- membership shares in Central 1 and Oikocredit do not trade in a public market. Fair market value approximates par value as the shares are subject to regular rebalancing across the membership;
- liquidity reserves are traded in a public market and are measured using the closing fair market value;
- excess liquidity deposits and loans to MEDA are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms;
- Canadian Cooperative Investment Fund do not trade in a public market. Fair market value is based on the Credit Union's share of net asset value.
- Class E membership shares in Central 1 do not trade in a public market, redemptions are infrequent and no clear plan of redemption by Central 1 has been communicated. As such, the shares are measured at par value, which approximates fair value at December 31, 2021; and
- the fair value of profit and membership shares approximate carrying values.

### **Fair value hierarchy**

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly.
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the asset or liabilities.

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Estimated fair values of financial instrument assets and liabilities are described in the following table:

		2021		2020	
	Fair value hierarchy	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Recurring measurements:</b>					
<b>Financial assets</b>					
Shares in Central 1 Class A	Level 2	488	488	458	458
Shares in Central 1 Class E	Level 2	2,086	2,086	2,086	2,086
Shares in Central 1 Class F	Level 2	-	-	4,198	4,198
Derivative financial instrument assets	Level 2	-	-	202	202
Shares in Oikocredit	Level 2	250	250	250	250
<b>Fair values disclosed:</b>					
<b>Financial assets</b>					
Liquidity reserves	Level 2	107,775	107,775	93,570	94,064
Loans to MEDA	Level 2	600	600	600	600
Loans to members	Level 3	1,634,836	1,638,894	1,381,775	1,397,883
Excess liquidity deposits	Level 2	9,421	9,421	62,240	62,240
<b>Financial liabilities</b>					
Deposits of members	Level 3	1,630,805	1,639,423	1,395,930	1,410,248
Mortgage securitization liabilities	Level 2	26,227	26,380	34,248	35,086
Profit shares	Level 2	19,888	19,888	18,900	18,900
Member shares	Level 2	565	565	537	537

Fair values for items that are short-term in nature are approximately equal to book value. These include cash, accrued interest payable and accounts payable and accrued charges.

## 22 Financial risk management

The Credit Union's risk management policies are 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 Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board of Directors provides written principles for risk tolerance and overall risk management. Management reports to the Board of Directors on compliance with the risk management policies of the Credit Union. In addition, the Credit Union utilizes a variety of resources to undertake various internal audit activities and reports to the responsible senior leader and Board of Directors the results of these activities.

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Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and variable rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk that arise from these activities are interest rate risk, credit risk, liquidity risk, foreign exchange risk and other price risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the methods used in managing those risks.

<b>Activity</b>	<b>Risks</b>	<b>Method in Managing Risks</b>
An imbalance in the amount of variable rate loans to members compared to variable rate members' deposits	Sensitivity to changes in interest rates	Asset-liability matching, sales of selected loan portfolios and periodic use of derivatives
Index linked deposit products	Sensitivity to changes in underlying equity indices	Options are used to mitigate this risk

a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. The financial margin reported in the statement of income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Credit Union's management and reported to the Board, which is responsible for managing interest rate risk.

In managing interest rate risk, the Credit Union relies primarily upon use of the asset-liability and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Credit Union's financial instruments. The full extent of the interest rate swaps which the Credit Union has in place are included in note 19(b).

Interest rate shock analysis is used to assess the change in value of the Credit Union's financial instruments when an immediate increase or decrease to interest rates is introduced and the resulting changes in income are computed over a 12-month period. This shock analysis is calculated on a monthly basis and is reported to the asset-liability committee (ALCO) and subsequently to the Board. Based on current differences between financial assets and financial liabilities, the Credit Union estimates that an immediate and sustained 50 basis point increase (decrease) in interest rates would increase (decrease) net interest income for the year by approximately \$461,000.

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The ALCO also looks at other aspects of interest rate risk such as basis risk, which is the risk of loss arising from changes in the relationship of interest rates that have similar but not identical characteristics (for example the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk, which is the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans, to ensure they are appropriate and takes actions to ensure these are within acceptable levels.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2021. Amounts with variable rates, or due or payable on demand, are classified as maturing within less than one year, regardless of maturity. Member loans and deposits subject to fixed rates are based on contractual terms. Amounts that are not interest sensitive have been grouped together.

	Assets \$	Liabilities and members' equity \$	Interest rate swaps \$	Net asset/ liability gap \$
Expected re-pricing or maturity date				
Less than one year	679,093	(1,246,076)	-	(566,983)
1 to 2 years	202,056	(168,656)	-	33,400
2 to 3 years	170,406	(179,634)	-	(9,228)
3 to 4 years	248,087	(44,926)	-	203,161
4 to 5 years or more	512,940	(38,399)	-	474,541
Non-interest sensitive	4,198	(139,089)	-	(134,891)
	<u>1,816,780</u>	<u>(1,816,780)</u>	-	-

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectation of borrowers and depositors. The average rate of interest-bearing assets is 3.13% and interest-bearing liabilities is 1.09%.

### b) Credit risk

Credit risk is the risk that a credit union member or counterparty will be unable to pay amounts in full when due. Credit risk arises principally from lending activities that result in member loans and advances and investing activities that result in investments in cash resources. Counterparty risk is also a key consideration with respect to derivative contracts, which the Credit Union enters into from time to time with Central 1. Significant changes in the economy of the Province of Ontario or deteriorations in lending sectors that represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at the statement of financial position date. Management of credit risk is an integral part of the Credit Union's activities. Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods.

The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

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As at December 31, 2021, the classes of financial instruments for which the Credit Union is most exposed to credit risk are as follows:

<b>Credit risk exposure</b>	<b>Outstanding \$</b>
Liquidity reserves	107,775
Investments	12,892
Loans to members	<u>1,634,836</u>
	<u>1,755,503</u>

Beyond the credit risk associated with the above financial assets, the Credit Union is also exposed to credit risk associated with undrawn lines of credit and undisbursed commitments to members for loans as at year-end, as disclosed in note 17.

### *Loan impairment*

At each reporting date, the Credit Union assesses whether a loan or groups of loans are credit impaired (referred to as Stage 3 loans). A loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- i) significant financial difficulty of the borrower or issuer;
- ii) a breach of contract such as a default or past due event;
- iii) the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise; and
- iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

The Credit Union incorporates forward-looking information into both the assessment of whether the credit risk of a loan or groups of loans has increased significantly since its initial recognition and the measurement of ECL.

The Credit Union formulates three economic scenarios: a base case, which is the median scenario assigned 80% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 10% probability of occurring. External information considered includes economic data and forecasts published by government bodies and monetary authorities in the jurisdictions in which the Credit Union operates.

The key drivers considered for credit risk are unemployment rates, interest rates and real estate prices. None are considered to have a material impact on the loan loss provision at this time. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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### *Loans to members*

Loans to members consist of loans, some of which are supported by specific collateral such as residential properties, and charges over business assets such as premises, inventory and accounts receivable. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral. In the case of loans that are conventional mortgages, the Board has established maximum loan to value (Max. LTV) ratios that cannot be exceeded. The following chart gives a profile of these maximums and identifies the amount of conventional mortgages for each loan portfolio that are subject to these maximums:

<b>Portfolio</b>	<b>Total loans \$</b>	<b>Conventional mortgage loans \$</b>	<b>Max. LTV %</b>
Residential	470,787	419,270	80
Personal	8,971	-	-
Agricultural	793,783	695,134	75
Commercial	363,613	267,615	60
	<hr/>	<hr/>	
	1,637,154	1,382,019	

The Credit Union's lending (measured as a percentage of the total loan portfolio) is diversified by portfolio sectors as follows:

	<b>Board maximum %</b>	<b>2021 %</b>	<b>2020 %</b>
Residential	No limit	28.8	30.0
Personal	No limit	0.5	0.6
Agricultural	55	48.5	48.0
Commercial	25	20.7	20.0
Institutional	10	0.9	0.6
Unincorporated association	5	0.6	0.8

Board policy also requires that the maximum combined exposure for total commercial and agricultural lending (excluding institutional and unincorporated association loans) be less than 65.0% of assets. At December 31, 2021, commercial and agricultural loan exposure on this basis was 62.4%.

Furthermore, within the above noted portfolio sectors, the Board has also established maximum loan concentrations within industry sectors to ensure an appropriate diversification as the Board considers appropriate within these portfolios. Actual concentrations by industry sector were well below the maximums at year-end.



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The credit quality of the commercial and agricultural loan portfolio for those loans which are neither past due nor impaired can be assessed by reference to the Credit Union's internal risk rating system. The Credit Union assesses the relative risk of the account using internal rating tools and taking into account statistical analysis as well as the experience and judgment of the credit department. Loans subject to ratings are assigned a risk score from 1 to 6 (1 = low risk, 6 = watch account). Loans are regularly reviewed and updated as appropriate. With respect to the personal loan and residential mortgage portfolio, procedures are in place to ensure the regular monitoring and review of loans in addition to scheduled audits at the branch and head office levels.

<b>Risk scale</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>Total</b>	<b>Total</b>
				<b>\$</b>	<b>\$</b>
1 – Low	40,905	-	-	40,905	28,292
2 – Medium low	269,677	-	297	269,974	226,559
3 – Medium	645,426	-	1,592	647,018	565,588
4 – Medium high	141,279	49	536	141,864	102,467
5 – High	11,911	-	4,256	16,167	17,309
6 – Watch	-	-	10,424	10,424	12,239
	<b>1,109,198</b>	<b>49</b>	<b>17,105</b>	<b>1,126,352</b>	<b>952,454</b>

The carrying value of all loans restructured for members during the year, where a concession in terms was granted with the loan remaining in good standing, is \$116,426,707.

c) Liquidity risk

Liquidity risk is the risk the Credit Union will encounter difficulty to meet its obligations to members and other creditors. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and liquidity reserves, a board policy set minimum liquidity at all times, based on total members' deposits and demand loan. The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, sale of loan portfolios and asset-liability maturity management techniques. Management monitors projections of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central 1 of \$53,550,000 as an integral part of its liquidity management strategy as disclosed in note 9.

# Kindred Credit Union Limited

## Notes to Financial Statements

December 31, 2021

(tabular amounts in thousands of dollars)

The remaining contractual maturity of recognized financial liabilities and loan commitments is as follows:

	Payable on demand \$	Less than 1 year \$	1 to 5 years \$	More than 5 years \$	Total \$
Deposits of members	726,698	507,283	396,824	-	1,630,805
Accrued interest payable	-	7,942	-	-	7,942
Accounts payable and accrued charges	-	5,416	-	-	5,416
Demand loan	-	-	-	-	-
Lease liabilities	-	742	3,218	7,155	11,115
Mortgage securitization liabilities	-	2,550	23,677	-	26,227
Unadvanced loan commitments	-	82,387	-	-	82,387
	<u>726,698</u>	<u>606,320</u>	<u>423,719</u>	<u>7,155</u>	<u>1,763,892</u>

d) Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial investments for an extended period. The nature of the foreign exchange risk at the Credit Union is that members can maintain US dollar deposit accounts and GICs for which the Credit Union will generally hold an equivalent amount of US denominated assets in the form of cash and investments. The Board has established that the Credit Union must ensure that the difference between the US dollar denominated assets and liabilities must be less than 10%. The Credit Union has traditionally dealt with unwanted levels of foreign exchange risk by taking actions related to US denominated assets and liabilities rather than entering into any foreign exchange derivative contracts. The impact of a 10.00% strengthening (weakening) of the Canadian dollar against the US dollar is considered insignificant.

e) Other price risk

The Credit Union is also exposed to other price risk on certain of its investments and deposits but given the limited amount of these deposits and investments, the price risk exposure is considered insignificant.





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