2021 Annual Report

Souris Credit Union

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Mission Statement & Vision

Our Mission

To provide outstanding service and professional advice to enable our Members to reach their financial goals.

Our Vision

Be the financial institution of choice in Eastern Kings and be recognized for the value we bring to our members and community.

2021 Highlights

Assets	$ 98.1 Million
Deposits	$ 82.6 Million
Loans	$ 62.9 Million
Members	3,520
Patronage	$ 179 Thousand
Growth	16 %

AGM Minutes

Wednesday April 21, 2021

CALL TO ORDER AND GREETING

The Chair, Tammy Daley, called the Annual Meeting of Souris Credit Union Ltd. to order at 3:00 p.m.

VERIFY QUORUM AND REGISTRATION REPORT

Melanie Jacklyn declared that there was a quorum present.

Chair Tammy Daley called for a minute of silence in memory of deceased members.

ADOPTION OF AGENDA

On a motion by Allen Fay and seconded by Glen Cameron the agenda was adopted as presented. Motion carried.

REGISTRATION REPORT

Colleen MacGregor reported 26 Members and 1 guest(s) in attendance. Chair Tammy Daley introduced guest Michelle Burge of MRSB Chartered Accountants.

ADOPTION OF MINUTES OF 2020 ANNUAL MEETING

The Board Secretary, Megan Cheverie, reviewed the minutes by exception of the November 17, 2020 Annual Meeting. On a motion by Megan Cheverie, seconded by
Shelly LaVie the minutes were adopted as presented. Motion carried.

REPORT OF THE BOARD OF DIRECTORS

Chair Tammy Daley requested Secretary Megan Cheverie accept the chair while she presented the Board of Directors report for the past year. Tammy directed the Membership to the Annual report where it was recorded that the Board has declared a 0.50 % dividend be paid on shares for the fiscal year ending December 31, 2020 and highlighting that Souris Credit Union again paid a patronage dividend, although smaller in 2020 due to the impacts of the COVID-19 pandemic.

On a motion by Dale Cahill and seconded by Charles Dunphy the Board of Directors Report was accepted as presented. Motion carried. Tammy Daley resumed the chair.

GENERAL MANAGERS REPORT

General Manager Paul MacNeill spoke on the challenges of 2020, highlighting the rapid changed to operations that were required and the financial impact of the pandemic. The GM made special note of the dedication of the staff, and their performance during very trying times.

This was informational and did not require a motion.

FINANCIAL REPORT FROM ACCOUNTANT

Michelle Burge of MRSB Chartered Accountants reviewed the Financial Report for Souris Credit Union Ltd. for the year ended December 31, 2020. The membership was encouraged to ask questions. Glen Cameron moved the adoption of this report, seconded by Joanne Dunphy. Motion carried.

AGM Minutes

Wednesday April 21, 2021

NOMINATION COMMITTEE REPORT AND INSTALLATION OF OFFICERS

Chair of the Nomination Committee Karen MacKenzie reported that there were four directors, Tammy Daley, Megan Cheverie, Brad Coffin, & Charles Dunphy, who had come to the end of their existing terms. All parties were eligible to re-offer and expressed their desire to do so. Public notice was posted in-office and online for 21 days, but no expressions of interest were received by the January 28, 2021 deadline. As there were no additional candidates the committee nominated the above noted directors each for an additional 3-year term on the Board of Directors, and each was deemed elected by acclimation.

Glen Cameron moved the adoption of this report, seconded by Peter Ford. Motion carried.

PRESENTATIONS

Certificates of appreciation were presented to:

- *Board Member Certificates of Appreciation presented to*
    - Tammy Daley (6 Years)
    - Megan Cheverie (6 Years)
    - Brad Coffin (3 Years)
    - Charles Dunphy (3 Years)

Staff Member Certificates of Appreciation presented to

- Cherie Chapman (20 Years)
- Tammy Rouzes (5 Years)

REMARKS FROM GUESTS

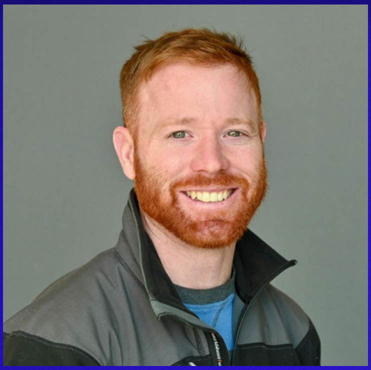
There were no guest remarks.

ADJOURNMENT

On a motion by Dale Cahill at 3:26 PM, the meeting was adjourned.

Board of Directors

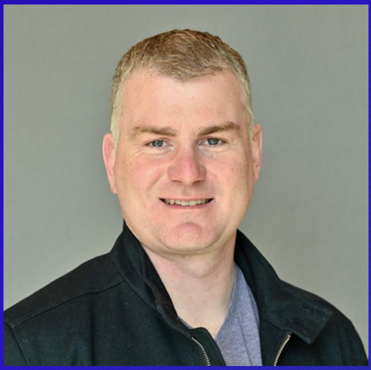
Tammy Daley- President



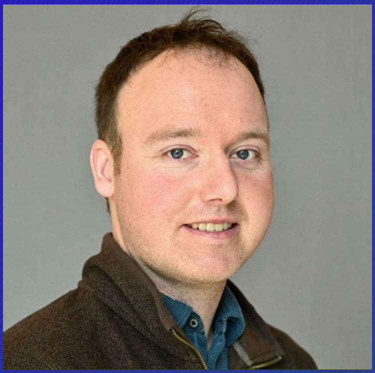
Dennis McNally-Vice President

Megan Cheverie-Secretary

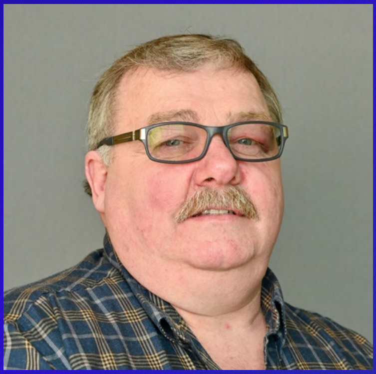
Karen MacKenzie



Brad Coffin

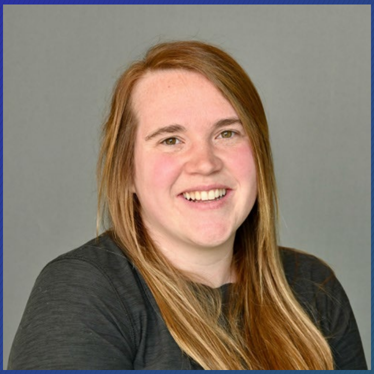


Stephen Flynn



Charles Dunphy

Shelly Manning



Allison Townshend

President’s Report

In 2021 I was again honoured to serve as President of Souris Credit Union and to represent our Members on the Board of Directors. The Board has a vital role in the Credit Union system. We are charged with representing the interests of the membership and incorporating those interests into the strategic governance. Through our annual meeting and regular monthly meetings everyone has the opportunity to ask questions and provide their opinion, and we strive to be as progressive as possible. The success of Souris Credit Union is 100 % dependent on you, our members. Without your support, input and dedication our achievements would be near impossible.

Souris Credit Union works with a large number of partners to ensure we can provide the best possible products. This is accomplished by working with various partners such as Atlantic Central, Collabria, Credit Union Financial Management, Wyth (formerly Concentra), and CUDIC. I wanted to acknowledge our partners, and the strong relationships that we have with them.

2021 was another year of challenges, with the Omnicron variant having a huge influence on our economy and the manner in which we could conduct business. These obstacles required us to be flexible in our service delivery and engagement was a significant change that required our Members to alter the manner in which they do business. Change can be difficult, but I am confident that our staff will continue to work with our Members to find workable solutions to their banking needs.

I am happy to present that with our strong financial performance for the fiscal year ended on December 31st, 2021, we have declared a Patronage Dividend of 6 % on most credit products, savings products, and service charges. In addition, we have approved a 0.5% dividend on share savings accounts.

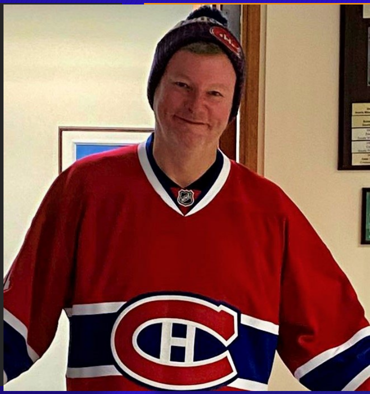
When you take into consideration the dividend on shares, the patronage dividend, charities, and community initiatives, Souris Credit Union gave back $ 232,170 to the community for 2021. Since 2012, our grand total of contributions to the community is over 3.5 million. This substantial sum is only possible with your continued patronage.

On behalf of the Board of Directors I would like to thank the staff of the credit union for their expertise, professional service, and their commitment to bettering our community each and every day.

Respectfully submitted;

TAMMY DALEY
President

Staff



Carla Brothers

Marjorie Chaisson

Cherie Chapman

Karen Deagle

Melanie Jacklyn

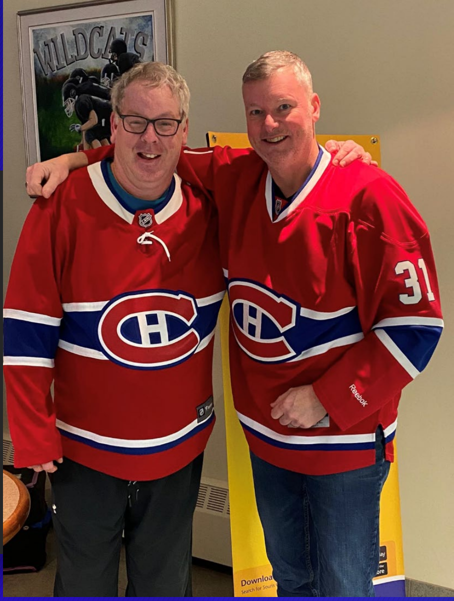
Lori MacAulay

Colleen MacGregor

Lorraine Mooney

Tammy Rouzes

Managers Report



As General Manager it is my pleasure to speak to you about our most recent fiscal year ending December 31, 2021.

2021 was again a difficult year for both Souris Credit Union and our community due to the widespread Omnicron variant. We again had to be flexible about the way we did business, attempting to provide the best service possible while ensuring the safety of Members and staff.

Despite these challenges, Souris Credit Union had an excellent year. Our assets grew approximately 14 million, from just over 84 million to just over 98 million. Our operational income for the year was approximately $ 843 thousand before taxes and dividends, up from approximately 798 thousand last year. We experienced an 7 % increase in our loan portfolio (from 58.7 million to over 62.9 million), and Member deposits increased by over 17 %, from 70.5 million to 82.6 million. These results were accomplished with little loan write offs and exceptional delinquency levels.

Based on this result Souris Credit Union was once again able to pay our Membership a Patronage Dividend on all of our products. There was a 6 % rebate for loans and credit products, fixed term and variable term investments, and service charges. The total was $ 179 thousand, bringing the cumulative amount we have given back to the community in charitable donations and dividends since 2012 to over **3.5 million dollars.**

At the conclusion of 2021 we had 3 directors come to the end of their terms, each eligible to re-offer. You may recall that at our 2019 AGM we changed the way we elect directors, having an election of new directors (if necessary) prior to our AGM. During the public notification period there were no expressions of interest for a Board position received from the Membership, and each of the directors in question indicated their willingness to have their names stand for another term. Each of the 3 are considered to be elected by acclimation.

As in previous years I would like to acknowledge the work of our staff. Through lock downs and covid protocols they persevered and continued to provide exceptional service to our members. As well I would like to thank the Board of Directors, who have provided strategic guidance as we navigated another turbulent year.

Respectfully submitted.

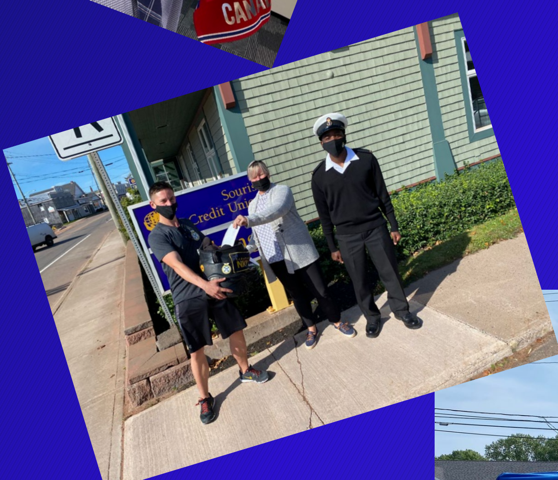
Paul MacNeill
General Manager

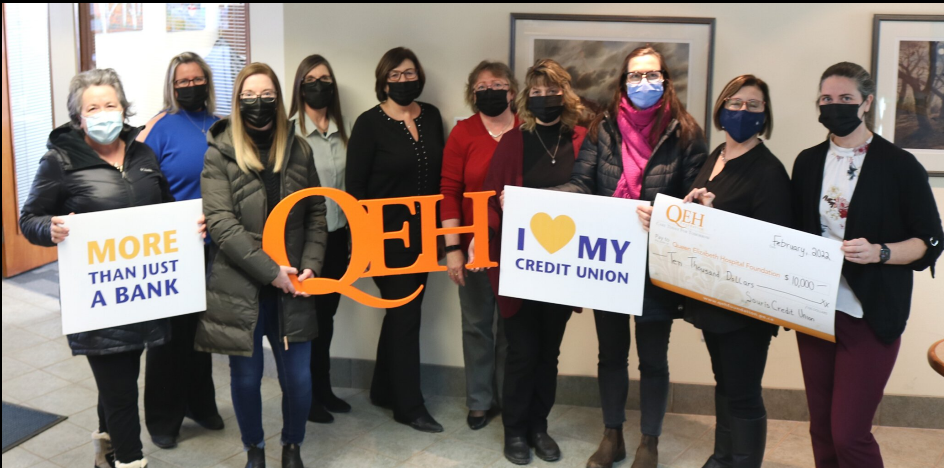
In our Community

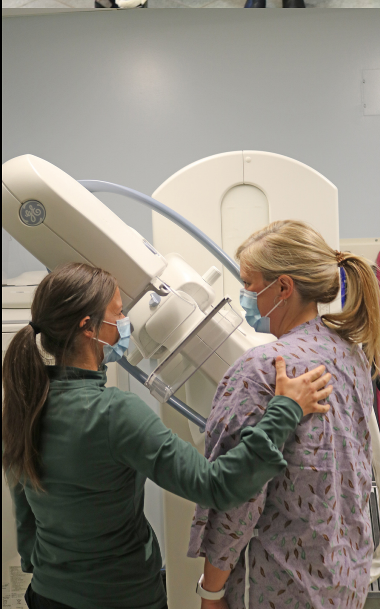
Movember $ 2,400.00

2021 Donations

Sports & Recreation	$ 4,480.00
Community & Social	$ 7,230.00
Bursaries & Education	$10,800.00
QEH Mammography	$10,000.00







"On behalf of Souris Credit Union board of directors, staff and its members, we are pleased to provide $10,000 for this essential imaging equipment that will save lives. Giving back to our community is always important and helping Island families experiencing breast cancer is very near and dear to our hearts."

Paul MacNeill, Manager,
Souris Credit Union

Approximately 110 females on PEI are diagnosed with breast cancer annually. The QEH Foundation is currently raising funds to replace the mammography units that are over 12 years old

2021-22 ANNUAL
Friends for Life
CAMPAIGN

WWW.QEHFOUNDATION.PE.CA

Financial Statements

SOURIS CREDIT UNION LIMITED

Financial Statements

December 31, 2021

MRSB

SOURIS CREDIT UNION LIMITED
Index to Financial Statements
December 31, 2021

MRSB

MRSB
Accounting Tax Consulting Valuation Bookkeeping

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902-368-2643

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Suite 2B
Summerside, PE
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INDEPENDENT AUDITOR'S REPORT

To the Members of Souris Credit Union Limited

Opinion

We have audited the financial statements of Souris Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2021, and the statements of members' equity, profit or loss and other comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

(continues)

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.

MRSB Chartered Professional Accountants Inc.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

Charlottetown, PE

February 22, 2022

SOURIS CREDIT UNION LIMITED
Statement of Financial Position
December 31, 2021

	2021	2020
ASSETS		
Cash and cash equivalents (Note 6)	**$ 15,138,587**	$ 11,042,351
Investments (Note 7)	**18,032,024**	13,217,806
Accounts receivable (Note 8)	**1,085,888**	741,180
Member loans and mortgages (Note 9)	**62,911,422**	58,684,113
Provision for impaired loans (Note 10)	**(326,706)**	(432,038)
Prepaid expense	**50,702**	53,179
Deferred income taxes (Note 12)	**136,270**	42,484
Property and equipment (Schedule 1)	**581,755**	615,422
Restricted cash - retirement allowance	**435,515**	392,644
Deferred pension benefit (Note 14)	**78,564**	-
	$ 98,124,021	$ 84,357,141
LIABILITIES		
Accounts payable and accrued liabilities	**$ 307,126**	$ 208,515
Employee benefits payable	**196,088**	249,697
Income taxes payable	**34,264**	35,062
Accrued interest payable	**165,930**	269,092
Member deposits (Note 13)	**82,640,987**	70,473,919
Share deposits	**6,031,505**	5,104,324
Retirement allowance payable	**435,515**	392,644
Deferred pension obligation (Note 14)	**-**	201,136
	89,811,415	76,934,389
MEMBERS' EQUITY		
Members' shares (Statement 4)	**18,235**	18,160
Accumulated other comprehensive income (Statement 4)	**628,736**	297,936
Undistributed earnings (Statement 4)	**7,665,635**	7,106,656
	8,312,606	7,422,752
	$ 98,124,021	$ 84,357,141

On behalf of the Board

____________________________ Director

____________________________ Director

Notes 1 - 24 are an integral part of these financial statements

SOURIS CREDIT UNION LIMITED
Statement of Changes in Members' Equity
Year Ended December 31, 2021

	2021	2020
Members' shares (Note 15)		
Balance - beginning of year	**$ 18,160**	$ 19,030
Issuance of members' shares, net of redemption	**75**	(870)
Balance - end of year	**18,235**	18,160
Accumulated other comprehensive income		
Balance - beginning of year	**297,936**	403,136
Actuarial gain (loss) on defined pension plan (Statement 5)	**330,800**	(105,200)
Balance - end of year	**628,736**	297,936
Undistributed earnings		
Balance - beginning of year	**7,106,656**	6,587,602
Net income (Statement 5)	**558,979**	519,054
Balance - end of year	**7,665,635**	7,106,656
Members' equity	**$ 8,312,606**	$ 7,422,752

Notes 1 - 24 are an integral part of these financial statements

MRSB

SOURIS CREDIT UNION LIMITED

Statement of Profit or Loss and Other Comprehensive Income

Year Ended December 31, 2021

	2021	2020
Income		
Interest and investment	**$ 3,052,806**	$ 3,130,400
Cost of capital and borrowing (Note 16)	**892,779**	1,028,172
Financial margin	**2,160,027**	2,102,228
Other		
Commissions	**527,712**	534,978
Miscellaneous	**41,258**	62,369
Government assistance	**-**	14,491
	568,970	611,838
	2,728,997	2,714,066
Expenses		
Advertising and promotions	**43,569**	63,365
Amortization of property and equipment	**33,666**	33,571
Automated teller machines	**147,625**	148,719
Board honorarium	**21,742**	16,822
Data processing	**141,623**	101,583
Director training	**10,735**	1,596
Dues and memberships	**3,142**	2,060
Insurance	**117,876**	113,913
Meetings	**2,929**	1,422
Office	**187,336**	161,313
Pension (Note 14)	**105,800**	88,600
Premises	**52,442**	93,177
Professional fees	**39,349**	28,418
Provision (recovery) for impaired loans	**(6,272)**	102,747
Service fees	**252,276**	234,745
Telephone	**20,068**	15,149
Travel	**1,266**	4,259
Wages and wage levies	**910,572**	824,692
	2,085,744	2,036,151
Income before income taxes and other comprehensive income	**643,253**	677,915
Income taxes		
Current (Note 17)	**178,060**	143,794
Deferred (Note 12)	**(93,786)**	15,067
	84,274	158,861
Net income	**558,979**	519,054
Other comprehensive gain (loss)		
Actuarial gain (loss) on defined pension plan	**330,800**	(105,200)
Net comprehensive income	**$ 889,779**	$ 413,854

Notes 1 - 24 are an integral part of these financial statements

MRSB

SOURIS CREDIT UNION LIMITED
Statement of Cash Flows
Year Ended December 31, 2021

	2021	2020
Cash flows from operating activities		
Net comprehensive income	$ 889,779	$ 413,854
Items not affecting cash:		
Amortization of property and equipment	33,666	33,571
Deferred income taxes	(93,786)	15,067
	829,659	462,492
Changes in non-cash working capital:		
Investments	(4,814,218)	(7,628,314)
Accounts receivable	(344,708)	199,443
Accounts payable and accrued liabilities	98,612	(319,614)
Income taxes payable	(798)	96,208
Prepaid expense	2,477	(17,923)
Employee benefits payable	(53,609)	4,599
Accrued interest payable	(103,162)	36,554
	(5,215,406)	(7,629,047)
	(4,385,747)	(7,166,555)
Cash flows from investing activities		
Increase in member loans and mortgages	(4,332,641)	(4,474,902)
Increase in restricted cash - retirement allowance	(42,871)	(42,702)
Purchase of property and equipment	-	(40,500)
	(4,375,512)	(4,558,104)
Cash flows from financing activities		
Increase in member deposits	12,167,068	10,939,957
Increase in share deposits and members' shares	927,256	892,270
Increase (decrease) in deferred pension obligation	(279,700)	96,800
Increase in retirement allowance payable	42,871	42,702
	12,857,495	11,971,729
Increase in cash	4,096,236	247,070
Cash and cash equivalents - beginning of year	11,042,351	10,795,281
Cash and cash equivalents - end of year	$ 15,138,587	$ 11,042,351

Cash flows supplementary information (Note 18)

1. REPORTING ENTITY

Souris Credit Union Limited was incorporated provincially under the Companies Act of Prince Edward Island on June 17, 1954 and is governed by the Prince Edward Island Credit Unions Act. Souris Credit Union Limited is a member-owned financial institution whose principal business activities include financial and banking services for its members in Souris, Prince Edward Island. The Credit Union's head office is located at 129 Main Street, Souris, PE.

2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with, and are in compliance with, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 4.

These financial statements were authorized for issue by the Board of Directors on February 22, 2022. The members of the Souris Credit Union have the power to amend the financial statements after issuance.

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis except for available-for-sale investments which are at fair value through profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, cash in financial institutions, and term deposit investments that have a maturity of less than three months. Cash and cash equivalents are carried at amortized cost.

Investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as fair value through profit and loss (FVTPL) or as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted investments whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

(continues)

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounts receivable

Accounts receivable arise from miscellaneous rebates and accrued interest on loans and mortgages and investments. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

Loans and mortgages

Member loans and mortgages are initially measured at fair value, net of origination fees and inclusive of transaction costs incurred. Member loans and mortgages are subsequently measured at amortized cost, using the effective interest method, less any impairment losses.

Impairment

The Credit Union applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of the credit deterioration since origination:

• Stage 1 - where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

• Stage 2 - when a financial instrument experiences a credit risk subsequent to origination but it is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

• Stage 3 - financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

• PD - the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.

(continues)

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

• EAD - the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.

• LGD - the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency, and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options. Loss allowances for expected credit losses are presented in the statement of financial position as financial assets measured at amortized cost, as a deduction from the gross carrying amount of the assets.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

• Significant financial difficulty of the borrower;

• Default or delinquency in interest or principal payments;

• High probability of the borrower entering a phase of bankruptcy or a financial reorganization;

• Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Credit Union assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Deferred income taxes

Income tax expense comprises current and deferred tax.

Current income taxes are recognized for the estimated income taxes payable or recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction and at the time of the transaction affects neither accounting or taxable profit or loss.

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

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities/assets are settled/recovered.

Property and equipment

Property and equipment is stated at cost less accumulated amortization and is amortized over its estimated useful life on a declining balance basis at the following rates:

Building	5%
Furniture and equipment	20%
ATMs	20%
Computer hardware	30%
Pavement	8%

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Finance charges

Fees related to the purchase of Index-Linked RRSP units are amortized using the straight-line method over the term of the investment and are netted against the cost of the liability.

Employee future benefits

The Credit Union records annually the estimated liabilities for pension and other benefit obligations, which are payable to its employees in subsequent periods under the Credit Union's policy.

Liabilities are recorded for employee benefits including salaries and wages, deductions at source, paid annual or sick leave, variable compensation and bonuses that are expected to be settled within 12 months of the financial statement date. These represent present obligations resulting from employees' services provided to the financial statement date and are calculated at the undiscounted amounts based on the remuneration rate that the Credit Union expects to pay at the financial statement date. The expected cost of variable compensation and bonus payments is recognized as a liability when the Credit Union has a present legal or constructive obligation to pay as a result of past events and the obligation can be estimated reliably.

Benefits such as medical care are non-vesting and are expensed by the Credit Union as the benefits are taken by the employees.

Severance benefits are recognized as an expense when the Credit Union is committed demonstrably, without realistic opportunity for withdrawal, to a formal detailed plan to provide severance benefits under certain circumstances. If material benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

Souris Credit Union Limited contributes to a defined benefit plan and a defined contribution plan for employees, which is administered and managed through CUMIS. The Credit Union's defined benefit obligation is calculated by independent actuaries at the reporting date using the Projected Unit Credit Method pro-rated on service and management's best estimate of discount rates, expected plan investment performance, salary escalation, mortality and retirement age of employees.

Pension expense for the defined benefit plan includes the cost of pension benefits earned during the period, the expected return on plan assets, interest cost on pension obligations and past service costs. The Credit Union recognizes all actuarial gains and losses arising from the defined benefit pension plan immediately in other comprehensive income.

Contributions to the defined contribution plan are recognized as an expense in the year that the relevant employee services are rendered. During the year, the contributions by the Credit Union to the defined contribution pension plan were $19,034 (2020 - $11,821).

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Member deposits

Borrowings and deposits and membership shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Term, RRSP, RRIF and demand deposits can be fixed or variable rate. Interest can be paid annually, semi-annually, monthly or upon maturity.

Share deposits pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2021 was 0.5% (2020 - 0.5%), and was based on the average of the lowest monthly share balances.

Share deposits

The Credit Union has authorized an unlimited number of voting equity shares, with a value of $5 per share. The shares are non-transferable, redeemable by the Credit Union, retractable by members subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Corporation.

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of profit or loss.

Financial assets and financial liabilities

The Credit Union initially recognizes loans and advances, deposits and liabilities on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

On initial recognition, a financial asset is classified as amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are classified as measured at FVTPL. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models during the current or prior year.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets and financial liabilities *(continued)*

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. The Credit Union derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

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. 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 it 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.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Credit Union has classified its financial assets and liabilities as follows:

Amortized cost - cash and cash equivalents, held-to-maturity investments, accounts receivable, member loans and mortgages, member and share deposits, accounts payable and accrued liabilities

Fair value through other comprehensive income - available-for-sale investments

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method.

Other fee and commission income - including account servicing fees, loan discharge and administration fees, and syndication fees - is recognized as the related services are performed.

Operating expenses are recognized upon the utilization of the services or at the date of their origin. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in profit or loss, as a reduction to income over the expected life of the relevant loans and mortgages. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government assistance

During the year, the Credit Union received $Nil (2020 - $14,491) from the Government of Canada under the Temporary Wage Subsidy program.

Government grants are recorded when there is a reasonable assurance that Credit Union had complied with and will continue to comply with, all the necessary conditions to obtain the grants.

Changes in accounting standards

Future accounting developments

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2021 and have not been adopted by the Credit Union in preparing these financial statements. These changes are not expected to have a material impact on the Credit Union's financial statements.

On January 23, 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments to IAS 1 are required to be applied for annual periods beginning on or after January 1, 2023. The amendments must be applied retrospectively in accordance with IAS 8.

Disclosure of Accounting Policies, issued in February 2021, amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117E and deleted paragraphs 118, 119 and 121. It also amended IFRS Practice Statement 2 Making Materiality Judgements. An entity shall apply the amendments to IAS 1 for annual reporting periods beginning on or after January 1, 2023.

Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

• the gross carrying amount of the financial asset; or

• the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions change. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. In assessing whether there has been a significant increase in credit risk, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Future assessments of credit risk may be materially different from current circumstances which could result in a significant increase or decrease in the allowance for credit losses.

(b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(c) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

6. CASH AND CASH EQUIVALENTS

	2021	2020
Term deposit investments	**$ 11,500,000**	$ 7,500,000
Cash in financial institutions	**3,274,931**	3,097,639
Cash on hand	**363,656**	444,712
	$ 15,138,587	$ 11,042,351

7. INVESTMENTS

	2021	2020
Shares		
Atlantic Central Credit Union Limited - common shares	**$ 918,940**	$ 647,720
Atlantic Central Credit Union Limited - 50,478 Class LSM preferred shares	**605,421**	56,508
Concentra Financial - 20,000 Class A preferred shares	**500,000**	500,000
Atlantic Central Credit Union Limited - Class B preferred shares	**117,200**	117,200
League Data Limited - 1,613 Class B preferred shares	**16,130**	16,130
Atlantic Central Credit Union Limited - Class PEI shares	**800**	800
	2,158,491	1,338,358
Debentures		
Atlantic Central Credit Union Limited liquidity deposit - 0.55%	**6,023,533**	5,129,448
Atlantic Central Credit Union Limited term deposits	**5,500,000**	6,000,000
Concentra Financial term deposits	**2,250,000**	750,000
League Savings and Mortgage term deposits	**2,100,000**	-
	15,873,533	11,879,448
	$ 18,032,024	$ 13,217,806

The Credit Union shall maintain sufficient liquid assets to meet its obligations as they come due. As prescribed in the Credit Union Regulations, Section 2, the Credit Union shall maintain liquid assets of not less than 10% of the total amount of member deposits in and borrowings of the credit union as follows: 9% shall be invested in eligible financial instruments of Atlantic Central; 6% of assets, or other such amount as may be determined by Central from time to time, shall be maintained in the segregated liquidity account. The remainder will be invested in: current account, cash management account, and term deposits that have a remaining term to maturity of not more than one year.

8. ACCOUNTS RECEIVABLE

	2021	2020
Accrued interest - loans and mortgages	**$ 811,691**	$ 546,468
Other receivables	**222,304**	175,952
Accrued interest - investments	**51,893**	18,760
	$ 1,085,888	$ 741,180

9. MEMBER LOANS AND MORTGAGES

2021	Total loans	Loans allowance	Net loans
Commercial	$ 37,451,504	$ (213,259)	$ 37,238,245
Personal	7,202,058	(90,950)	7,111,108
Mortgages	7,589,161	(5,558)	7,583,603
LS&M high ratio mortgages	9,677,276	(2,704)	9,674,572
Lines of credit and overdrafts	991,423	(14,235)	977,188
	$ 62,911,422	$ (326,706)	$ 62,584,716

2020	Total loans	Loans allowance	Net loans
Commercial	$ 34,792,918	$ (207,522)	$ 34,585,396
Personal	7,841,753	(104,378)	7,737,375
Mortgages	6,007,502	(105,342)	5,902,160
LS&M high ratio mortgages	8,939,718	(2,503)	8,937,215
Lines of credit and overdrafts	1,102,222	(12,293)	1,089,929
	$ 58,684,113	$ (432,038)	$ 58,252,075

10. PROVISION FOR IMPAIRED LOANS

	2021	2020
Provision for impaired loans - beginning of year	**$ 432,038**	$ 335,278
Provision (recovery) for impaired loans - current year	**(6,272)**	102,747
Recovery of loans written off	**3,281**	6,645
Loans written off - current year	**(102,341)**	(12,632)
Provision for impaired loans - end of year	**$ 326,706**	$ 432,038

Members' loans can have either variable or fixed rate of interest. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate.

11. LOANS IN ARREARS

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2021	2020
31 to 60 days	$ 28,413	$ 10,540
61 to 90 days	-	18,018
91 to 180 days	-	61,366
181 days - 1 year	-	19,153
	$ 28,413	$ 109,077

12. DEFERRED INCOME TAXES

Deferred income taxes reflect the tax consequences of 'temporary differences' between the statement of financial position carrying amounts and the tax bases of assets and liabilities. These deferred income taxes are calculated using the income tax rates and tax laws that are expected to apply when these temporary differences are reflected in taxable income.

Temporary differences which give rise to deferred income tax assets are as follows:

	2021	2020
Deferred income tax asset		
Property and equipment	$ 5,490	$ 3,622
Retirement allowance	130,780	38,862
	$ 136,270	$ 42,484

13. MEMBER DEPOSITS

	2021	2020
Call deposits	$ 30,450,978	$ 24,746,437
Chequing accounts	23,722,025	18,827,903
Tax Free Savings Account (TFSA) deposits	9,208,566	7,992,386
Registered Retirement Savings Plan (RRSP) deposits	8,452,415	7,901,504
Term deposits	5,615,632	5,682,630
Registered Retirement Income Fund (RRIF) deposits	5,191,371	5,323,059
	$ 82,640,987	$ 70,473,919

14. DEFERRED PENSION PLAN

Defined benefit pension plan

Souris Credit Union Limited established a final salary defined benefit pension plan for its employees in 2002. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at November 1, 2020. The next actuarial valuation is scheduled to occur in November 2023.

Information about the financial position of the Credit Union's defined benefit plan as at period end is as follows:

	2021	2020
Changes in accrued benefit obligation:		
Balance - beginning of year	**$ 3,948,100**	$ 3,463,000
Current service	**98,400**	83,900
Interest on liabilities	**104,500**	109,100
Employee contributions	**25,400**	24,900
Actuarial (gains) losses due to financial experience	**(65,600)**	370,900
Benefits paid	**(103,700)**	(103,700)
Balance - end of year	**4,007,100**	3,948,100
Change in fair value of plan assets:		
Balance - beginning of year	**3,746,964**	3,358,664
Employer contributions	**54,700**	97,000
Employee contributions	**25,400**	24,900
Expected investment return	**97,100**	104,400
Actual gains due to financial experience	**265,200**	265,700
Benefits paid	**(103,700)**	(103,700)
	4,085,664	3,746,964
Deferred pension (benefit) obligation	**$ (78,564)**	$ 201,136

In determining the accrued pension obligation (benefit), estimates and assumptions from market data and management's best estimates are used. Some of these estimates and assumptions have a high degree of uncertainty and increase the risk that the fair value of plan assets and obligations may change by a material amount in the future. The following actuarial assumptions have been used in the determination of the accrued pension obligation (benefit) and the fair value of plan assets:

	2021	2020
Discount rate	**3.00 %**	2.60 %
Expected return on plan assets	**3.00 %**	2.60 %
Rate of salary increase	**3.00 %**	2.00 %
Inflation rate	**2.00 %**	2.00 %

Assumed retirement age: 62 or earliest unrecorded retirement age if later
Mortality rates: CPM2014-Private Table with Improvement Projected by MI-2017

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14. DEFERRED PENSION PLAN *(continued)*

The expense for the Credit Union's defined benefit plan is as follows:

	2021	2020
Current service costs	**$ 98,400**	$ 83,900
Interest on liabilities	**104,500**	109,100
Expected investment return	**(97,100)**	(104,400)
Pension expense recognized in net income	**$ 105,800**	$ 88,600
Actuarial gain (loss) in other comprehensive income	**$ 330,800**	$ (105,200)
Cumulative actuarial gains recognized in comprehensive income	**$ 628,736**	$ 297,936

The expected return on plan assets for the defined benefit pension plan is comprised of the estimated returns for each major asset consistent with market conditions on the valuation date and the asset mix of the pooled funds that make up the plan assets, additional returns assumed to be achievable due to active equity management and implicit provision for expenses expected to be paid from the pension fund.

The investment asset mix of the defined benefit pension plan at December 31, 2021 is as follows:

Cash and cash equivalents	1.50 %	$ 62,789
Canadian equities	18.90 %	771,167
US equities	18.90 %	771,167
International equities	26.00 %	1,063,678
Fixed income	27.70 %	1,132,057
Federal bonds	0.90 %	35,565
Provincial bonds	0.90 %	38,433
Municipal bonds	0.40 %	17,496
Commercial bonds	3.60 %	145,415
Commercial mortgages	1.20 %	47,898
	100 %	**$ 4,085,665**

Liabilities at December 31, 2021:

Extrapolated present value of benefit obligation	**$ 4,007,100**

Sensitivity of liabilities at December 31, 2021:

1.0% increase in discount rate	**$ 3,443,100**
1.0% decrease in discount rate	**$ 4,731,400**
1.0% increase in rate of salary increase	**$ 4,103,700**
1.0% decrease in rate of salary increase	**$ 3,839,900**

Maturity profile of liabilities at December 31, 2021:

Weighted average duration of liabilities	**16.1 years**

The Credit Union expects employer contributions of approximately $56,300 to be paid for the next fiscal year.

15. MEMBERS' SHARES

	Number of shares	**December 31 2021**	Number of shares	December 31 2020
Balance - beginning of year	**3,632**	**$ 18,160**	3,806	$ 19,030
Shares issued, net of redemption	**15**	**75**	(174)	(870)
Balance - end of year	**3,647**	**$ 18,235**	3,632	$ 18,160

16. COST OF CAPITAL AND BORROWINGS

	2021	2020
Interest and service charges	**$ 693,119**	$ 908,482
Patronage dividends	**179,191**	101,826
Share dividends	**20,469**	17,864
	$ 892,779	$ 1,028,172

17. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 31.00% (2020 - 30.50%) to the income for the year and is reconciled as follows:

	2021	2020
Income before income taxes and other comprehensive income	**$ 643,253**	$ 677,915
Income tax expense at the combined basic federal and provincial tax rate	**$ 199,408**	$ 206,764
Increase (decrease) resulting from:		
Small business deduction	**(47,551)**	(76,743)
Capital cost allowance claimed in excess of amortization	**1,156**	1,764
Non-deductible expenses	**(818)**	(1,434)
Tax reserves	**29,387**	(26,996)
Provision for loan loss reserve	**(1,944)**	31,338
Recovery of loans previously written off	**1,017**	2,027
Loans written off in the current year	**(31,726)**	(3,853)
Employee future benefits	**29,131**	10,927
Effective tax expense	**$ 178,060**	$ 143,794

The effective income tax rate is 27.68% (2020 - 21.21%).

18. CASH FLOW SUPPLEMENTARY INFORMATION

	2021	2020
Interest received	**$ 2,754,451**	$ 3,429,102
Interest paid	**789,915**	867,688
Income taxes paid	**144,594**	47,586

19. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of $2,111,000, which is due for renewal on December 31, 2025, and was not utilized at the year end. The line of credit bears an interest rate of prime less 0.5% and is secured by a general security agreement.

20. RELATED PARTY TRANSACTIONS

Souris Credit Union Limited provides financial services to members. These members hold the loans, deposits and share deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

As at year end, some members of the Board of Directors, Credit Committee, management and employees had loans and mortgages from Souris Credit Union Limited. These loans were in the normal course of operations with interest rates at the regular rates offered to all members of the Credit Union. Interest rates of deposits and dividends on shares were at identical rates offered to all Credit Union members.

Key management personnel include the General Manager and other senior officers of the Credit Union. The components of total compensation received by key management personnel and balances due to and from key management personnel are as follows:

	2021	2020
Short-term employee benefits	**$ 425,915**	$ 386,149
Contributions to a retirement pension plan	**45,425**	37,102
Mortgages, loan balances, and lines of credit due from key management at December 31	**38,636**	25,261
Deposit balances due to key management at December 31	**22,082**	25,228

Short-term employee benefits include salaries, variable compensation and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

21. RISK MANAGEMENT

The Credit Union manages significant risks through comprehensive infrastructure of policies, procedures, methods, oversight, and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate, and complete reports on the management of significant risks. Significant risks managed by the Credit Union include credit, liquidity, currency and interest rate risks.

(a) Credit risk

Credit risk is the risk that a member will fail to meet their obligation to the Credit Union. Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral, and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. Also, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and frequently reported to senior management to ensure all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as described by approved lending agreements.

The Credit Union's loan portfolio is focused in two main areas: consumer and commercial loans and mortgages, the latter of which are to mainly small and mid-sized companies. A syndication process is available with other Credit Unions for larger commercial loans, when considered necessary, to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to 80% of the lesser of cost or appraised value of single family housing, up to 75% on other residential properties, up to 65% of the lesser of cost or appraised value on commercial properties having general purpose usage and up to 50% of the lesser of cost or appraised value on commercial properties designed for specific use. Other credit facilities provided include personal overdrafts that have no recourse to the Credit Union.

The Credit Union's policy is to pursue timely realization of the collateral in an orderly manner. The Credit Union does not generally use the non-cash collateral for its own operations. During the year, the Credit Union did not take possession of collateral held as security against loans and advances.

Cash and equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the Credit Union holds as security for loans include: insurance and mortgages over residential lots and properties, recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

(continues)

21. RISK MANAGEMENT *(continued)*

The Credit Union's maximum exposure to credit risk at the reporting date was:

	2021	2020
Cash and cash equivalents	$ 15,138,587	$ 11,042,351
Investments	18,032,024	13,217,806
Accounts receivable	1,085,888	741,180
Member loans and mortgages, net of provision	62,584,716	58,252,075
Restricted cash - retiring allowance	435,515	392,644
	$ 97,276,730	$ 83,646,056

(b) Liquidity risk

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Credit Union has established policies to ensure the Credit Union is able to generate sufficient funds to meet all of its financial commitments in a timely and cost effective manner. The Credit Union's liquidity management practices include ensuring the quality of investment acquired for liquidity purposes meet very high standards, matching maturities of assets and liabilities and monitoring cash flow on a regular basis. Management monitors the Credit Union's liquidity position and reports to the Board on a regular basis.

The Credit Union is required to maintain 6% of prior quarter's assets in liquid investments in which 100% must be held by Atlantic Central Credit Union Limited and the Credit Union was in compliance with this requirement at year end. Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
2021	$ 84,375,721	$ 5,435,694	$ Nil	$ 89,811,415
2020	$ 69,948,545	$ 6,939,123	$ 46,721	$ 76,934,389

The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

The following is a maturity analysis of financial instruments on the statement of financial position that contain a current and non-current portion as of December 31, 2021:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
Investments	$ 15,257,662	$ 750,000	$ 2,024,361	$ 18,032,024
Member loans and mortgages	$ 40,735,749	$ 21,265,335	$ 583,632	$ 62,584,716
Retirement allowance	$ 323,292	$ 112,223	$ -	$ 435,515
Member deposits	$ 77,317,516	$ 5,323,471	$ -	$ 82,640,987

(continues)

21. RISK MANAGEMENT *(continued)*

(c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Credit Union is exposed to currency risk through its cash accounts and member deposits. The Credit Union maintains deposits in foreign currencies to service its member accounts. At December 31, 2021, the Credit Union had cash and bank balances of $25,857 USD (2020 - $44,908 USD) and member accounts of $11,933 USD (2020 - $11,360 USD).

(d) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate materially due to changes in market interest rates. The Credit Union is exposed to interest rate risk through its loans and mortgages, providing lending services to its members for a rate based on the Bank of Canada base rate plus a risk premium determined at the loan inception. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. Interest rate risk is measured on a quarterly basis and the results are reported to the Board of Directors.

Before tax impact on net interest income of:	2021	2020
1% increase in interest rates	$ 191,110	$ 279,811
1% decrease in interest rates	$ (478,194)	$ (435,484)

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Souris Credit Union Limited has evaluated the fair value of its financial instruments based on the current interest rate environment, market values and the actual prices of financial instruments with similar terms. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Credit Union's financial instruments.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Credit Union's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

Level 1 - Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

23. CAPITAL MANAGEMENT

Souris Credit Union Limited provides lending services to its members in the form of loans, lines of credit and mortgages. The Credit Union's objective in the lending process is to remain within the lending guidelines set for the institution and to provide an adequate return to its members through adjusting risk premiums with the level of assessed risk on an individual basis. These services are provided to members at the discretion of the general manager and lending personnel within the established parameters. Total lending activities managed by the Credit Union as of December 31, 2021 amounted to $62,584,716 (2020 - $58,252,075).

Consistent with other Prince Edward Island Credit Unions, Souris Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets. This ratio is calculated by adding the undistributed earnings at the end of the previous year plus the operating surplus in the current year and members' shares, divided by the total assets of the Credit Union.

	2021	2020
Members' shares (Statement 4)	**$ 18,235**	$ 18,160
Accumulated other comprehensive income	**628,736**	297,936
Undistributed earnings	**7,665,635**	7,106,656
Total regulatory equity	**8,312,606**	7,422,752
Total assets	**98,124,021**	84,357,141
	8.47 %	8.80 %

Credit Union bylaws require Souris Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Consistent with other Prince Edward Island Credit Unions, Souris Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain minimum liquid asset level of 10% of total assets to ensure ongoing cash flow requirements are met.

	2021	2020
Total assets	**$ 98,124,021**	$ 84,357,141
Liquid assets	**34,256,498**	25,001,337
	34.91 %	29.64 %

24. SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

The overall effect of these events on the Credit Union and its operations is too uncertain to be estimated at this time. The impacts will be accounted for when they are known and may be assessed.

SOURIS CREDIT UNION LIMITED

Schedules to Financial Statements **(Schedule 1)**

Statement of Property and Equipment

Year Ended December 31, 2021

	Cost beginning of year	Additions	Disposals and write downs	Cost end of year	Accum amort beginning of year	Amort in the year	Disposals and write downs	Accum amort end of year	Net book value
2021									
Land	$ 179,291	$ -	$ -	$ 179,291	$ -	$ -	$ -	$ -	$ 179,291
Building	999,382	-	-	999,382	646,320	17,654	-	663,975	335,407
Furniture and equipment	236,514	-	-	236,514	191,587	8,985	-	200,572	35,942
ATMs	50,073	-	-	50,073	21,231	5,768	-	26,999	23,074
Computer hardware	132,962	-	-	132,962	130,619	703	-	131,322	1,640
Pavement	38,670	-	-	38,670	31,713	556	-	32,269	6,401
	$ 1,636,892	$ -	$ -	$ 1,636,892	$ 1,021,470	$ 33,666	$ -	$ 1,055,137	$ 581,755
2020									
Land	$ 179,291	$ -	$ -	$ 179,291	$ -	$ -	$ -	$ -	$ 179,291
Building	999,382	-	-	999,382	627,738	18,583	-	646,320	353,062
Furniture and equipment	200,933	40,500	(4,919)	236,514	190,337	6,169	(4,919)	191,587	44,927
ATMs	50,073	-	-	50,073	14,021	7,210	-	21,231	28,842
Computer hardware	132,962	-	-	132,962	129,615	1,004	-	130,619	2,343
Pavement	38,670	-	-	38,670	31,108	605	-	31,713	6,957
	$ 1,601,311	$ 40,500	$ (4,919)	$ 1,636,892	$ 992,819	$ 33,571	$ (4,919)	$ 1,021,470	$ 615,422

Notes 1 - 24 are an integral part of these financial statements

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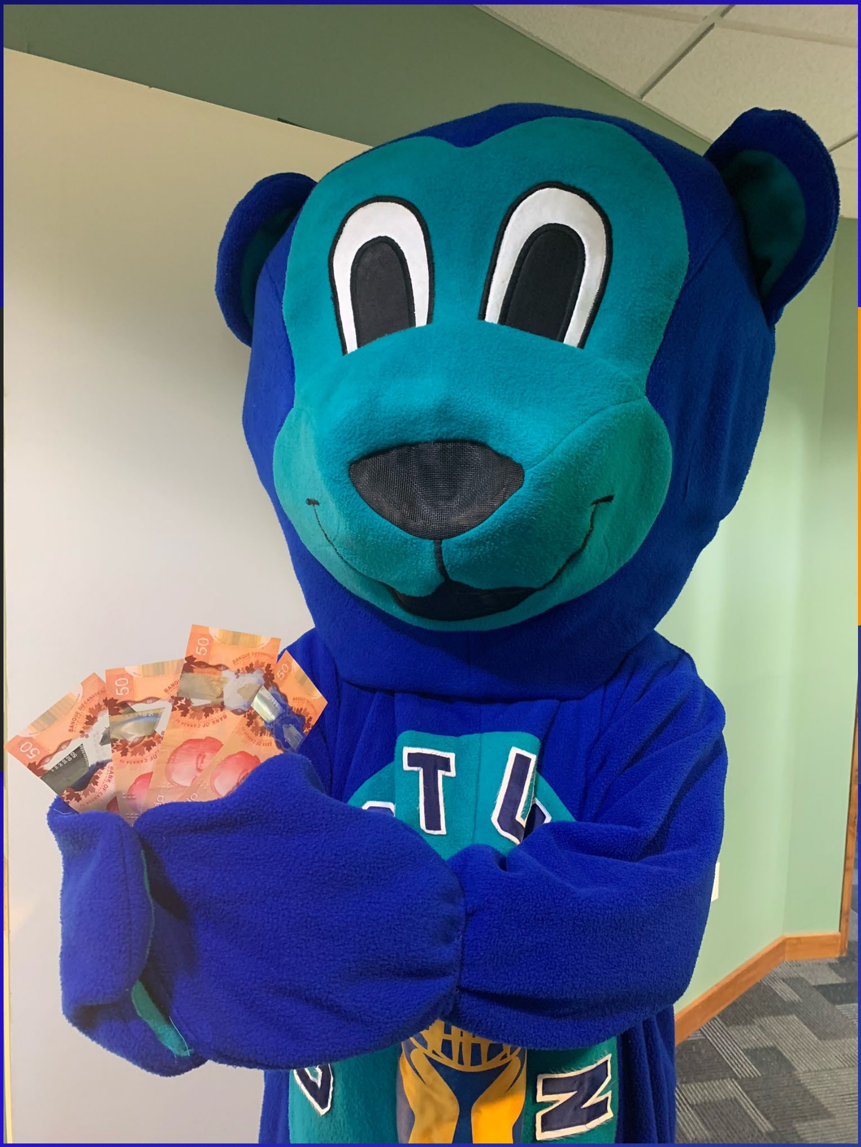
SOURIS CREDIT UNION LIMITED
Schedules to Financial Statements (Schedule 2)
Interest Rate Sensitivity
Year Ended December 31, 2021

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	$ 15,211,033	$ -	$ -	$ (72,446)	$ 15,138,587
Effective interest rate	0.40 %	- %	- %	- %	
Investments	15,123,532	750,000	2,024,362	134,130	18,032,024
Effective interest rate	0.74 %	1.28 %	2.59 %	- %	
Accounts receivable	-	-	-	1,085,888	1,085,888
Personal and commercial loans and mortgages	39,758,561	21,265,335	583,632	-	61,607,528
Effective interest rate	4.89 %	3.74 %	2.63 %	- %	
Lines of credit and overdrafts	977,188	-	-	-	977,188
Effective interest rate	7.26 %	- %	- %	- %	
Prepaid expense	-	-	-	50,702	50,702
Deferred income taxes	-	-	-	136,270	136,270
Property and equipment	-	-	-	581,755	581,755
Restricted cash - retirement allowance	-	-	-	435,515	435,515
Deferred pension benefit	-	-	-	78,564	78,564
	$ 71,070,314	$ 22,015,335	$ 2,607,994	$ 2,430,378	$ 98,124,021
LIABILITIES AND MEMBERS' EQUITY					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 307,126	$ 307,126
Employee benefits payable	-	-	-	196,088	196,088
Accrued interest payable	-	-	-	165,930	165,930
Income taxes payable	-	-	-	34,264	34,264
Member deposits	55,871,002	5,323,471	-	21,446,514	82,640,987
Effective interest rate	1.00 %	2.32 %	- %	- %	
Share deposits	6,031,505	-	-	-	6,031,505
Effective interest rate	0.50 %	- %	- %	- %	
Retirement allowance payable	-	-	-	435,515	435,515
Members' shares	18,235	-	-	-	18,235
Effective interest rate	0.50 %	- %	- %	- %	
Accumulated other comprehensive income	-	-	-	628,736	628,736
Undistributed earnings	-	-	-	7,665,635	7,665,635
	$ 61,920,742	$ 5,323,471	$ -	$ 30,879,808	$ 98,124,021

The above table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Credit Union's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, personal and commercial loans and mortgages are shown at contractual maturity but certain could prepay earlier.

As at December 31, 2021, Souris Credit Union Limited's net interest spread was 2.06%. The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year end interest bearing liabilities.



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