



2021

ANNUAL REPORT



Collaboration. Teamwork. Support.

stronger **for members**

www.provincialcu.com

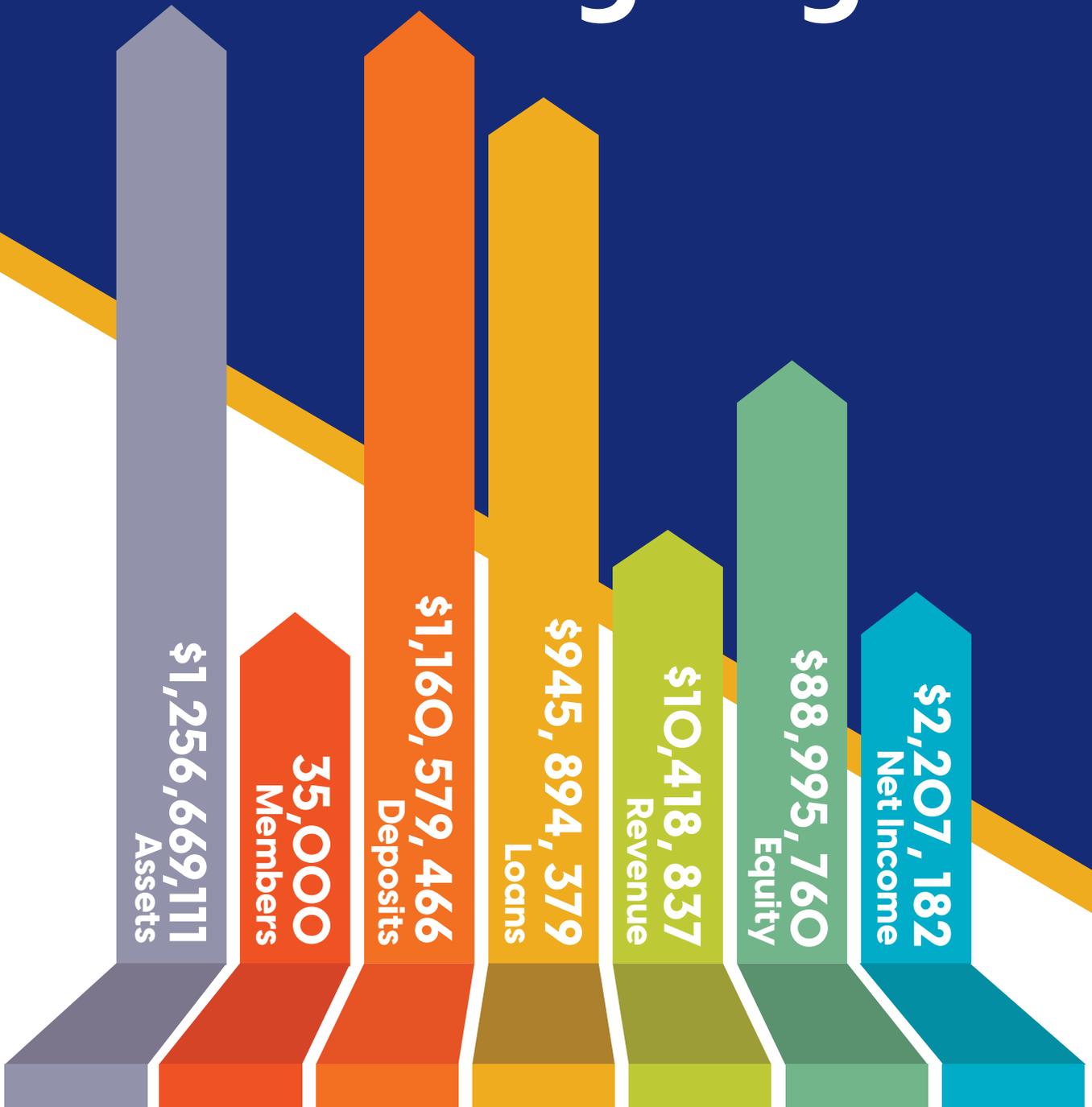
Table of Contents

2021 Highlights	3
Board of Directors	4
President's Report	5
CEO's Report	6
Helping our Members Navigate the Pandemic	7
Loyal 2 Local Challenge	8
Investing In You Women's Conference	9
In our Community	10-11
Special Olympics PEI	12
Scholarships	13
In our Community	14
Financial Statements	15
Management's Report	16
Auditor's Report	16-19
Statement of Financial Position	20
Statement of Changes in Members' Equity	21
Statement of Comprehensive Income	22
Statement of Cash Flows	23
Notes to Financial Statements	24-54
Financial Management	55



Annual Report 2021

2021 Highlights



Board of Directors



Corey Tremere
President



Gail Shea
Vice President



Jacinta Doiron
Secretary



Imelda Arsenault



Joel Brennan



Jamie Colwill



Karen Gaudet-Gavin



Mona Jeffery



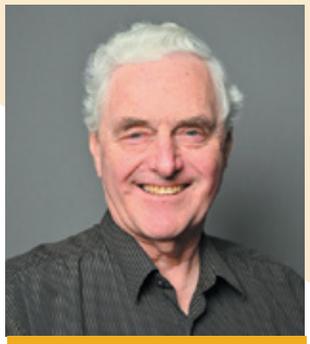
Alisha MacKay



Lindy McQuillan



Peter Pidgeon



Jack Spencer

President's Report

"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

– Winston Churchill

As a member of the Board of Directors over the last number of years at one of our legacy credit unions, I am keenly aware of the many challenges facing credit unions in our province and region, as well as across the country. Your board of directors represents you, our owners and members. We're proud to have assisted in the guidance of our respective operations through decades of change in the communities we serve. While no one ever anticipated a global pandemic, our operations would not only survive each of the challenges we faced, but thrive. And on October 1, 2021, 4 like-minded operations with a common goal, collaborated and merged, to create the largest credit union in Atlantic Canada.

Right from the beginning, the board understood that open discussion and dialogue, combined with focusing on our collective strengths, would be key to building a new, stronger credit union on Prince Edward Island.

The Credit Union's rich histories and values have long been rooted in community support, helping to ensure we provide longevity and exceptional service experiences for our members, and personal development opportunities for staff. Guided by these principles, I am proud to report your board and executive team have worked tirelessly, and am confident we now truly are... Stronger for Members.

As board chair, I can tell you it is a privilege and an honour to serve your credit union. Each director takes an oath to act honestly and in good faith; exercise the care, diligence and skill of a prudent person; avoid conflicts of interest, and observe strict confidentiality. I am very proud of all our directors and have full confidence in our leadership team. Together, as we work on an updated strategic plan to guide the new Provincial Credit Union into the future, I believe we are well positioned to address the challenges and capitalize on the many opportunities ahead.

Yours truly,



Corey Tremere

President, Board of Directors



stronger for members



CEO's Report

With an 85-year history of being there to help make our members' financial goals a reality, we can truly say our newly merged credit union, will allow us to provide an enhanced level of service and advice well into the future. Thanks to the remarkable efforts of our employees who have embraced significant change, we are well positioned to thrive in a competitive and changing environment.

The new Provincial Credit Union (PCU), officially began operations on October 1st, 2021. With that in mind, our financials for 2021 reflect only the last three months. In those three months, reported earnings were **\$2,207,182**, with assets of **\$1,256,669,111**. The financial performance of the original four legacy credit unions was quite strong, and early indications for the new PCU point to an even stronger balance sheet. Moving forward, financial sustainability will continue to be one of our main pillars.

The last two years have certainly proven to be very challenging, for both members and your credit union. Almost overnight, the

pandemic changed member behaviors, with an enormous switch to online and digital platforms, and a huge decline in in-branch traffic. The move to enable online opening of accounts for example, was kicked into high gear when the pandemic struck, and while there was considerable progress, we admit it was not perfection. For those members still needing that human touch, our staff was there for them too, dropping off important documentation to members' homes, and dealing with account inquiries over the phone. Whatever it took to get the job done.

We believe members will continue to embrace digital banking and enjoy the convenience and security of banking from their home or office. Digital banking will form an important touch point as part of member relationships going forward, and we'll build on our leadership in this area as we don't expect a change back to previous behaviors.

Our focus on business banking in several key industry segments has been effective. PCU has built a high-quality business banking portfolio, thanks to the expertise of our relationship managers.

You may have seen some of our promotional material with the headline "Our focus on communities just got a whole lot

bigger". As you've come to expect, credit unions continue to play an integral role in the communities we serve, providing donations and sponsorships to multiple groups. We contributed to organizations facing increased demands on their resources including food banks and hospitals across the province, as well as various charitable organizations.

Looking ahead in 2022 and beyond we are in the process of completing a new strategic plan focusing on our 4 pillars; Members, Communities, Staff and Sustainability. Your credit union recognizes the importance of providing the right advice amid changing market conditions, helping to ensure our members' financial goals are achieved.

In closing I'd be remiss if I didn't acknowledge how incredibly proud I am of both our dedicated board of directors and our PCU staff across the province, for their efforts embracing the merger, keeping our membership informed, and positioning PCU to become the largest credit union in Atlantic Canada. The best is yet to come!

Sincerely,

Bernard Gillis

Chief Executive Officer

COVID-19

Helping our members navigate the pandemic



In times of crisis, it's more important than ever for communities to unite

During these last two years of COVID – 19 we provided various levels of assistance packages for our members through targeted relief and support programs, both at the credit union level and through government options. Particularly during the early days of the pandemic, we worked closely with our members, developing relief packages tailored specifically for them.

Saved members money when it counted most

During the height of the pandemic we waived key service fees for all members, and introduced lower rate financing options for those needing access to funds quickly.

Kept our members safe at home with new enhanced ways to bank remotely

COVID-19 certainly drew attention to the advantages of banking remotely. The ability to open an account online and apply for an Express Loan were 2 options enjoyed by many of our members. For those not quite so technically savvy, our staff were able to provide service for them over the phone; even dropping off documents to members' homes when needed.

Loyal 2 Local Challenge

Ben Murphy
August 13, 2021 · 🌐

Supporting Local on a sunny Friday afternoon in O'Leary. Visited the Canadian Potato Museum for a fresh Lobster Roll and some home cut fries.

#Loyal2LocalChallenge
Atlantic Credit Unions
Evangeline-Central Credit Union



Twyla McInnis is at Nimrod's.
July 16, 2021 · 🌐

I pretty much love ANYTHING from Nimrod's...and their lobster roll didn't disappoint 🤤👍 Plus, their customer service skills are thru the roof 🙌👏

#Loyal2LocalChallenge
#atlcreditunions



At Provincial Credit Union we're all about **supporting local business**. After all, we wouldn't be in business, if it wasn't for the support of Islanders all across the province. During the summer months we encouraged our staff to support their local business, which they did in spades!

We're not sure who enjoyed it more...local business...or our staff!



Financial Literacy

For the second year in a row, Prince Edward Island Credit Unions sponsored the **Investing In You Women's Conference.**

It's a financial literacy event for women, put on by women to talk about health, wellness, as well as financial fitness.

The goal of Investing in You is to inspire women to do more with their money through interactive panel discussions on topics of relevance to them.

In 2021 the seminar was virtual, and plans for 2022 include expanding Investing In You to reach all of Atlantic Canada.





In Our Community



↑ **Bethany Pridham** (right) and **Dianne Getson** from the O'Leary branch get ready to hit the road spreading Random Acts of Kindness



← **Desirea Doucette** (right) from the Alberton Branch drops off treats to **Barb MacDonald** at the Rural Action Centre, CBDC in Alberton as a Random Act of Kindness

↓ **Stella Maris staff** participate in Ronald McDonald House PJ Walk for Kids





Évangéline staff raised funds in support of the Wellington Co-op Christmas Hamper program

Tyne Valley staff and friends prepping for the Annual Soap Box Derby



Right: **Tignish staff** supporting the CFCY/Q 93 Toy Drive for Kids



Corey Tremere, President of the Board of Directors

Margie Villard, Fund Development Specialist, Special Olympics PEI.

Special Olympics PEI

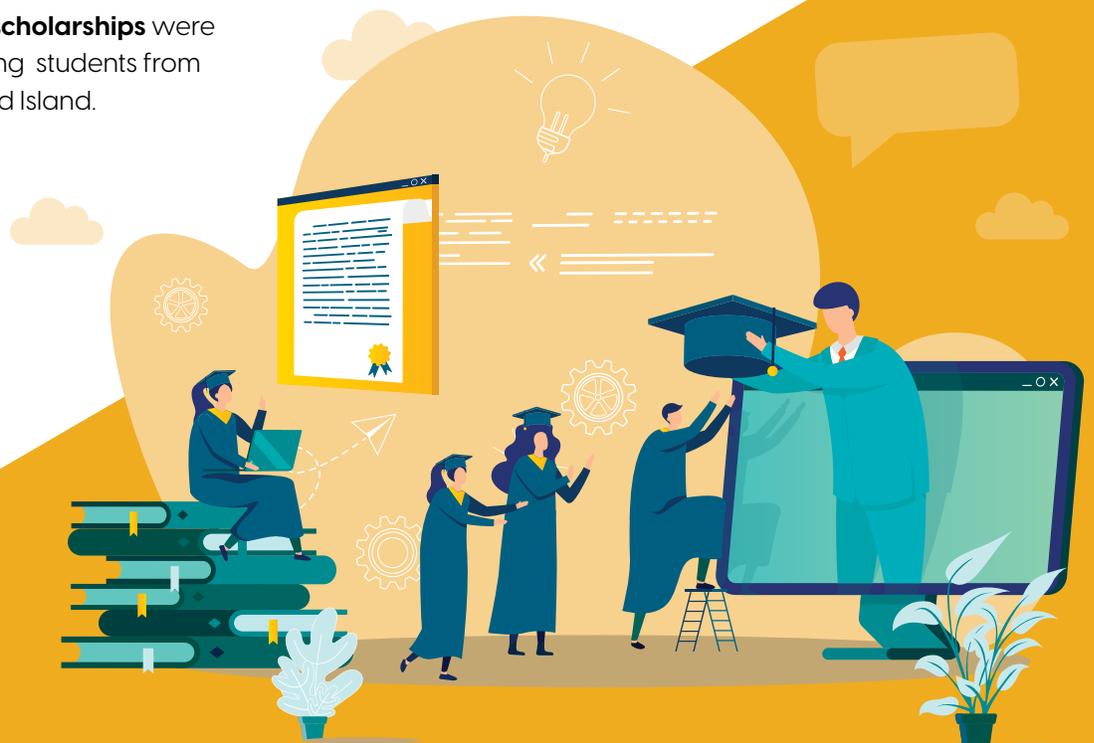
Provincial Credit Union was honoured to receive the **Enriching Lives Gala Hall of Fame Award** from Special Olympics PEI in 2021. The award acknowledges exceptional support from event stakeholders.

Provincial Credit Union is a long time supporter of Special Olympics, including the Draft an Athlete fundraising campaign. Accepting the award on behalf of the credit union, is Corey Tremere, President of the Board of Directors.

Scholarships

Provincial Credit Union continues its commitment to students, in their pursuit of post secondary education.

In 2021, **\$27,000 in scholarships** were awarded to deserving students from across Prince Edward Island.



Congratulations!
to all Scholarship Recipients!

The recipients were:

Anna Doran
Austin Arsenault
Brooke Kelly
Bryce Doucette
Connor Cole Costain
Ethan Kelly

Gilbert Arsenault
Gwendolyn Morrison
Hannah Rogers
Jenna Doucette
Katelyn Perry
Kyra Norton
Meredith Rix

Neleah Lavoie
Reese Carmody
Renee Gallant
Renee Gardiner
Shelby Dymont
Skye Boutilier



In Our Community



↑ **Jonathan Arsenault** (right) makes a donation to the Food Bank on behalf of our **Stratford Branch**



← Our **Montague staff** found our Loyal 2 Local Challenge to be a challenge they enjoyed!



↑ No matter what the occasion, you can always count on the **Malpeque Bay staff** to get into the spirit, including Saint Patrick's Day



Financial Statements

MANAGEMENT'S REPORT

Management's Report

The integrity, relevance and comparability of the data in the accompanying consolidated financial statements are the responsibility of management.

The consolidated financial statements are prepared by management in accordance with International Financial Reporting Standards established by the International Accounting Standards Board. A summary of the significant accounting policies is disclosed in note 4 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with a certainty until future periods.

To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

Management is accountable to the Board of Directors of Provincial Credit Union Limited on matters of financial reporting and internal control. Management provides the Board of Directors with externally audited consolidated financial statements annually. The Board also discusses any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by ArsenaultBestCameronEllis, independent external auditors appointed by the Board. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the consolidated financial statements.

On behalf of Provincial Credit Union Limited



Bernard Gillis
Chief Executive Officer



Member of The AC Group of Independent Accounting Firms

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March 21, 2022

Independent Auditor's Report

To the Members of Provincial Credit Union Limited

Opinion

We have audited the accompanying consolidated financial statements of Provincial Credit Union Limited, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of consolidated financial statements* section of our report. We are independent of Provincial Credit Union Limited in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our 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.

Other Matter

The financial statements for Provincial Credit Union Limited for the period ended September 30, 2021 were audited by another auditor who expressed an unqualified opinion on those financial statements on November 22, 2021.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

AUDITOR'S REPORT



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Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing Provincial Credit Union Limited'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 Provincial Credit Union Limited or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the consolidated financial statements

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

We also:

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



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

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.

ArsenaultBestCameronEllis

Chartered Professional Accountants

STATEMENT OF FINANCIAL POSITION

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2021

	December 31, 2021	September 30, 2021
	\$	\$
Assets		
Cash and cash equivalents (note 16)	20,096,391	33,056,271
Investments (note 10)	278,603,426	69,140,353
Income taxes receivable	127,858	182,763
Loans and mortgages (note 7)	945,894,379	439,154,519
Other assets (note 8)	1,314,343	1,350,456
Property and equipment (note 9)	9,315,714	3,165,435
Deferred income taxes (note 15)	1,217,000	264,464
	<u>1,256,569,111</u>	<u>546,314,261</u>
Liabilities		
Member deposits (note 11)	949,454,712	456,003,038
Share deposits (note 12)	211,124,754	47,280,736
Accrued interest and dividends payable	3,035,970	1,496,973
Other liabilities (note 14)	3,781,170	1,779,056
	<u>1,167,396,606</u>	<u>506,559,803</u>
Members' Equity		
Members' share capital	176,745	71,245
Undistributed income	88,995,760	39,683,213
	<u>1,256,569,111</u>	<u>546,314,261</u>

Approved by the Board of Directors



Director



Director

STATEMENT OF CHANGES IN MEMBERS' EQUITY

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Consolidated Statement of Changes in Members' Equity

For the period ended December 31, 2021

	(3 months) December 31, 2021 \$	(9 months) September 30, 2021 \$
Members' shares - Beginning of period	71,245	71,275
Impact of business combination	105,225	-
Issuance of members' shares, net	275	(30)
Members' shares - End of period	<u>176,745</u>	<u>71,245</u>
Undistributed income - Beginning of period	39,683,213	38,271,805
Impact of business combination (note 2)	47,105,365	-
Net earnings for the period	2,207,182	1,411,408
Undistributed income - End of period	<u>88,995,760</u>	<u>39,683,213</u>

STATEMENT OF COMPREHENSIVE INCOME

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Consolidated Statement of Comprehensive Income

For the period ended December 31, 2021

	(3 months) December 31, 2021 \$	(9 months) September 30, 2021 \$
Revenue		
Loan interest	8,196,828	10,304,441
Investment	527,432	551,827
	<u>8,724,260</u>	<u>10,856,268</u>
Cost of capital and borrowings	1,519,672	2,533,760
Provision for loan losses (note 7)	57,463	127,797
	<u>7,147,125</u>	<u>8,194,711</u>
Financial margin		
Non-interest revenue		
Commissions and account fees	1,227,447	1,139,656
Loan fees	375,517	681,706
Fixed assets	83,198	93,128
Contract	8,415	75,605
	<u>1,694,577</u>	<u>1,990,095</u>
	<u>8,841,702</u>	<u>10,184,806</u>
Expenses		
Personnel (notes 17 and 18)	2,720,059	4,257,610
General	2,006,719	2,764,594
Member security	461,769	560,783
Occupancy	201,810	291,335
Organization (note 2)	137,887	163,834
Amortization (note 9)	463,695	95,400
	<u>5,991,939</u>	<u>8,133,556</u>
Operating earnings	<u>2,849,763</u>	<u>2,051,250</u>
	-	-
Provision for (recovery of) income taxes		
Current (note 15)	891,034	602,982
Deferred (note 15)	(248,453)	36,860
	<u>642,581</u>	<u>639,842</u>
Comprehensive income for the period	<u>2,207,182</u>	<u>1,411,408</u>

STATEMENT OF CASH FLOWS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Consolidated Statement of Cash Flows

For the period ended December 31, 2021

	(3 months) December 31, 2021 \$	(9 months) September 30, 2021 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	2,207,182	1,411,408
Items not affecting cash		
Amortization	463,695	95,400
Deferred income taxes (recovery)	(248,453)	36,860
Provision for loan losses	57,463	127,797
	<u>2,479,887</u>	<u>1,671,465</u>
Net change in non-cash working capital items		
Accounts receivable	1,751,492	(62,760)
Prepaid expenses and other	(147,713)	76,574
Income taxes receivable	300,111	(324,964)
Accrued interest and dividends payable	(327,020)	(471,681)
Other liabilities (note 14)	(783,048)	68,916
	<u>3,273,709</u>	<u>957,550</u>
Financing activities		
Increase (decrease) in member deposits	(22,332,340)	44,364,492
Increase in share deposits	11,340,111	5,885,037
	<u>(10,992,229)</u>	<u>50,249,529</u>
Investing activities		
Increase in loans and mortgages	(18,455,360)	(62,234,717)
Decrease in real estate held for sale	5,547	-
Purchase of property and equipment (note 9)	(885,005)	(268,938)
Decrease (increase) in investments	(84,424,934)	8,430,865
	<u>(103,759,752)</u>	<u>(54,072,790)</u>
Decrease in cash and cash equivalents	(111,478,272)	(2,865,711)
Cash and cash equivalents - Beginning of period	33,056,271	35,921,982
Impact of business combination (note 2)	98,518,392	-
Cash and cash equivalents - End of period	20,096,391	33,056,271
Interest received	8,024,655	10,569,193
Interest paid	2,083,183	2,969,803
Dividends received	-	125,000
Dividends paid	236,346	35,682
Income taxes received	182,763	-
Income taxes paid	595,208	937,478

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

1 General

The Provincial Credit Union Limited (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

The Credit Union's head office is located in Charlottetown, Prince Edward Island.

2 Business combination

Effective October 1, 2021, Evangeline-Central Credit Union Limited (ECCU), Malpeque Bay Credit Union, Limited (MBCU), Provincial Credit Union Limited (PCU) and Tignish Credit Union Limited (TCU) amalgamated. The new organization will operate under the name Provincial Credit Union Limited.

The combination occurred through a member vote and subsequent share for share exchange. From an accounting perspective, each of the members of ECCU, MBCU and TCU exchanged their shares for shares of PCU, as it was the agreed upon name for the new organization. As a result of the share exchange, PCU, as the surviving financial entity, was considered the acquirer in the business combination under the guidance of IFRS 3, Business Combinations.

The amalgamation took place to provide stronger resources for their members. As a result of the amalgamation, there is consolidation of compliance, accounting and administrative functions which will provide greater effectiveness and a more effective management.

Recognized amount of net assets acquired:

	ECCU \$	MBCU \$	TCU \$	Total \$
Cash and cash equivalents	45,246,055	19,487,429	33,784,908	98,518,392
Investments	26,548,399	33,427,345	65,062,395	125,038,139
Income tax receivable	93,863	-	338,901	432,764
Loans and mortgages	165,995,719	122,151,886	200,194,355	488,341,960
Other assets	1,176,600	184,193	212,420	1,573,213
Property and equipment	2,044,764	852,386	2,831,819	5,728,969
Deferred income taxes	103,083	397,000	52,000	552,083
Total assets acquired	241,208,483	176,500,239	302,476,798	720,185,520
Member deposits	224,369,740	160,405,350	283,618,331	668,393,421
Accrued interest and dividends payable	732,159	1,496,609	556,395	2,785,163
Other liabilities	538,172	463,986	899,413	1,901,571
Total liabilities assumed	225,640,071	162,365,945	285,074,139	673,080,155
Identifiable net asset acquired	15,568,412	14,134,294	17,402,659	47,105,365

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

The results for the year ended December 31, 2021 include the results for the combined Credit Union. The September 30, 2021 comparative information presented in these consolidated financial statements is based on the financial results of Provincial Credit Union Limited prior to the business combination.

Included in organization expenses on the Consolidated Statement of Comprehensive Income is \$120,515 in costs related to the merger of the four Credit Unions.

3 Basis of presentation

(a) Statement of compliance

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

These consolidated financial statements have been approved for issue by the Board of Directors on March 21, 2022.

(b) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Credit Union and its wholly-owned subsidiary, CU PEI Investment Corp.

Subsidiaries are entities controlled by the Credit Union. Control is achieved when the Credit Union is exposed, or has rights, to returns with its involvement and it has the ability to affect those returns through its power over the subsidiary.

(c) Basis of measurement

These consolidated financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 4.

(d) Functional and presentation currency

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

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

(e) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the consolidated financial statements are detailed in note 5.

4 Summary of significant accounting policies

(a) Business combination

Business combinations are accounted for using the acquisition methods as at the acquisition date, which is the date on which the credit union obtained control of the acquiree. In assessing control, the credit union considers factors primarily related to control such as relative size of the organizations, voting rights and composition of the Board of Directors and senior management.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill is measured as the excess of the consideration transferred over the net of the recognized amounts of the identifiable assets acquired and liabilities assumed. No goodwill was recorded on the business combination described in note 2. Transaction costs are expensed as incurred.

(b) Financial instruments

i) *Classification and measurement of financial assets*

The Credit Union classifies its financial assets into one of the following measurement categories:

- Amortized cost; or
- Fair value through profit or loss (FVTPL).

Financial assets include both debt and equity instruments.

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

- i) the Credit Union's business model for managing the asset; and
- ii) the cash flow characteristics of the asset.

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Credit Union's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

The Credit Union assesses the business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective.

- How the performance of assets in a portfolio is evaluated and reported to group heads and other key decision makers within the Credit Union's business lines;
- Whether the assets are held for trading purposes (ie. assets that the Credit Union acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking);
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding.

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Credit Union identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Based on these factors, the Credit Union classifies its debt instruments into one of the following two measurement categories:

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 7. Interest income from these financial assets is included in 'Loan interest' using the effective interest rate method.

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL, and is not part of a hedging relationship, is recognized in comprehensive income and presented in the comprehensive income statement within 'Investment revenue' in the period in which it arises. Income from these financial assets is included in 'Investment revenue' using the effective interest method.

Equity instruments

The Credit Union measures all equity investments at FVTPL. Impairment losses and reversals of impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss 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 revenue' in the statement of comprehensive income (SCI).

ii) *Classification and measurement of financial liabilities*

Financial liabilities are classified into one of the following measurement categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL.

Financial liabilities measured at amortized cost

Member deposits are accounted for at amortized cost. Interest on deposits, calculated using the effective interest rate method, is recognized as interest expense. Interest on subordinated notes and debentures, including capitalized transaction costs, is recognized using the effective interest rate method as interest expense.

Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL form a part of a portfolio of identified financial liabilities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Financial liabilities are recognized on a trade date and are accounted for at fair value, with changes in fair value and any gains or losses recognized in the SCI as part of the non-interest income. Transaction costs are expensed as incurred.

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

Financial liabilities designated at FVTPL

Financial liabilities classified in this category are those that have been designated by the Credit Union upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is only available for those financial liabilities for which a reliable estimate of fair value can be obtained.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities designated at FVTPL are recorded in the Statement of Financial Position at fair value and any changes in fair value are recognized in the Statement of Comprehensive Income. As of December 31, 2021, there are no financial liabilities designated at FVTPL.

iii) *Determination of fair value*

Fair value of a financial asset or liability is the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Credit Union has access at the measurement date.

The Credit Union values instruments carried at fair value using quoted market prices, where available. The fair value hierarchy is as follows:

- Level 1 - unadjusted quoted market prices for identical instruments.
- Level 2 - use of observable inputs within valuation models.
- Level 3 - significant use of unobservable inputs within valuation models.

iv) *Derecognition of financial assets and liabilities*

The derecognition criteria are applied to the transfer of part of an asset rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

A financial asset is derecognized when the contractual rights to the cash flows from the asset has expired or the Credit Union transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party, or the Credit Union has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Credit Union has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Credit Union derecognizes the transferred asset only if it has lost control over the asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the SCI.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognized as a gain/loss in the SCI.

v) *Impairment*

The Credit Union applied 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 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.

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

- Stage 2 – when a financial instrument experiences a credit risk subsequent to origination but 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.
- 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.

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

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

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.

(c) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(e) Foreclosed properties

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure of loans that are in default. Foreclosed properties are measured at the lower of the carrying amount and the fair value less the costs to sell.

(f) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Right-of-use assets depreciation are calculated on a straight-line basis over 16 years and 6 years, respectively. All other property and equipment is depreciated using the straight-line method over their estimated useful lives, as follows:

Buildings	20 to 25 years
Furniture, equipment and computers	2 to 5 years
Pavement	10 years

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Credit Union will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying asset. Right-of-use assets are recognized for contracts that are, or contain, leases.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at December 31, 2021.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(g) Leased assets

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

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

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

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

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

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

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

(h) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(i) Employee benefits

The Credit Union records annually the estimated liabilities for retirement benefit obligations which are payable to its employees in subsequent years under the Credit Union's policy.

Liabilities for wage and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in the Statement of Comprehensive Income in respect of the employees service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liabilities are included in other liabilities in the statement of financial position.

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

(j) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the credit union considers all contractual terms of the loan and mortgage excluding any future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Mortgage prepayment fees are recognized in income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. All interest is recognized on an accrual basis.

ii) Investment and other income

Investment and other income is recognized as revenue on an accrual basis.

iii) Service fees

Service fees are recognized on an accrual basis in accordance with the service agreement.

iv) Commissions

Commissions income is recognized when the event creating the commission takes place.

(k) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

ii) Deferred income tax

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can 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.

(l) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

- i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;
- ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or
- iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(m) Capital disclosures

The Credit Union considers its capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

(n) Standards issued but not yet effective

Certain new accounting standards and interpretations have been issued but are not effective for the fiscal year ended December 31, 2021 and have not been early adopted by the Credit Union. These standards are not expected to have a material effect on the Credit Union in the current or future reporting periods.

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 changed. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

(a) Provision for loan 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.

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. The assessment of a significant increase in credit risk requires experienced credit judgment.

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

(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) Fair value of financial instruments

Fair value measurement techniques are used to value various financial assets and financial liabilities and are used in impairment testing on certain non-financial assets.

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.

Fair values of floating loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market and the spread remains appropriate. Fixed rate loans and mortgages are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks. Fixed rate member and share 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.

The fair value for the credit union's investments as detailed in Note 6 is determined as follows:

- Membership shares in Atlantic Central, Concentra, League Data, Central 1, Co-operative memberships and CU Financial Management Limited do not trade in a public market. Fair market value approximates par value as the shares are subject to regular rebalancing across the membership; and
- Liquidity reserve deposits are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

(d) 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 consolidated 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.

(e) Extension options for leases

When the Credit Union has an option to extend a lease, management uses its judgment to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practices and any cost that will be incurred if an option to extend is not taken, to help them determine the lease term.

(f) COVID-19

Since January 31, 2020, the outbreak of COVID-19 (coronavirus) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown, and global equity markets have experienced significant volatility. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the outcome of government and central bank interventions.

In management's estimation, these events have not had a material impact on the carrying value of assets and liabilities reported in these consolidated financial statements as at December 31, 2021. The duration and impact of the COVID-19 pandemic remains unclear at this time. Therefore, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Credit Union for future periods.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

6 Fair value of financial instruments

Fair values versus carrying amounts

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

	Fair level hierarchy	December 31, 2021		September 30, 2021	
		Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial assets					
Loans and mortgages	Level 2	945,894,379	945,894,379	439,154,519	439,154,519
Liquidity reserve deposit	Level 2	76,409,531	76,409,531	33,034,215	33,034,215
Atlantic Central shares	Level 2	16,476,507	16,476,507	7,042,176	7,042,176
Concentra shares	Level 2	1,651,030	1,651,030	251,020	251,020
League Data shares	Level 2	230,340	230,340	100,340	100,340
Co-operative membership	Level 3	4,040	4,040	-	-
Central 1 shares	Level 2	400	400	100	100
CU PEI Investment Corp.	Level 3	-	-	53,650	53,650
CU Financial Management Limited	Level 3	19	19	-	-
Term deposits	Level 2	183,831,559	183,831,559	28,658,852	28,658,852
		<u>1,224,497,805</u>	<u>1,224,497,805</u>	<u>508,294,872</u>	<u>508,294,872</u>
Financial liabilities					
Member deposits	Level 2	949,454,712	949,454,712	456,003,038	456,003,038
Share deposits	Level 2	211,124,754	211,124,754	47,280,736	47,280,736
		<u>1,160,579,466</u>	<u>1,160,579,466</u>	<u>503,283,774</u>	<u>503,283,774</u>

The fair value for items that are short-term in nature are equal to book value. These include cash and cash equivalents, accounts receivable, accrued liabilities and other liabilities.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

7 Loans and mortgages

(a) Loans at amortized cost

	December 31, 2021			September 30, 2021		
	Gross loans \$	Allowance for credit losses \$	Net carrying amount \$	Gross loans \$	Allowance for credit losses \$	Net carrying amount \$
Personal loans	494,001,279	393,519	493,607,760	190,792,062	78,122	190,713,940
Commercial loans	422,933,213	1,927,730	421,005,483	228,216,786	290,702	227,926,084
Personal lines of credit and overdrafts	23,023,196	347,300	22,675,896	14,856,021	103,228	14,752,793
Commercial lines of credit and overdrafts	8,784,620	179,380	8,605,240	5,857,757	96,055	5,761,702
	<u>948,742,308</u>	<u>2,847,929</u>	<u>945,894,379</u>	<u>439,722,626</u>	<u>568,107</u>	<u>439,154,519</u>

Mortgages and loans

Mortgage loans (including mortgage pools) are secured by realty mortgages with interest rates of 1.0% - 7.45%. The remaining loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0% - 19.5% on personal, business, farming and fishing loans and 0% - 21.0% on lines of credit and overdrafts. These loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

The Credit Union's prime lending rate

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at December 31, 2021 was 2.45%.

(b) Impaired loans

	December 31, 2021		
	Gross impaired loans \$	Allowance for credit losses \$	Net carrying amount \$
Personal loans	20,209,155	180,311	20,028,844
Commercial loans	32,925,073	754,204	32,170,869
Personal lines of credit and overdrafts	2,094,654	111,857	1,982,797
Commercial lines of credit and overdrafts	3,154,349	109,000	3,045,349
	<u>58,383,231</u>	<u>1,155,372</u>	<u>57,227,859</u>

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

(c) Allowance for credit losses

	Balance as at October 1, 2021 \$	Provision for credit losses \$	Net write-offs \$	Balance as at December 31, 2021 \$
Personal loans	586,999	(179,620)	13,862	393,517
Commercial loans	1,637,346	290,385	-	1,927,731
Personal lines of credit and overdraft	193,698	153,603	-	347,301
Commercial lines of credit and overdraft	349,602	(170,222)	-	179,380
	<u>2,767,645</u>	<u>94,146</u>	<u>13,862</u>	<u>2,847,929</u>
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
As at December 31, 2021				
Personal loans	213,206	26,043	154,270	393,519
Commercial loans	1,173,527	281,635	472,568	1,927,730
Personal lines of credit and overdraft	235,444	75,316	36,540	347,300
Commercial lines of credit and overdraft	70,381	70,479	38,520	179,380
	<u>1,692,558</u>	<u>453,473</u>	<u>701,898</u>	<u>2,847,929</u>

(d) Loans past due but not impaired

	31 - 90 days \$	90+ days \$	December 31, 2021 Total \$
Personal loans	84,220	-	84,220
Personal lines of credit and overdrafts	47,265	-	47,265
	<u>131,485</u>	<u>-</u>	<u>131,485</u>

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

(e) Provision for loan losses	December 31, 2021
	\$
Increase in allowance	79,888
Loans directly written off	13,862
Recoveries of loans previously written off	<u>(36,287)</u>
	<u>57,463</u>

8 Other assets

	December 31, 2021	September 30, 2021
	\$	\$
Accounts receivable	590,284	1,237,550
Prepaid expenses and other	463,959	112,906
Real estate held for resale	<u>260,100</u>	<u>-</u>
	<u>1,314,343</u>	<u>1,350,456</u>

9 Property and equipment

	Land	Buildings	Furniture, equipment and computers	Pavement	Total
	\$	\$	\$	\$	\$
Cost					
Balance - Beginning of period	975,884	4,482,157	3,199,323	83,480	8,740,844
Impact of business combination	687,084	8,277,259	4,420,389	436,460	13,821,192
Additions	-	881,847	3,158	-	885,005
Disposals	-	-	(395,415)	-	(395,415)
Balance - End of period	<u>1,662,968</u>	<u>13,641,263</u>	<u>7,227,455</u>	<u>519,940</u>	<u>23,051,626</u>
Accumulated amortization					
Balance - Beginning of period	-	2,538,850	2,985,608	50,951	5,575,409
Impact of business combination	-	3,838,242	3,991,830	262,151	8,092,223
Current period amortization	-	144,823	308,473	10,399	463,695
Disposals	-	-	(395,415)	-	(395,415)
Balance - End of period	<u>-</u>	<u>6,521,915</u>	<u>6,890,496</u>	<u>323,501</u>	<u>13,735,912</u>
Carrying value					
September 30, 2021	975,884	1,943,307	213,715	32,529	3,165,435
December 31, 2021	<u>1,662,968</u>	<u>7,119,348</u>	<u>336,959</u>	<u>196,439</u>	<u>9,315,714</u>

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

As at December 31, 2021, furniture, equipment and computers includes a non-cash transaction for a right-of-use assets with a cost of \$9,378, accumulated amortization of \$4,210, and carrying amount of \$5,168. For the period ended December 31, 2021, amortization expense includes \$420 related to the right-of-use assets .

Included in buildings is \$1,132,777 (September 30, 2021 - \$283,337) in work in progress construction which has not been completed and, therefore, amortization has not been taken on that amount.

10 Investments

	December 31, 2021	September 30, 2021
	\$	\$
<i>Measured at fair value through profit or loss</i>		
Liquidity reserve	76,409,531	33,034,215
Atlantic Central shares	16,476,507	7,042,176
Concentra shares	1,651,030	251,020
League Data shares	230,340	100,340
Co-operative membership shares	4,040	-
Central 1 shares	400	100
CU PEI Investment Corp. shares	-	53,650
CU Financial Management Limited shares	19	-
Total fair value measured through profit or loss	94,771,867	40,481,501
<i>Measured at amortized cost</i>		
Term deposits	183,831,559	28,658,852
	<u>278,603,426</u>	<u>69,140,353</u>

Liquidity reserve deposit

In order to meet Credit Union national standards, the Credit Union is required to maintain on deposit at Atlantic Central an amount equal to 6% of the prior quarter's assets (see note 19b). The deposit bears interest at a variable rate that averaged 0.55% during the period.

Term deposits

Term deposits are carried at cost which approximates fair value. These term deposits have the following maturity dates and rates of return:

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

	Amount \$	Rate of Return	Maturity
Atlantic Central	136,000,000	0.42 - 1.21%	January 2022 - October 2023
Concentra	17,500,000	0.64 - 1.81%	March 2022 - November 2025
League Savings & Mortgage	29,831,559	0.60 - 1.65%	January 2022 - January 2023
Central 1	<u>500,000</u>	0.53%	March 31, 2023
Total	<u>183,831,559</u>		

11 Member deposits

	December 31, 2021 \$	September 30, 2021 \$
Savings	174,244,355	114,419,823
Chequing accounts	436,913,637	191,731,829
Term deposits	190,970,110	86,549,357
RRSP and RRIF	<u>147,326,610</u>	<u>63,302,029</u>
	<u>949,454,712</u>	<u>456,003,038</u>

Savings are deposits on a call basis that pay the account holders a variable rate of interest ranging from 0% - 1.45%.

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates.

Term deposits are for periods of one to five years generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Fixed *term deposits* bear interest at various rates and ranging from 0% - 5.00%.

RRSP and RRIF

Concentra Financial is the trustee for the registered savings plans offered to members. Under an agreement with the trust company, member's contributions to the plans, as well as income earned on them, are deposited in the credit union. On withdrawal, payment of the plan proceeds is made to members, or the parties designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates.

Withdrawal privileges on all member deposit accounts are subject to the overriding right of the Board to impose a waiting period.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

12 Share deposits

Unlimited membership shares are available for issuance with a par value of \$5 per share. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders 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 Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

	December 31 2021	September 30, 2021
	\$	\$
Ownership shares and share deposits	211,301,499	47,351,981
Ownership shares presented as equity	<u>(176,745)</u>	<u>(71,245)</u>
Share deposits	<u>211,124,754</u>	<u>47,280,736</u>

Share deposits pay members a dividend at the discretion of the Board. Privileges of the shares are under the authority of the Board. The dividend rate declared for the period October 1 to December 31, 2021 was 0.5% based on the average minimum monthly share account balance throughout the period.

13 Contingent liability

	December 31 2021	September 30, 2021
	\$	\$
Outstanding guarantees on behalf of members	<u>3,619,621</u>	<u>1,214,312</u>

The Credit Union holds outstanding guarantees on behalf of 44 members. The value of these guarantees range from \$500 to \$703,166.

14 Other liabilities

	December 31, 2021	September 30, 2021
	\$	\$
Trade liabilities	1,338,072	300,009
Accrued liabilities	1,247,988	766,142
Retirement accrual	1,188,830	710,803
HST	<u>6,280</u>	<u>2,102</u>
	<u>3,781,170</u>	<u>1,779,056</u>

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

15 Income taxes

(a) Tax rate reconciliation

	December 31, 2021 \$	September 30, 2021 \$
Income before income taxes	2,849,763	2,051,250
Taxes at statutory rates - 31%	883,427	635,888
Timing differences regarding foreign exchange	(178,130)	-
Temporary difference regarding provision for loan losses	384,739	38,122
Timing differences regarding capital assets	113,956	-
Permanent differences and other	10,555	(24,502)
Timing differences regarding retirement	(262,995)	(7,776)
Non-taxable income	-	(38,750)
Loss carryforwards used by CU PEI Investment Corp.	(60,519)	-
	<u>891,033</u>	<u>602,982</u>

(b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 31%, as follows:

	December 31, 2021 \$	September 30, 2021 \$
Balance - Beginning of period	264,464	301,324
Impact of consolidation	152,000	-
Impact of business combinations	552,083	-
Comprehensive income statement recovery (expense)	248,453	(36,860)
Balance - End of period	<u>1,217,000</u>	<u>264,464</u>

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

Deferred income tax assets are attributable to the following items:

	December 31, 2021	September 30, 2021
	\$	\$
Deferred income tax assets (liabilities)		
Property and equipment	225,000	44,115
Allowance for impaired loans	559,000	-
Foreign exchange	(251,000)	-
Retirement allowance	367,000	220,349
Income tax loss carryforwards	317,000	-
	<u>1,217,000</u>	<u>264,464</u>

16 Line of credit availability

In 2021, the Credit Union had approved lines of credit with Atlantic Central of \$27,804,000 with an interest rate of 1.95%. As of December 31, 2021, the lines of credit had outstanding balances of \$1,896,653.

17 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the period, the Credit Union expensed \$161,534 in contributions to the plan. This expense is included with personnel expenses on the statement of comprehensive income.

18 Composition of key management

Key management includes the board of directors, Chief Executive Officer, Chief Financial Officer, Chief Administrative Officer, Chief Operating Officer, Chief Innovation Officer, Director of Retail Services, Director of Business Services, Director of Human Resources, Director of Enterprise Management, and Director of Marketing and Communications. Compensation awarded to key management includes:

(a) Key management, excluding directors

	December 31, 2021
	\$
Salaries and short-term employee benefits	315,643

(b) Directors' remuneration

	December 31, 2021
	\$
Honorariums	26,700
Payment for expenses while on credit union business	561

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

(c) Loans to directors and key management personnel

	December 31, 2021
	\$
Loans outstanding - Beginning of period	1,956,940
Add: loans issued during the period	640,173
Less: loan repayments during the period	<u>(333,507)</u>
Loans outstanding - End of period	<u>2,263,606</u>
Interest income earned	62,216

No provisions have been recognized in respect of loans to directors and key management. The loans issued to directors and existing loans to new directors and key management personnel during the period of \$640,173 are repayable over 1-15 years and have interest rates ranging from 1.00% to 4.95%.

The Credit Union has approved lines of credit for key management and directors as at December 31, 2021 amounting to \$690,000. The balance of the lines of credit included above is \$325,155.

19 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board, which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who report to the Board.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

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 (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) 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.

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

	December 31, 2021	September 30, 2021
	\$	\$
Cash and cash equivalents	20,096,391	33,056,271
Accounts receivable	590,284	1,237,550
Loans and mortgages	945,894,379	439,154,519
Investments	278,603,426	69,140,353
	<u>1,245,184,480</u>	<u>542,588,693</u>

Cash and cash 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's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

	December 31, 2021	September 30, 2021
	\$	\$
Cash and cash equivalents	20,096,391	33,056,271
Liquidity reserve	76,409,531	33,034,215
	<u>96,505,922</u>	<u>66,090,486</u>

Credit Union bylaws require Provincial 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, Provincial Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain a minimum liquid asset level of 10% of total assets to ensure ongoing cash flow requirements are met. The Credit Union was in compliance with this requirement at December 31, 2021.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year	Over 1 to 5 years	Over 5 years	December 31, 2021 Total
	\$	\$	\$	\$
Member deposits	830,197,712	119,257,000	-	949,454,712
Share accounts	211,124,754	-	-	211,124,754
Accrued interest and dividends payable	3,035,970	-	-	3,035,970
Other liabilities	3,781,170	-	-	3,781,170
	<u>1,048,139,606</u>	<u>119,257,000</u>	<u>-</u>	<u>1,167,396,606</u>

	Under 1 year	Over 1 to 5 years	Over 5 years	September 30, 2021 Total
	\$	\$	\$	\$
Member deposits	407,736,446	48,266,592	-	456,003,038
Share accounts	47,280,736	-	-	47,280,736
Accrued interest payable	1,496,973	-	-	1,496,973
Other liabilities	1,685,087	93,969	-	1,779,056
	<u>458,199,242</u>	<u>48,360,561</u>	<u>-</u>	<u>506,559,803</u>

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

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

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

	Net interest income change December 31, 2021 \$	Net interest income change September 30, 2021 \$
Before tax impact of		
1% increase in interest rates	2,732,300	300,268
1% decrease in interest rates	(2,767,900)	(2,771,803)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

Consistent with other Prince Edward Island Credit Unions, Provincial 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.

In accordance with the recommendations of the Canadian Chartered Professional Accountants Handbook related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At December 31, 2021, the equity level for regulatory purposes is as follows:

	December 31, 2021	September 30, 2021
	\$	\$
Ownership shares (note 12)	176,745	71,245
Members' equity	88,995,760	39,683,213
	<hr/>	<hr/>
Total regulatory equity	89,172,505	39,754,458
	<hr/>	<hr/>
Total assets	1,256,569,111	546,314,261
	<hr/>	<hr/>
Equity level	7.10%	7.28%
	<hr/>	<hr/>
	#	2021
		\$
Opening, October 1, 2021	35,294	176,470
Net increase	55	275
	<hr/>	<hr/>
Closing, December 31, 2021	35,349	176,745
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

20 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company'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, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	December 31, 2021 Total \$
Assets					
Cash and cash equivalents	20,096,391	-	-	-	20,096,391
Effective interest rate					
Investments	276,717,597	1,885,829	-	-	278,603,426
Effective interest rate	0.82%	3.23%			
Loans and mortgages	359,469,531	578,383,375	5,036,000	3,005,473	945,894,379
Effective interest rate	3.94%	3.31%	3.07%		
Income taxes receivable	-	-	-	127,858	127,858
Other assets	-	-	-	1,314,343	1,314,343
Property and equipment	-	-	-	9,315,714	9,315,714
Deferred income tax	-	-	-	1,217,000	1,217,000
Total assets	656,283,519	580,269,204	5,036,000	14,980,388	1,256,569,111
Liabilities and surplus					
Member deposits	397,267,513	119,257,000	-	432,930,199	949,454,712
Effective interest rate	0.63%	1.61%			
Share deposits	211,124,754	-	-	-	211,124,754
Effective interest rate	0.50%				
Accrued interest and dividends payable	-	-	-	3,035,970	3,035,970
Other liabilities	-	-	-	3,781,170	3,781,170
Members share capital	-	-	-	176,745	176,745
Undistributed income	-	-	-	88,995,760	88,995,760
Total liabilities and surplus	608,392,267	119,257,000	-	528,919,844	1,256,569,111
Interest rate sensitivity gap	47,891,252	461,012,204	5,036,000	(513,939,456)	-

As at December 31, 2021, the Credit Union's net interest spread was 0.57%. 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.

NOTES TO FINANCIAL STATEMENTS

PROVINCIAL CREDIT UNION | December 31, 2021

Provincial Credit Union Limited

Notes to Financial Statements

December 31, 2021

21 Commitment

The Credit Union has approved capital construction contracts of \$2,538,000 for an addition and renovation to its Charlottetown branch. Costs approved but not disbursed at December 31, 2021 total \$1,405,223. The project is expected to be completed in April 2022.

22 Comparative figures

Certain comparative figures presented for the 2021 fiscal year have been restated to conform with the financial statement presentation adopted in the current year.



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