Transforming Our Future Together

Atlantic Central
Annual Report 2021

As a cooperative organization, we continuously assess our strategies and business decisions against the values and principles that have defined and guided us for nearly a century. Taking the necessary steps to remain competitive, relevant, and profitable, and remaining true to our roots, can be achieved without sacrificing one for the other.

The past couple of years have underscored the critical need for organizations to rethink how they do business. The financial services industry, like so many others, has embarked on a path of accelerated digitization. The Atlantic credit union system is no exception. It's not enough to simply *change* a specific process or procedure to achieve a better result; success requires *transformation* to help ensure we are well-positioned for sustained, long-term success for credit unions, our members, and the communities we serve.

Transformation is not defined by a single event. It is a process that requires a shift in our mindsets, behaviours, and capabilities. We have demonstrated time and again what is possible when we work together, rally around common goals, and make decisions based on the collective good. We will continue to collaborate and innovate with credit unions and other system partners to ensure a successful and enduring future for the Atlantic credit union system.

Change is inevitable, but transformation is by conscious choice.

– Heather Ash Amara

Our spirit of cooperation has enabled us to move forward with several critical projects and build strong partnerships that position us well for present and future success.

CHAIR'S MESSAGE

I, along with many others, imagined 2021 would bring a return to a certain level of pre-pandemic activities and lessen the personal and professional impacts of Covid-19. We have adapted to an ever-changing environment and despite uncertainty and constant change, Atlantic Central and the Atlantic credit union system achieved significant success, executing on key initiatives designed to increase system growth and competitiveness.

Our spirit of cooperation has enabled us to move forward with several critical projects and build strong partnerships that position us well for present and future success: a new hybrid work model, digital strategies that will make it easier for members and consumers to do business with us, positive relationships with our provincial regulators, a successful regional and national government relations and advocacy strategy, representation on national committees to ensure the voice of Atlantic credit unions is heard, and the creation of a common system strategy focused on areas that are important to our credit unions, their members and the communities they serve.

We are making good progress on our integrated Co-operative Social Responsibility Strategy. Atlantic Central released its second sustainability report, *Living our Values Together: Leading in Exceptional Times*, and we're pleased to report that data from 42 of our 45 member credit unions was included in 2021. Atlantic Central proudly achieved B Corp™ Certification, the first Tier 2 Cooperative in Canada to do so. Our values are well-aligned with the purpose and objectives of B Corp certified organizations, and the board sees this as a testament to the company's commitment in considering our long-term impact on all stakeholders and the environment.

The board held its strategic planning session in-person in the fall and was pleased to welcome the chair of the credit union CEO Executive Committee who also attended regular board meetings throughout 2021. We recognize the value in having a credit union representative attend these meetings and in holding open and transparent discussions around initiatives that impact the Atlantic credit union system. In keeping with our commitment to work with key partners, the boards of Atlantic Central, League Savings and League Data met to review the system strategy and ensure we are aligned to support its successful implementation and outcomes.

Atlantic Central recognizes the value of a diverse, equitable and inclusive workforce. In 2021 we implemented a strategy to guide our work in this area. I'm proud to say that the organization achieved wage parity several years ago and there are an equal number of female and male employees in executive and senior level positions.

Strong board governance helps secure positive business results. In 2021 Atlantic Central's board explored the skills and competencies required to align with the complexity of our new business strategy. We will make necessary adjustments as our needs evolve. In addition to the diversity, equity and inclusion work underway organizationally, the board is doing its own work in this area. Diversity is critical to create an environment for well-informed decision-making.

On behalf of the Board of Directors, I want to thank the management and staff of Atlantic Central for their steadfast leadership throughout the year. An organization is only as good as its people and our people are extraordinary. I'd like to take this opportunity to recognize and thank Mike Leonard, President and CEO of Atlantic Central, who is retiring after nine years in his current role and 34 years serving the credit union system. His inspired leadership, vision, passion, and belief in the power of cooperation, have been instrumental in positioning the Atlantic credit union system for future success.

We, as a system, are entering a period of significant transformation. The board is confident in Atlantic Central's ability to lead the system forward and support credit unions in successfully navigating the changes ahead.

Jim MacFarlane, Chair
Atlantic Central Board of Directors

I would like to thank everyone who dedicated their time and talent to exploring the needs of our system and establishing our priorities for the next several years.

CEO'S MESSAGE

If you had said to me in March 2020 that we would still be dealing with the COVID pandemic by year-end 2021, I would not have believed you. A favourite part of my role as CEO of Atlantic Central is the opportunity to spend time with all of you, and it seems almost impossible that it has been so long since I have seen so many of you in person. While I certainly miss the in-person interaction, I am very pleased to report on a highly successful 2021!

Something that distinguishes the Atlantic credit union system from our peers is our use of regional level strategy to guide our collective priorities and decision making. The regional strategy, originally developed in 2018, was recast in 2021 through extensive consultation with credit union CEOs. The work was led by the CEO Executive Committee and I would like to thank everyone who dedicated their time and talent to exploring the needs of our system and establishing our priorities for the next several years. The new Atlantic Regional Credit Union System Strategy was presented to the Atlantic Central, League Savings and League Data boards as part of our board planning sessions, so you can be assured your perspectives and priorities were well represented as we planned our future direction.

Not surprisingly, digital transformation remains among our highest priorities. By acting together, the Atlantic system will continue to lead the country in digital adoption. All our credit unions are now offering mobile payments, and digital account opening. The next step in our digital transformation journey is the launch of the honeybee Mission, the adoption of our new core banking system with our new partner Mambu. League Data continues to demonstrate significant leadership as we move from our traditional core banking platform to a modern digital model. This will be the biggest project ever undertaken in the Atlantic credit union system and will allow us to move faster and improve our member experience like never before. The ongoing focus on digital transformation means the relationship between Atlantic Central and League Data will be increasingly important. I am very pleased with the work the companies have done together and the collaborative spirit we share should ensure we capitalize on the digital opportunities on your behalf.

Atlantic Central remains an important steward for our regional brand. In 2021 we executed the Regional Marketing Program, collected new research on how consumers see credit unions in Atlantic Canada, and launched a new season of Your Two Cents, our financial literacy initiative with Jonathan Torrens and Canadian Content Studios, which included the launch of a new podcast series. Perhaps the most significant new effort in our quest to tell the credit union story was the launch of our second sustainability report, "Living Our Values". This second edition includes data from most credit unions in Atlantic Canada and provides data points we can use to illustrate the impact we have in the communities we serve. I am very proud of our team and the work they do with their colleagues on the Regional Marketing Advisory Committee in how we have evolved in telling the credit union story. The Regional Marketing Program is a great example of the value we create by working and investing together.

I have had the privilege of working with many great directors in my time at Atlantic Central and can tell you that discussions are always about the best interests of the Atlantic credit union system.

While we provide many services to credit unions, our main function is to assist in the management of system liquidity. In 2021 we continued important work on our Regional Liquidity Project, which aims to optimize the use of liquidity in our region. In partnership with CEOs and regulators in all four provinces we continued to evolve our liquidity management model. We expect this work will result in consultation with credit unions in 2022, and we look forward to sharing our insights, and hearing your perspectives.

The pandemic has created perhaps the biggest workplace change in several generations. Not only have many companies (including Atlantic Central) moved to a different work model, but the search for talent is more competitive than ever. In 2021 we invested heavily in our people and our People Strategy. Our team has adjusted well to our new work model, and I am pleased with the results of our internal employee engagement surveys. I'm also thrilled to report the results of the 2021 Satisfaction Survey show that we reached an all-time high for credit unions' overall satisfaction with their relationship with Atlantic Central, receiving a rating of 9 out of 10. I want to thank everyone on our team for their commitment to serving credit unions. I am proud to be a member of your team.

A company depends on leadership to thrive, and leadership starts with the board of directors. I have had the privilege of working with many great directors in my time at Atlantic Central and can tell you that discussions are always about the best interests of the Atlantic credit union system. I want to thank our board members for their guidance, passion, and commitment to credit unions.

As you may know, I have announced that I will be retiring in May, so this will be my last CEO message for our annual report. It has been an amazing journey over the last 34 years as I built my career in the credit union system. It has always been the people and the values that kept me here. I love working with all of you, and I love working for what we stand for, helping people and building communities. I hope I have made a positive contribution to the Atlantic credit union system, and I look forward to watching you continue to grow in the future.

Michael Leonard
President and CEO

HIGHLIGHTS

BRAND AWARENESS

In 2021, Atlantic Central's regional marketing strategy focused on increasing overall brand awareness of Atlantic credit unions. We leveraged a mix of owned, earned, and paid media by creating product and brand campaigns, digital content, and implementing other tactics.

Owned & Earned Media

Earned Media

OVER
7.9M
BRAND IMPRESSIONS

OVER
$63,000
ADVERTISING VALUE

Stories and interviews included changes to the mortgage stress test, federal budget commentary, #Loyal2LocalChallenge, and avoiding financial fallout.

Your Two Cents

We launched **Season 3 of Your Two Cents!**

13
SEGMENTS

1.28M
VIDEO VIEWS & PEOPLE REACHED

Your Two Cents was nominated for a Canadian Screen Award in the categories of best director (Jonathon Torrens) and best writing (the Cashelor).

Your Two Cents Season 2 won an AIME award for excellence in television and video. **The Whole Package** has been nominated for Best Writing Screen Award by the Academy of Canadian Cinema & Television.

We created Your Two Cents, the **podcast** (Listen on **Spotify** or **Apple Podcasts**) to address the explosive growth of this medium as a brand platform.

12
20-MINUTE AUDIO EPISODES

HIGHLIGHTS

#Loyal2LocalChallenge

Each employee was given $25 dollars and encouraged to spend it at their favourite local shop between July 15 and August 15. Many credit unions matched the funds.

OVER
1,500
EMPLOYEES

OVER
$80,000
BACK INTO OUR LOCAL ECONOMIES

OVER
1.9M
EARNED MEDIA IMPRESSIONS

Holiday Pay it Forward

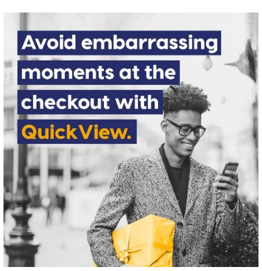
In December, we gave all of our employees & board members – credit union, AC, LSM, and League Data – $25 and asked them to **use the funds to support a local person, family, organization, or charity** of their choice over the holiday season. In the end, we gave back more than $42,000 to local community organizations, families, and non-profit organizations.

From ensuring families in our communities had food on the table, to purchasing supplies for local animal shelters, the Atlantic credit union system truly stepped up and honoured our core values by paying it forward in a wide variety of creative and inspiring ways.

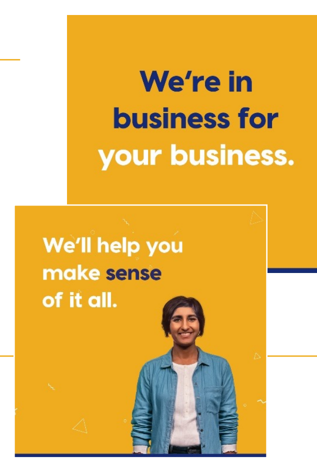
Paid Media

From a media perspective, we are always **on**, in-market **365 days a year** promoting the credit union difference, products and services. In 2021, campaigns included:

- Accessible banking products and services
- Brand building ads designed to debunk myths and help educate consumers on what credit unions are and how they're different
- Holiday digital access campaign
- Small business campaign "For Finance Sakes!"



REACHED
585,000
PEOPLE ACROSS ATLANTIC CANADA



HIGHLIGHTS

SYNDICATION PROGRAM

There is strength in the relationships we've built with our key partners over the years.

NEW BUSINESS TOTALING

$110M

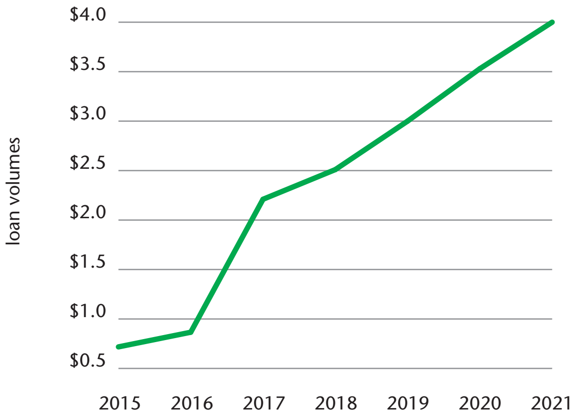
PORTFOLIO GREW TO OVER

$400M

($362M IN 2020)

GENERATED NET INTEREST TO CREDIT UNIONS AND OTHER PARTNERS OF MORE THAN

$15M



OVER

$9.6M

TO CREDIT UNIONS

OVER

$6.2M

TO OTHER PARTNERS

RISK MANAGEMENT & COMPLIANCE (RM&C) SHARED SERVICE

- Developed enhanced credit union tools and training
- Large Cash Transaction Automation project created benefits and efficiencies for both credit unions and the RM&C team.

3

NEW CREDIT UNIONS ONBOARDED

=

79%

OF MEMBER CREDIT UNIONS

44

TRAINING SESSIONS COMPLETED

SATISFACTION SCORES CONTINUE TO BE

100%

HIGHLIGHTS

SPECIAL RESERVE

Established in 2013 to support key initiatives for the benefit of the Atlantic credit union system.
We funded many important initiatives in 2021, including:

- CSR integration
- Regional liquidity project
- Digital services
- Payment services
- Your Two Cents, Season 2

$4M

CONTRIBUTED IN 2021, THE LARGEST ANNUAL CONTRIBUTION TO DATE

$1.3M

SPENT ON KEY SYSTEM INITIATIVES ($854,000 IN 2020)

DATA WAREHOUSE & FINANCIAL REPORT PROJECT

Atlantic Central's Finance and IT Departments collaborated to complete and launch the first phase of the Financial Reporting Project. This work involves the creation and operation of a foundational data warehouse and launch of Power BI service for AC and its subsidiary, League Savings and Mortgage. The first phase of the Financial Reporting Project represents the first full service on the data warehouse. Over time, new sources of information will be added such as financial accounting and credit union marketing data.

- In Q4, produced automatic reporting for organizations' Mortgage and Loan portfolio:

ESTIMATES SHOW A DECREASE OF

2–3

HOURS PER MONTH TO PRODUCE REPORTING

HUMAN RESOURCES (HR)

New HRIS (Human Resources and Information) and Payroll Platform

In 2021 we launched UKG Pro, a new, modern platform for time-off administration, employee self-serve, employee onboarding and payroll administration and processing. The new system enables **better reporting and improved people analytics.** Atlantic Central, League Savings and Mortgage, League Data, and a member credit union were onboarded in Q3. **Five additional Atlantic credit unions** are scheduled to go live with the new services on January 1, 2022.

Talent and Capacity

We made good progress on our three-year People Strategy roadmap. Employee needs are evolving and it's critical that our HR policies and programs reflect those changes **to ensure we continue to attract, retain, develop, and motivate our people.**

Results:

- Defined our desired corporate culture
- Reviewed and updated our People Policies
- Reviewed and updated the base compensation program

CREDIT UNION SATISFACTION SURVEY

RELATIONSHIP SATISFACTION

9.0/10.0

SERVICE SATISFACTION

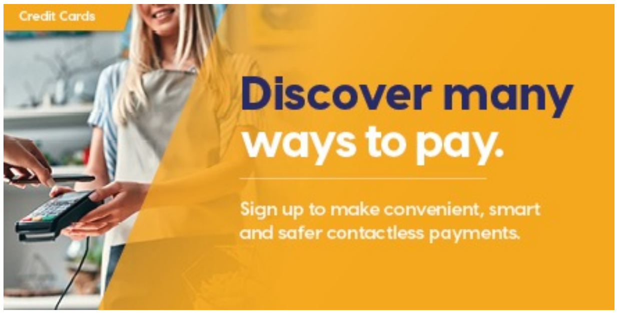
8.9/10.0

HIGHLIGHTS

PRODUCTS & SERVICES

Mobile Wallets

In 2021, Atlantic Central partnered with Collabria Financial to launch Google Pay™ and Samsung Pay™, adding to Apple Pay™, released in in 2020. At the beginning of the pandemic, Mobile wallets transformed day-to-day commerce for our members, helping them further limit their exposure to the virus while offering a convenient, contactless and secure way to shop online and in-store without the need for a physical card. At year end, all credit unions were onboarded.



ADOPTION WAS UP OVER LAST YEAR, WITH MORE THAN

10,000

APPLICATIONS SENT THROUGH THE PORTAL

Interac e-transfer® Increased Limits

In response to the mandatory increased receive limit for e-transfers, we created a complete support package to support credit unions with communicating and marketing this change to their members. The package included webinars, content guides (personal and commercial), reference guides, and a guide for social media management.

Digital Account Opening and Lending

Atlantic Central and League Data partnered to roll out a full-service, omni-channel account origination and loan auto-decisioning software. The software allows members to interact with their credit union anytime, anywhere to open an account or apply for a loan.

Credit union onboarding for this program was completed in Q1 of 2021

Sales Training Program

Participation confirmed at the end of the year for the "Skill Ownership to Mastery" program (to begin in 2022). The program was custom designed to support credit unions as they develop the sales skills they need to build strong member relationships:

- 9 staff from CUFM credit unions in the 'Tier 1 – Licensed Sales Training Program of Skill Ownership to Mastery'
- Total of 174 staff from all four Atlantic provinces

19 CREDIT UNIONS + **5** CUFM CREDIT UNIONS = **24** PARTICIPATING IN THE PROGRAM

58% OF CREDIT UNIONS IN ATLANTIC CANADA
7 NEW CREDIT UNIONS
12 RETURNING CREDIT UNIONS
165 STAFF

HIGHLIGHTS

HONEYBEE MISSION

The honeybee Mission is a shared initiative with Atlantic Central, League Data and other system partners to manage the delivery of changes across the banking system. Under the umbrella of the honeybee Mission are projects related to core banking, digital services, and cyber security service. We are seizing this opportunity to modernize the banking experience to allow credit unions to move faster and be more responsive in creating the experiences and products members need in their communities.

To learn more, check out the honeybee Mission tab on League Data's website https://leaguedata.ca/home.

THE honeybee MISSION
Building a stronger ecosystem, together.

Core Banking Services

MAMBU and the current systems and applications our credit unions use. This includes our banking systems and other applications that interact with our banking system.

Digital Services

ASAPP – the member and account origination solution for digital account, online and lending solutions; and projects such as Forge (online banking and mobile banking), and SharePoint (internal repository for documents/reports).

Cyber Security Services

The Atlantic Cybersecurity Program helps to educate credit unions and enhance their security posture individually and as a system.

HIGHLIGHTS

CO-OPERATIVE SOCIAL RESPONSIBILITY (CSR)
Living Our Values Together

Our vision is to enable Atlantic credit unions and the communities we serve to grow well. We've identified three strategic pillars that enable us to help our stakeholders, our business, and our communities thrive, by helping us live our values and deliver on our purpose.

1. ***Improve the financial resilience and inclusion of Atlantic Canadians***
2. ***Grow our investment in the sustainable economy***
3. ***Increase participation in the co-operative movement***

Highlights from 2021

- We published our **second sustainability report** that showcased data from 42 of our member credit unions, demonstrating the transformational impact of the Atlantic Credit Union system on our communities.

B CORP CERTIFIED FIRST TIER 2 CO-OPERATIVE IN CANADA TO ACHIEVE THIS

Certified B Corporation

$4,000
TO SUPPORT WOMEN IN BUSINESS SYMPOSIUM

Sobey School of Business
Saint Mary's University

$3,700
FROM THE ATLANTIC CREDIT UNION SYSTEM TO SUPPORT THE ONE DOLLAR ONE CANADA INITIATIVE

EACH ONE TEACH ONE SUCCESSFULLY TRANSITIONED OUR IN-PERSON FINANCIAL LITERACY PROGRAM ONLINE

241
PEOPLE PARTICIPATED IN

27
WORKSHOPS ACROSS ATLANTIC CANADA

$20,000
IN SUPPORT OF PROVINCIAL CO-OPERATIVE COUNCILS ACROSS ATLANTIC CANADA

HIGHLIGHTS

Coady Award 2020

Valley Credit Union

Named after a Dr. Moses Coady, a pioneer in the Atlantic Co-operative movement, our annual Coady Award recognizes the ways a specific credit union embodies Dr. Coady's work and celebrates the many ways they give back to their communities.

As the recipient of the 2020 Coady Award, **Valley Credit Union exemplifies the values of leadership, support and community involvement.** The credit union and its employees are not only committed to helping their members achieve financial success; they understand that prosperous communities benefit everyone. With that in mind, the people of Valley Credit Union share their time, skills and resources to support local organizations and initiatives.

KINGSTON GREENWOOD MENTAL HEALTH

95%

OF EMPLOYEES PARTICIPATED IN THE "ONE TEAM FOR MENTAL HEALTH WALK" ON BELL LET'S TALK DAY

$25,000

AWARDED CONCENTRA FINANCIAL'S EMPOWERING YOUR COMMUNITY GRANT IN SUPPORT OF THE MENTAL HEALTH ASSOCIATION

$41,000

TOTAL FUNDS RAISED SINCE 2019, GIVING

400

PEOPLE WITHIN THE COMMUNITY ACCESS TO MENTAL HEALTH FIRST AID TRAINING

$250,000

TO FLOWER CART GROUP BUILDING OPPORTUNITIES CAMPAIGN FOR THEIR NEW BUILDING PROJECT

OVER

$5,300

DONATED TO THE ANNAPOLIS VALLEY REGIONAL CENTRE FOR EDUCATIONS BREAKFAST PROGRAM

OVER

400

STAFF HOURS VOLUNTEERED IN THEIR COMMUNITIES

OVER

$270,000

TOTAL COMMUNITY CONTRIBUTIONS

OVER

60

ORGANIZATIONS SUPPORTED IN 2020

MANAGEMENT TEAM

Michael Leonard
President & CEO

Kim Walker
Chief Operating Officer

Don Noyes
VP Finance

Paul Paruch
VP Digital & Payments

Brenda Roberts-Harmon
VP Corporate Services
& Chief Risk Officer

CORPORATE GOVERNANCE

Sound governance and ethical behaviour begin with our board of directors ("board"), which is accountable to our shareholder members and assumes responsibility for the stewardship of Atlantic Central (Central). The board is responsible for overseeing the management of the business and affairs of Central and for providing effective leadership to Central and the credit union system, with the objective of enhancing stakeholder value. Among its many specific duties, the board approves strategic goals and business plans, sets policy to direct the overall operations of Central, provides advice, counsel and oversight to the President and CEO, oversees the ethical, legal, and social conduct of Central, oversees risk management, and reviews Central's ongoing financial performance. The board ensures that appropriate structures and procedures are in place to confirm its independence from management.

BOARD COMPOSITION

The board of Central consists of twelve directors as follows:

- Two directors elected by delegates representing Central's member credit unions within the New Brunswick Regional Group;
- Two directors elected by delegates representing Central's member credit unions within the Newfoundland and Labrador Regional Group;
- Six directors elected by delegates representing Central's member credit unions within the Nova Scotia Regional Group, as follows:
  - Three directors elected by delegates representing Central's member credit unions within NS Peer Group A (credit unions with total assets up to and including $100,000,000); and
  - Three directors elected by delegates representing Central's member credit unions within NS Peer Group B (credit unions with total assets over $100,000,000); and
- Two directors elected by delegates representing Central's member credit unions within the Prince Edward Island Regional Group.

The following individuals currently serve on the board:

Jim MacFarlane, Chair
Martin Gillis, Vice-Chair
Danielle Boudreau
Tammy Christopher
Sherri Clark
Doug Dewling
Lisa Loughery
Paul MacNeill
Camille Maillet
Gary O'Brien
William Timmons
Thomas Vickers

The board and each committee meet at least once each fiscal quarter, and the board holds an annual strategic planning session. The board meets at other times when matters requiring its approval or consideration are raised and it is not possible or prudent to wait for the next regularly scheduled meeting. The board met six times in 2021.

COMMITTEES OF THE BOARD

The board has established the following standing committees: Audit, Risk, Conduct Review, Co-operative Social Responsibility, Executive, Human Resource and Compensation, and Governance.

Audit, Risk and Conduct Review Committees

The committees consist of at least four directors, none of whom is an employee or officer of Central or League Savings and Mortgage Company (League Savings). The Audit Committee is responsible for ensuring that management has designed and implemented an effective system of financial management and related internal controls. It reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible for meeting periodically with internal and external auditors. The Risk Committee is responsible for ensuring that management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies used for the allocation of human, capital and other resources. The Conduct Review Committee is responsible for ensuring that Central has developed and adheres to ethical standards and sound business conduct in such areas as conflict of interest and related party procedures.

Committees Members: Doug Dewling (Chair), Tammy Christopher, Sherri Clark, and Paul MacNeill

Co-operative Social Responsibility Committee

The joint Central and League Savings Co-operative Social Responsibility (CSR) Committee is comprised of at least one director from each of Central and League Savings and representatives from each of the Atlantic Provinces. The CSR Committee develops and supports clear and precise policy statements for consideration by the board that help define our belief in social well-being and sustainability. The committee recommends to the board priorities for charitable giving and awards and recognition programs, and provides related oversight to these priorities and programs. In addition, the committee ensures sustainability and environmental impacts are considered in the management of premises and operations.

(Joint) Committee Members: Gary O'Brien (Chair), Lisa Loughery, Camille Maillet, Sarah Millar (LSM), and Thomas Vickers

Executive, Human Resource and Compensation Committee

The five members of this committee include the board chair, vice-chair and three members at large elected by the board, one of whom shall be a member, concurrently, of the board of Central's subsidiary, League Savings, serving as an appointee of Central. This committee is responsible for addressing matters between scheduled board meetings that require immediate attention, and acts as a Human Resources Committee. In this capacity, the committee makes recommendations to the board on the President and CEO's compensation and performance evaluation.

Committee Members: Jim MacFarlane (Chair), Martin Gillis (Vice-Chair), Lisa Loughery, William Timmons, and Thomas Vickers

Governance Committee

The committee consists of at least four directors and is responsible for reviewing and recommending changes to the governance structure of Central, and for ensuring that an effective governance system is in place, including a schedule for regular policy review and compliance. In addition, this committee ensures board decisions and positions are appropriately translated into documented policies. Policies developed by the committee are forwarded to the board for its consideration and approval. The committee oversees the procedures for nominating and electing Atlantic Central Directors to ensure compliance with Central's by-laws, and resolves any issues or questions related to this process. The committee is responsible for overseeing the director evaluation process, board competencies, and the ongoing training and development of board members.

Committee Members: Martin Gillis (Chair), Danielle Boudreau, Tammy Christopher, Paul MacNeill, and William Timmons

MANDATE OF THE BOARD OF DIRECTORS

While the board's fundamental responsibility is to oversee the management of the business and affairs of Central, any responsibility that is not specifically delegated to the President and CEO remains with the board. In particular, the board oversees Central's strategic direction to ensure it serves the organization, its member credit unions, employees, and communities of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. The board assumes overall stewardship with respect to Central's purpose and values, its long-term objectives and the approval of corporate strategies. Specifically, the board is responsible for:

- the selection, succession, evaluation, compensation and employment conditions of the President and CEO,
- establishing and approving board policies,
- overseeing Central's internal control framework,
- developing and approving Central's strategic goals and business,
- providing advice to the President and CEO,
- evaluating the board's performance and overseeing the ethical, legal and social conduct of the organization, and
- reviewing the financial performance and condition of the organization.

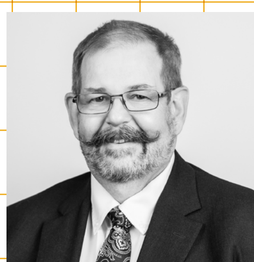
ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Atlantic Central Board of Directors recognizes the importance of each individual director's participation at board and committee meetings. Every director is expected to attend all board and committee meetings unless adequate cause is given for missing a meeting. The following table sets out the attendance of each board member at board and committee meetings throughout 2021.

Name	Board and Planning Session	Audit, Risk & Conduct Review Committees	Co-operative Social Responsibility Committee	Executive, HR & Compensation Committee	Governance Committee
Jim MacFarlane*	6/6			4/4	
Martin Gillis*	6/6			3/3	4/4
Danielle Boudreau	5/5				3/3
Tammy Christopher	5/5	3/3			3/3
Sherri Clark	6/6	4/4			
Doug Dewling	5/5	3/3			
Lisa Loughery	5/5		3/3	2/3	
Paul MacNeill	6/6	3/4			3/3
Camille Maillet	6/6		2/3		
Gary O'Brien	6/6		4/4		
William Timmons	6/6			3/3	4/4
Thomas Vickers	6/6		4/4	4/4	

*Table Officer


Jim MacFarlane, Chair


Martin Gillis, Vice-Chair


Danielle Boudreau


Tammy Christopher


Sherri Clark


Doug Dewling


Lisa Loughery


Paul MacNeill


Camille Maillet


Gary O'Brien


William Timmons


Thomas Vickers

BOARD EVALUATIONS

As part of its commitment to ongoing development and improvement, the board conducts an annual self-evaluation. This evaluates the board's effectiveness in the following governance areas: Central's purpose and vision; strategic leadership; financial performance; internal controls and oversight, including financial oversight, risk oversight, and human resources oversight; co-operative social responsibility; compliance and accountability; stakeholder relations; board functioning and board and management relations; and learning and development. The results of the evaluation are used to guide the training and development agenda for the board in the upcoming year.

EVOLVING GOVERNANCE PROCESSES

At Central, we recognize that our governance standards must evolve to respond to changes in our organization, the credit union system, stakeholder expectations and regulatory requirements, and to ensure that Central and its stakeholders receive the benefit of exceptional governance practices. The board and management continually monitor developments in corporate governance practices and are committed to ongoing training and development to ensure that Central continues to lead the credit union system with its governance practices. For example, over the past several years, Central has increased its focus on diversity and inclusion.

AFFILIATE AND REGULATORY BOARDS

Canadian Co-operative Investment Fund (CCIF)

Central is an Investor Member in CCIF, and is entitled to appoint a delegate to attend CCIF Annual General Meetings. The board appointed Kurt Peacock to the board of CCIF (term expires April 2023). Central appointed Kim Walker as the delegate.

Concentra

Central is a minority shareholder of Concentra. Michael Leonard serves as an independent Director on the Concentra Board of Directors (annual term expires in 2022).

Co-operative Enterprise Council of New Brunswick (CECNB)

Central has a share in CECNB, however there is no Central director currently serving on the CECNB Board.

Co-operative Management Education Co-operative (CMEC)

Central holds shares in CMEC. The CMEC Board of Directors includes co-op/credit union nominated positions, however the Central currently has no representative serving on the CMEC Board.

Credit Union Central of Canada (CUCC) – now known as 189286 Canada Inc.

CUCC transitioned to the Canadian Credit Union Association (CCUA) in 2015; however, a board of directors is still in place at 189286 Canada Inc., and Michael Leonard serves as the board chair.

League Data Limited

The President and CEO of Central, or designate, has a dedicated seat on the League Data Limited Board of Directors. Kim Walker, from Central, serves on the League Data Board.

League Savings and Mortgage Company (LSM)

Central is entitled to appoint six members to the board of its subsidiary, League Savings. Currently the directors appointed by Central to the board of LSM are Pat Duffield, Jim MacFarlane, Paul Newman, Gary O'Brien, Raymond Surette, and William (Bill) Timmons.

Nova Scotia Co-operative Council (NSCC)

Central appoints one director to the NSCC Board of Directors. Raymond Surette is the Central director serving on the NSCC Board (annual term expires in 2022).

Nova Scotia Credit Union Deposit Insurance Corporation (NS CUDIC)

Three of the seven positions on the NS CUDIC Board of Directors are nominated by Central, and appointments are subject to the approval of the Minister of Finance and Treasury Board. The Central-appointed directors on the NS CUDIC Board are Beverley Cooke and John Armstrong (terms expire in 2023), and Rick Parker (term expires in 2024).

The Co-operators

The Atlantic regional delegates elect three directors to The Co-operators' Board to represent the Atlantic Region. Effective April 2020, Central appointed Jim MacFarlane to serve as director (term expires in 2023). Central also appoints two delegates - currently Brenda Roberts-Harmon and Tom Vickers (terms expire in 2024).

Atlantic Central

Consolidated Financial Statements
December 31, 2021
(expressed in Canadian dollars)

Management's Responsibility for Financial Statements

Management has the responsibility of preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, Management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The Board has appointed an Audit Committee to review the annual financial statements with Management and auditors before final approval by the Board.

Both the federal and provincial regulators of financial institutions may conduct examinations and make such enquiries into the affairs of Atlantic Central and its subsidiary as they deem necessary to ensure the safety of depositors and members of Atlantic Central and to ensure that Atlantic Central is in sound financial condition. Their findings are reported directly to Management.

PricewaterhouseCoopers LLP, the independent auditors, have examined the consolidated financial statements of Atlantic Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to members.

Michael Leonard
President and CEO

Donald M. Noyes, CPA, CA
Vice President, Finance

Independent auditor's report

To the Members of Atlantic Central

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Central and its subsidiary (together, the Company) as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

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

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

Those charged with governance are responsible for overseeing the Company'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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
March 10, 2022

Atlantic Central

Consolidated Balance Sheet

As at December 31, 2021

	Note	2021 $	2020 $
Assets			
Cash and cash equivalents		53,315,612	63,085,095
Restricted cash		2,424,001	1,200,808
Investments	6	1,546,337,111	1,325,457,500
Loans and mortgages	7	622,206,133	608,445,085
Accrued interest		5,933,422	4,850,905
Income tax receivable		2,813,472	-
Capital tax receivable		-	20,219
Fixed assets	9	1,838,033	2,246,879
Right-of-use assets	11	240,100	340,726
Deferred tax assets	16	599,548	781,502
Securitization assets	8	101,811,321	86,716,469
Other assets		8,804,059	7,350,804
		2,346,322,812	2,100,495,992
Liabilities			
Deposits	10	1,872,812,717	1,662,459,593
Accrued interest		3,985,443	3,396,230
Lease liabilities	11	255,564	353,345
Accounts payable and accrued liabilities		12,989,831	16,497,878
Servicing liabilities		35,834,245	28,519,061
Mortgage backed securities	8	233,922,763	238,696,173
Capital tax payable		96,466	-
Income tax payable		-	1,431,085
Deferred tax liabilities	16	1,386,005	1,520,504
		2,161,283,034	1,952,873,869
Members' equity			
Capital stock	12	110,726,924	76,718,178
Contributed surplus		6,018,056	6,018,056
Special reserve	12	11,578,428	8,875,676
Retained earnings		41,246,276	36,027,669
Accumulated other comprehensive income		15,470,094	19,982,544
		185,039,778	147,622,123
		2,346,322,812	2,100,495,992
Commitments and contractual obligations	15		

Approved by the Board of Directors

Michael Leonard	*Jim Macfarlane*	*Doug Dewling*
President and CEO	Chair	Director

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

Atlantic Central

Consolidated Statement of Income

For the year ended December 31, 2021

	Note	2021 $	2020 $
Financial income			
Investment income		13,549,686	18,895,377
Interest on loans and mortgages		22,987,173	22,517,356
		36,536,859	41,412,733
Financial expense		16,714,294	22,708,400
Gross financial margin		19,822,565	18,704,333
Provision for credit losses (recoveries)		(556,911)	707,367
Net financial income		20,379,476	17,996,966
Securitization gains	8	3,697,326	4,511,543
Non-interest income	20	10,462,504	9,366,934
		34,539,306	31,875,443
Operating expenses			
Salaries and staff related		12,827,247	11,982,190
Management fees		205,618	215,528
Office		2,629,845	2,410,456
Marketing and business development		86,990	185,667
Democracy		770,891	571,735
Professional fees		727,519	618,944
Other		1,072,959	904,617
		18,321,069	16,889,137
Operating income		16,218,237	14,986,306
Distributions		-	4,000,000
Initiatives and restructuring expenses	21	1,318,311	1,022,771
Income before income taxes		14,899,926	9,963,535
Capital tax	16	1,761,466	1,114,935
Income taxes	16	3,119,270	1,761,417
Net income for the year		10,019,190	7,087,183

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

Atlantic Central

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2021

	Note	2021 $	2020 $
Net income for the year		10,019,190	7,087,183
Other comprehensive income (OCI)			
Items that will be reclassified subsequently to income:			
Net change in unrealized gains (losses) in investments at fair value through OCI:			
Net unrealized gains (losses) on mark to market investments		(5,897,891)	11,429,137
Reclassification of net realized gains (losses) to net income		(477,734)	(4,776,835)
Income tax expense (recovery):	16		
On unrealized gains (losses) on mark to market investments		1,723,391	(3,388,288)
On reclassification of net realized gains (losses) to net income		139,785	1,416,397
Other comprehensive income (loss)		(4,512,449)	4,680,411
Comprehensive income		5,506,741	11,767,594

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

Atlantic Central

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2021

	Capital stock (note 12) $	Contributed surplus $	Special reserve (note 12) $	Retained earnings $	Accumulated other comprehensive income (loss) $	Total members' equity $
Year ended December 31, 2021						
Balance – Beginning of year	76,718,178	6,018,056	8,875,676	36,027,669	19,982,544	147,622,123
Net income for the year	-	-	-	10,019,190	-	10,019,190
Other comprehensive loss, net of tax	-	-	-	-	(4,512,449)	(4,512,449)
Comprehensive income (loss)	-	-	-	10,019,190	(4,512,449)	5,506,741
Transfer to special reserve	-	-	4,021,065	(4,021,065)	-	-
Transfer from special reserve	-	-	(1,318,311)	1,318,311	-	-
Issued	32,800,000	-	-	-	-	32,800,000
Redeemed	-	-	-	-	-	-
Stock dividend	1,208,746	-	-	(1,208,746)	-	-
Cash dividend paid on shares	-	-	-	(889,083)	-	(889,083)
Balance – End of year	110,726,924	6,018,056	11,578,428	41,246,276	15,470,094	185,039,778
Year ended December 31, 2020						
Balance – Beginning of year	68,981,286	6,018,056	7,280,209	32,865,098	15,302,133	130,446,782
Net income for the year	-	-	-	7,087,183	-	7,087,183
Other comprehensive income, net of tax	-	-	-	-	4,680,411	4,680,411
Comprehensive income	-	-	-	7,087,183	4,680,411	11,767,594
Transfer to special reserve	-	-	2,449,478	(2,449,478)	-	-
Transfer from special reserve	-	-	(854,011)	854,011	-	-
Issued	6,651,550	-	-	-	-	6,651,550
Redeemed	(40)	-	-	-	-	(40)
Stock dividend	1,085,382	-	-	(1,085,382)	-	-
Cash dividend paid on shares	-	-	-	(1,243,763)	-	(1,243,763)
Balance – End of year	76,718,178	6,018,056	8,875,676	36,027,669	19,982,544	147,622,123

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

Atlantic Central

Consolidated Statement of Cash Flows

For the year ended December 31, 2021

	2021 $	2020 $
Cash provided by (used in)		
Operating activities		
Net income for the year	10,019,190	7,087,183
Charges (credits) to income not involving cash		
Loans and mortgages, net	(13,761,048)	14,559,555
Deposits, net	210,353,124	505,720,682
Mortgage backed securities, net	(4,773,410)	15,081,401
Depreciation	571,880	624,822
Interest receivable/payable, net	(493,304)	(1,026,370)
Income taxes receivable/payable, net	(4,244,557)	1,147,334
Deferred tax assets/liabilities, net	47,455	(220,270)
Other items, net	(12,624,289)	(7,428,813)
	185,095,041	535,545,524
Financing activities		
Net proceeds (redemptions) from issuance of capital	32,800,000	6,651,510
Dividends	(889,083)	(1,243,763)
Leases, net	(97,780)	(95,805)
	31,813,137	5,311,942
Investing activities		
Investments, net	(225,392,061)	(536,805,205)
Fixed assets, net	(62,408)	(549,739)
	(225,454,469)	(537,354,944)
Net change in cash and cash equivalents during the year	(8,546,290)	3,502,522
Cash and cash equivalents – Beginning of year	64,285,903	60,783,381
Cash and cash equivalents – End of year	55,739,613	64,285,903
Cash and cash equivalents include:		
Cash and balances with financial institutions	53,315,612	63,085,095
Cash included in investments	-	-
Restricted cash	2,424,001	1,200,808
	55,739,613	64,285,903
Supplemental disclosure of cash flow information		
Interest received	35,198,247	40,736,599
Dividends received	256,095	201,547
Interest paid	16,125,081	23,260,183
Income taxes paid, net of refunds	5,453,198	2,189,822

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

1 Reporting entity

Atlantic Central (the Company or Central) is incorporated in Nova Scotia under the Credit Union Act. Central is regulated by the Nova Scotia Office of the Superintendent of Credit Unions.

Central is the continuance of Credit Union Central of Nova Scotia and is owned by credit unions in the Atlantic provinces. Its head office is located at 6074 Lady Hammond Road in Halifax, Nova Scotia, and Central also operates out of offices in Riverview, New Brunswick and Charlottetown, Prince Edward Island. Central's key financial role is the management of the Atlantic credit union system's liquidity reserve requirements. Additionally, Central provides financial, trade association and other support services to Atlantic credit unions, their members and others.

The consolidated financial statements were authorized for issue by the Board of Directors on March 9, 2022.

2 Basis of presentation

The consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the consolidated financial statements are set out in note 4.

The consolidated financial statements include the accounts of the subsidiary, League Savings and Mortgage Company (League Savings). Subsidiaries are defined as entities controlled by the Company. Control is defined as the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Subsidiaries are consolidated from the date control is transferred and consolidation ceases on the loss of control.

Inter-company transactions and account balances have been eliminated from the consolidated accounts. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in note 4.

The Company presents its consolidated balance sheet on a non-classified basis. The following balances are generally classified as current: cash and cash equivalents, fixed income investments and loans and mortgages maturing within one year, accrued interest, other assets, lease liabilities, demand deposits, term deposits and mortgage backed securities maturing within one year, accounts payable and accrued liabilities and income taxes.

3 Changes in accounting standards

Changes in accounting policies during the year

There were no changes in accounting policies during the year that had a significant impact on the Company.

Future changes in accounting policies

There are no changes in accounting policies, that have been issued but are not yet effective, that are expected to have a significant impact on the Company.

4 Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with financial institutions that are utilized primarily in the payments function. Certain cash accounts that are utilized in Central's investment activities are reported in investments.

Restricted cash includes cash balances segregated and held with financial institutions for specific mortgage backed securities (MBS) program clearing activities.

Financial instruments

The Company classifies its financial assets in the following measurement categories: fair value through profit or loss (FVTPL); fair value through other comprehensive income (FVOCI); or amortized cost. Management determines the classification of its financial instruments at initial recognition.

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

Measurement methods – Amortized cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. it is amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses (ECLs) and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities are adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'Stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the ECL provision). Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the consolidated statement of income as a reduction to income over the expected life of the relevant loans and mortgages.

Initial recognition and measurement

The Company recognizes loans and mortgages on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Company becomes party to the contractual provision of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in net income when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Leases

The Company classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period in exchange for consideration.

As a lessor

At inception, the Company classifies a lease which transfers substantially all the risks and rewards incidental to ownership of the underlying asset as a finance lease. All other leases are classified as operating leases. When assets are held subject to a finance lease, the Company recognizes a finance lease receivable in the consolidated balance sheet representing its net investment in the lease. Interest income is recognized over the term of the lease using the implicit interest rate, which reflects a constant rate of return. For operating leases, the Company recognizes lease payments received as income on a straight-line basis over the term of the lease.

As a lessee

Except for certain short-term and low-value leases, the Company recognizes a right-of-use asset and lease liability for all leases at commencement. Lease liabilities are initially measured at the present value of the lease payments due over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed contractual payments, variable contractual payments based upon a rate or index and any amounts payable with respect to purchase, extension and/or termination options when it is reasonably certain that the Company will exercise the option. Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability plus initial direct costs and estimated decommissioning costs, less any lease incentives received. Right-of-use assets are subsequently amortized on a straight-line basis over the term of the lease or the estimated useful life of the asset, whichever is shorter. Right-of-use assets are recognized as part of the Company's premises and equipment within other assets on the consolidated balance sheet, while lease liabilities are included in other liabilities.

Investments

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

Debt instruments

Debt instruments are instruments that meet the definition of a financial liability from the issuer's perspective; such as loans and government and corporate bonds. The classification and subsequent measurement of debt instruments depends on the business model for managing the asset and the cash flow characteristics of the asset.

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

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest (SPPI), are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for interest revenue, ECL and reversals and foreign exchange gains and losses, which are recognized in income or loss. When the debt instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to income or loss. Interest income from these financial assets is included in interest on investments using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI 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 included in interest on investments.

Business model

The Company considers the following in the determination of the applicable business model for financial assets:

- the business purpose of the portfolio – such as a focus on earning contractual interest income or a focus on matching the duration of the liabilities that are funding the assets;
- the risks that are being managed and the type of activities that are carried out on a day-to-day basis to manage the risks;
- the basis on which performance of the portfolio is being evaluated; and
- the frequency and significance of sales activity in prior periods, and expectations about future sales activity.

The Company has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on this established criteria, the financial asset is expected to be securitized as part of a portfolio that qualifies for derecognition, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL. If the portfolio does not qualify for derecognition, the Company has elected to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

SPPI

Where the business model is to hold to collect contractual cash flows, or to collect contractual cash flows and sell, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

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

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. The Company elects to present in OCI changes in the fair value of certain equity instruments that are not held for trading.

Gains and losses on these equity instruments are never reclassified to income or loss and no impairment is recognized in income or loss. Dividends are recognized in investment income unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

Dividend income on investments is recognized when the right to receive income is established.

Investments in associates

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

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

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

Investment in CU CUMIS Wealth Holdings Limited Partnership (CCWH)

CCWH is an investment limited partnership domiciled in Canada formed to hold the partners' interest in Aviso Wealth Inc. The partners of CCWH are Central, Central 1 Credit Union, Credit Union Central of Alberta, Credit Union Central of Saskatchewan, Credit Union Central of Manitoba Limited and The CUMIS Group. Central has a 5.7% ownership interest in CCWH and accounts for its investment using the equity method (note 22).

Impairment

The Company assesses on a forward-looking basis, ECL associated with its assets carried at amortized cost and FVOCI. The Company recognized a loss allowance for such losses at each reporting date. The measurement of ECL reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Debt instruments carried at FVOCI are considered to have low credit risk and the loss allowance recognized during the period was therefore limited to 12 months ECL. Management considers 'low credit risk' to be, in the absence of evidence of an increase in credit risk, investments in government debt instruments and investments in financial institutions that have been designated as a domestic systemically important bank (D-SIB) or a global systemically important bank (G-SIB). Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Note 5 provides more detail on how the ECL is measured.

Modifications of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this happens, the Company assesses whether or not the new terms are substantially different than the original terms. The Company does this by considering, among others, the following factors:

- if the borrower is in financial difficulty, where the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in; or
- insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognizes the original financial asset, recognizes a new asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed upon payments. Differences in the carrying amount are also recognized in net income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Company transfers the contractual rights to receive the cash flows from the asset or has assumed an obligation to pay those cash flows to a third-party and the Company has transferred substantially all of the risks and rewards of ownership of that asset to a third-party. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

- has no obligation to make payments unless it collects equivalent amounts from the assets;
- is prohibited from selling or pledging the assets; and
- has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method.

Mortgage backed securities

The Company securitizes insured residential mortgages through the creation of MBS under the National Housing Act Mortgage-Backed Securities (NHA MBS) program sponsored by Canada Mortgage and Housing Corporation (CMHC). All loans securitized under the NHA MBS program are required to be insured by CMHC or a third-party insurer. The NHA MBS program utilizes a Central Payor and Transfer Agent (CPTA). The use of one designated CPTA for all issuers makes greater program efficiency possible in paying investors, transferring NHA MBS and issuing new NHA MBS.

The MBS created under the program are sold to third-party investors (Market MBS) or are sold to Canada Housing Trust (CHT), a CMHC sponsored structured entity, under the Canada Mortgage Bond (CMB) program.

In a Market MBS, the CPTA registers the NHA MBS and issues NHA MBS certificates to investors, and CMHC provides a guarantee of the timely payment of amounts due to the investors. The MBS are backed by the residential mortgages and amortize in step with the mortgages underlying the security.

In the CMB program, the CHT aggregates NHA MBS from multiple issuers, financing the purchase of the NHA MBS through the issuance of securities to third-party investors. These CMB securities provide investors with semi-annual interest payments over the term of the bond, and the repayment of the principal balance on the specified maturity date. The timely payment of interest and principal to investors is guaranteed by CMHC.

The Company uses these securitization programs to diversify its funding sources.

With Market MBS, the Company typically continues to administer the loans securitized and is entitled to the payments received on the mortgages. At the same time, the Company is obligated to make the payments due on the issued MBS, including the investment yield due to the investors in the security, regardless of whether the Company has collected the funds from the mortgagor.

The Company also purchases pools of mortgages to sell into the CMB program. These mortgage pools are typically administered by a third-party mortgage servicer for a fee. For these pools, the Company is also entitled to the payments received on the mortgages and obligated to make the payments due on the issued MBS.

Unlike the Market MBS, the CMB securities do not amortize in step with the underlying mortgages. As a result, the CMB program requires the provision of replacement MBS securities to offset the declining balance of the underlying mortgages through principal payments. The CMB program also requires an interest rate swap agreement under which a Swap Counterparty pays the CHT the interest due to investors and receives the interest on the NHA MBS securities. For a fee, the Company has contracted with a third-party financial institution to take on the requirements to provide the replacement NHA MBS securities and to act as the Swap Counterparty.

Derecognition

The sale of mortgages through the NHA MBS program does not meet the requirements for derecognition if the Company has not transferred substantially all the risks and rewards of ownership of the underlying mortgages, as it retains the prepayment, credit and interest rate risk associated with the mortgages. For sales of MBS that do not qualify for derecognition, the Company continues to recognize the underlying mortgages in assets as secured loans and the cash proceeds from the securitization are recognized as liabilities.

Securitization retained interests and servicing liabilities

In certain cases, the Company has purchased pools of mortgages for subsequent sale into the CMB program where the Company's exposure to risks and rewards from the securitized assets is quite limited. In these transactions, the Company retains the rights to the future excess interest spread and the liability associated with servicing the assets sold, with very little exposure to variable cash flows.

The Company accounts for its retained interests and servicing liabilities on the consolidated balance sheet, in securitization assets and accounts payable and accrued liabilities, respectively. During the life of the securitization, as cash is received, the retained interest and the servicing liability are amortized and recognized in the consolidated statement of income under interest on loans and mortgages and non-interest income (securitization expenses), respectively.

Gains on securitization

When these assets are derecognized, the gains or losses on the transactions are recorded in securitization gains and are dependent in part on the previous carrying amount of the financial assets involved in the transfer. The proceeds of the sale are allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs.

Fixed assets

Land is carried at cost. Buildings, equipment and improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The useful life and residual value of fixed assets are reviewed at least annually. Depreciation rates are as follows:

Buildings and improvements	2 – 10%
Furniture and equipment	20 – 33%

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Operating expenses are recognized upon the utilization of the services.

The Company generates revenue primarily from providing products and services to its members including credit union lending and access to digital banking technologies and payments processing solutions offered by credit union system partners and other service providers. The Company provides access to credit facilities to support clearing, daily cash management, borrowing and other liquidity management requirements.

Payment services facilitate the day-to-day banking requirements of credit unions, which comprise multiple services that are provided over time. The revenue is collected over time at contracted terms based on the number of transactions that have occurred in the period, or a flat monthly fee depending on the type of services provided.

As a trade association, the Company collects dues from credit union members to fund certain services such as risk management, human resources, consulting and support, and marketing and communications planning. These value-added services give member credit unions access to a wealth of expertise, while remaining affordable through economies of scale. The assessment of dues funded functions is determined annually based on an operating budget that is approved by the Board of Directors (Board). Dues are collected from credit unions quarterly. The services are rendered over time and performance obligations are satisfied in the same manner.

The Company also collects dues from member credit unions to develop a regional marketing program. The program includes owned and earned multi-media campaigns, and other activities to allow credit unions to build awareness of the credit union’s brand to acquire members and increase wallet share. The dues are reviewed and approved by credit unions annually. The Company engages third-party vendors to perform these services. As such, performance obligations are satisfied over time as marketing activities are provided.

The Company also provides other consulting and marketing services, which are typically one-off work requests. The performance obligations relating to these services are satisfied upon completion of the contracts and delivery of the goods or services. Therefore, revenue is recognized at a point in time based on the right to invoice.

Other fee income, including account servicing fees, loan fees, discharge fees and administration fees, is recognized as the services are provided.

Translation of foreign currencies

Assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date. Revenues and expenses denominated in foreign currencies are translated using the rate at the transaction date.

Foreign currency translation gains and losses are included in banking service fees.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI. Income tax consequences of dividends on financial instruments classified as equity are recognized in net income.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

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

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

Employee benefits

Short-term employee benefits include salaries and wages, compensated absences, medical and dental plans, and variable compensation. Central also contributes on behalf of employees to a Group Savings for Retirement Program and to life and long-term disability insurance plans. Under these defined contribution programs, Central pays fixed contributions to an independent entity and has no legal or constructive obligation to pay further contributions. Defined contribution program costs of $620,360 (2020 – $607,777) are expensed as the related service is provided.

Initiatives and restructuring

Expenses that are not expected to recur in normal operations, including certain expenses relating to system initiatives or other organizational changes, are reported in initiatives and restructuring expenses.

Critical accounting estimates and assumptions

In preparing the Company's consolidated financial statements, Management is required to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded in the period in which the estimate reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The Canadian economy experienced significant disruption and market volatility related to the pandemic. In 2021, COVID-19 persisted, resulting in new variants of the virus throughout the year. In late 2021, the Omicron variant of COVID-19 spread worldwide, adding further uncertainty. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses, and individuals to limit spread of COVID-19, as well as government economic response and support efforts.

Due to the unprecedented nature of the pandemic, developing reliable estimates and applying judgment remains difficult. Accounting for ECL remains difficult in the current circumstances. Consideration is given both to the effects of COVID-19 and the significant government support measures, however, significant measurement uncertainty exists in determining ECLs and measurement is subject to significant judgment.

The judgments and estimates that have the most significant effect on the amounts recognized in the consolidated financial statements are decisions with respect to the fair value of financial instruments, the allowance for loan losses, the derecognition of loans and mortgages and income taxes.

Fair value of financial instruments

The determination of the fair value of financial instruments requires the exercise of judgment by Management. The fair value of financial instruments traded in active markets at the consolidated balance sheet date is based on their quoted market prices. Where independent quoted market prices do not exist, fair value may be based on other observable current market transactions or based on a valuation technique that maximizes the use of observable market inputs.

For certain types of equity instruments, where no active market exists or where quoted prices are not otherwise available, fair value is considered to approximate par value based on the terms of those instruments. The Company continues to monitor these instruments for any indication that a new measure of fair value is available.

ECL allowance

The Company reviews its loan portfolio to assess the ECL allowance for loans at least on a quarterly basis. The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (i.e. the likelihood of members defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 5.

Several significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk (SICR);
- choosing appropriate models and assumptions for the measurement of ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

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

Derecognition of loans and mortgages

In determining whether to derecognize loans and mortgages, judgment is applied in determining whether the Company has transferred substantially all of the risks and rewards of ownership in transferring the assets to another entity.

Income taxes

The determination of deferred tax assets or liabilities requires judgment as the recognition is dependent on projections of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled.

5 Risk management

The Company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. The Company manages significant risks through an Enterprise Risk Management Framework (ERM), which includes a comprehensive infrastructure of policies, procedures, methods, oversight and independent review, designed to reduce the significant risks and to manage those risks within appropriate tolerances for the Company.

Authority for all risk-taking activities rests with the Board, which approves the Company's Risk Appetite Statement and risk management policies, delegates' limits and regularly reviews Management's risk assessments and compliance with approved policies. Qualified professionals throughout the Company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

The various processes within the Company's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, stress tested, assessed, and controlled. Internal Audit reports independently to the Audit, Risk and Conduct Review Committees of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

Stress testing is a risk measurement technique that examines the potential effects on the Company's financial condition resulting from adverse economic, liquidity, credit and/or financial market conditions. The Company's risk management processes include stress testing scenarios including exceptional but plausible adverse events that can impact the Company's financial results and capital requirements, the results of which are used to enhance our understanding of our risk profile and to support our strategic decision making. Stress testing results are also explicitly incorporated into the Company's Capital Plan.

The Chief Risk Officer is responsible for the oversight of risk management across the organization and reports quarterly to the Risk Committee and the Board. The Management Risk Committee (MRC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

- Credit risk
- Interest rate risk
- Investment portfolio
- Large exposures
- Liquidity
- Foreign exchange
- Derivatives
- Capital

The MRC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies.

The Asset Liability Management Committee (ALCO) has been established to ensure the effective and prudent management of the Company's financial assets and liabilities. ALCO will achieve this by developing and implementing financial strategies and related processes consistent with the short and long-term goals set by the Board.

The Company's principal business activities result in a consolidated balance sheet that consists primarily of financial instruments. The key risks related to the Company's financial instruments are credit, liquidity and market risk.

Credit risk

Credit risk is the potential for loss due to the failure of a borrower, counterparty, endorser, or guarantor to fulfill its payment obligation to the Company. Credit risk arises in the Company's direct lending operations and in its funding and investing activities where counterparties have repayment or other obligations to the Company. There is also credit risk in unfunded loan commitments. The Company has established policies and procedures for credit risk management, including individual counterparty limits and portfolio category limits relating to investment activities.

Management of credit risk requires prudent and conservative underwriting criteria administered by well-trained and experienced personnel. Credit risk management practices also include consistent and timely collection procedures, conservative analysis of property appraisals and a realistic credit allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

All loans are risk rated at the time of approval and may be subject to subsequent risk assessment based on factors such as loan type, amount, original risk rating and payment history. Loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board reviews all loans above the lending limits of Management.

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Company has developed models to support the quantification of credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Company considers three components:

- the probability of default (PD) by the borrower or counterparty on its contractual obligations;
- current exposures to the counterparty and its likely future development, from which the Company derives the exposure at default (EAD); and
- the likely recovery ratio on the defaulted obligations loss given default (LGD).

The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimize their effectiveness.

The classes of financial instruments to which the Company is most exposed to credit risk are cash, investments and loans and mortgages.

ECL measurement

IFRS 9, Financial instruments, outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- a financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- if a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- if the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis.

The key judgments and assumptions adopted by the Company in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all instruments held by the Company. A watch list is used to monitor credit risk; this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

- for consumer and residential loans:
  - contractual cash flow obligations are more than 30 days past due, and/or;
  - available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced (i.e. using internal watch lists for monitoring the credit risk of borrowers).
- for commercial loans:
  - contractual cash flow obligations are more than 30 days past due, and/or;
  - available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced (i.e. significant deterioration in risk rating, in short-term forbearance, early signs of cash flow/liquidity problems, adverse change in operating results, adverse changes in business, financial or economic conditions in which the business operates).

In the years ended December 31, 2021 and 2020, the Company has used the low credit risk exemption for certain investment grade securities and for credit union lines of credit.

Definition of default and credit-impaired assets

The Company defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower is in long-term forbearance; and
- the borrower is insolvent or has filed for bankruptcy.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company's ECL calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.
- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortizing products, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type:

- for secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and expected recovery costs.
- for unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

The assumptions underlying the ECL calculation — such as how the maturity profile of the PDs and collateral values change, etc. — are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Collateral held and other credit risk enhancements

The Company employs a range of policies and practices to mitigate credit risk. The most common is accepting collateral for funds advanced. A valuation of the collateral obtained is prepared as part of the loan origination process. The principal collateral types for loans and advances are mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held since the prior period.

Assets obtained by the Company, by taking possession of collateral held as security against loans and advances, are included in other assets. The balance held at December 31, 2021 was $9,479 (2020 – $645,820).

Management regularly monitors the Company's credit risk and reports to the Board on a quarterly basis.

Liquidity risk

Liquidity refers to the capacity to generate or obtain sufficient cash or its equivalent in a timely manner at a reasonable price to meet the Company's commitments as they fall due and to fund new business opportunities. Liquidity risk is the potential for losses to be incurred from holding insufficient liquidity to survive a contingent stress event.

The Company's primary role is to manage liquidity for the credit union systems in Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador. In its role as a credit union service partner, League Savings' primary financial role is to accept deposits from credit unions, their members and others, and to employ those funds to advance loans and mortgages to credit union members and others.

The Company has established policies to ensure that it is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board.

The Company's liquidity management practices include:

- ensuring the quality of investments acquired for liquidity purposes meet very high standards;
- matching the maturities of assets and liabilities;
- diversifying funding sources;
- establishing and maintaining minimum liquidity reserves;

- monitoring actual cash flows on a daily basis;
- monitoring economic, market, and local trends and forecasting future cash flow requirements;
- utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements;
- stress testing scenarios to determine the ability to withstand various unanticipated events; and
- contingency planning.

While operating under similar liquidity management frameworks, certain liquidity management practices of Central and the subsidiary, League Savings, differ due to the specific nature of each organization. While Central's primary financial role is to manage the liquidity requirements of the Atlantic credit union system, League Savings acts primarily in the mortgage lending and deposit taking industry. In particular, the potential liquidity stresses that are modelled in scenario testing are different.

As the credit unions' system liquidity provider, Central's cash flows are impacted by the liquidity requirements of the individual Atlantic credit unions. As a result, Central's liquidity stress testing assesses the impact of increases in the drawdowns of credit union lines of credit and decreases in credit union excess liquidity deposits (deposits above the levels that credit unions are required to maintain with Central).

League Savings' cash flows are most significantly impacted by its credit union corporate deposits. As such, its scenario testing focuses on increases in the redemptions of these deposits.

The matching of the maturities of assets and liabilities are detailed in note 13.

Management monitors Central's liquidity position daily and reports to the Board on a quarterly basis.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually. This includes limits on the mismatch of foreign currency assets and liabilities and limits on the amount of equity investments permitted in the securities portfolio. The Company has no exposure to commodity prices.

The Company uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. The Company has developed standards regarding the use of derivative products.

Interest rate risk is the risk that a movement in interest rates will have on the financial condition of the Company. The Company's interest rate risk policies include limits on the allowable variation in forecasted financial margin due to interest rate changes. The Company manages and controls interest rate risk primarily by managing asset/liability maturities; however, off consolidated balance sheet techniques such as interest rate risk contracts may be used to hedge against specific interest rate exposures.

The Company measures interest rate risk through a combination of gap and income simulation analysis monthly. Gap analysis measures the difference between the amount of assets and liabilities repricing in specific time periods. Income simulation models are used to measure interest rate exposure under various assumptions about interest rates, products, volumes and pricing. Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below.

Earnings at risk over the next 12 months as at December 31:

	2021 $	**2020** $
100 basis point increase	(151,910)	(621,190)
100 basis point decrease	829,660	(789,720)

Management provides quarterly reports to the Board on interest rate risk. The Board has established limits on the Company's maximum exposure to interest rate risk and the Company's earnings at risk were within this limit.

6 Investments

Debt instruments are carried at FVOCI. For equity investments, the Company has also elected to measure the investments at FVOCI. The Company accounts for its investment in associate using the equity method.

	2021		**2020**	
	Cost $	**Market value** $	**Cost** $	**Market value** $
Banks [(a)]	612,489,936	612,756,273	517,308,863	517,496,510
Government debt	569,635,616	565,759,727	497,064,321	502,331,909
Corporate debt	-	-	-	-
Co-operative deposits	330,402,139	330,360,549	274,003,124	274,510,978
Co-operative equities	12,898,544	19,242,178	9,821,361	13,345,260
Investment in associate	15,992,924	15,992,924	15,993,443	15,993,443
Corporate equities	112,461	2,275,460	112,461	1,779,400
Allowance for impairment	(50,000)	(50,000)	-	-
	1,541,481,620	1,546,337,111	1,314,303,573	1,325,457,500

a) Includes cash and cash equivalents utilized in the investment function.

7 Loans and mortgages

As at December 31, 2021, loans are presented net of ECLs. Loans are initially measured at fair value and are subsequently measured at amortized cost.

	Total loans $	Allowance for credit losses $	Net loans $
2021			
Residential	397,285,582	475,785	396,809,797
Commercial	216,032,788	1,400,989	214,631,799
Commercial leases	3,212,446	50,288	3,162,158
Other	1,519,926	70,635	1,449,291
Co-operatives	6,153,088	-	6,153,088
	624,203,830	1,997,697	622,206,133
2020			
Residential	402,625,963	628,028	401,997,935
Commercial	202,414,404	1,806,786	200,607,618
Commercial leases	-	-	-
Other	3,904,892	188,594	3,716,298
Co-operatives	2,123,234	-	2,123,234
	611,068,493	2,623,408	608,445,085

The following table is a summary of loans and mortgages by ECL impairment stage. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are considered impaired. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets.

	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
2021				
Residential	396,380,438	700,872	204,273	397,285,582
Commercial	216,032,788	-	-	216,032,788
Commercial leases	3,212,446	-	-	3,212,446
Other	1,516,836	2,152	937	1,519,926
Co-operatives	6,153,088	-	-	6,153,088
	623,295,596	703,024	205,210	624,203,830

	Performing		Impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
2020				
Residential	401,148,730	1,193,772	283,460	402,625,962
Commercial	202,414,404	-	-	202,414,404
Commercial leases	-	-	-	-
Other	3,898,528	4,656	1,708	3,904,892
Co-operatives	2,123,234	-	-	2,123,234
	609,584,896	1,198,428	285,168	611,068,493

Loss allowance

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

- transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- impact on the measurement of ECL due to changes in PD, EAD and LGD in the period arising from regular refreshing of inputs to models;
- impacts on the measurement of ECL due to changes made to models and assumptions;
- discount unwinding within ECL due to the passage of time, as ECL is measured on a present value basis; and
- financial assets derecognized during the period and the write-offs of allowances related to assets that were written off during the period.

The following table presents the reconciliation of allowances for credit losses for each loan category according to ECL impairment stage.

	Performing		Impaired	
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Residential				
Balance as at December 31, 2020	617,976	8,779	1,273	628,028
Transfer to (from):				
Stage 1	(4,922)	4,922	-	-
Stage 2	1,095	(1,095)	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [(a)]	(145,345)	(6,360)	(539)	(152,244)
Balance as at December 31, 2021	468,805	6,246	734	475,785
Commercial				
Balance as at December 31, 2020	1,806,787	-	-	1,806,787
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross recoveries	-	-	(596)	(596)
Recoveries	-	-	53,500	53,500
Remeasurement [(a)]	(405,798)	-	(52,904)	(458,702)
Balance as at December 31, 2021	1,400,989	-	-	1,400,989
Commercial leases				
Balance as at December 31, 2020				
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [(a)]	50,288	-	-	50,288
Balance as at December 31, 2021	50,288	-	-	50,288
Other				
Balance as at December 31, 2020	183,623	3,263	1,708	188,594
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Gross write-offs	(19,079)	(352)	(219)	(19,650)
Recoveries	12,157	225	140	12,522
Remeasurement [(a)]	(108,314)	(1,824)	(692)	(110,830)
Balance as at December 31, 2021	68,386	1,312	937	70,635
Total allowance at December 31, 2021	1,988,468	7,558	1,671	1,997,697

	Performing		Impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Residential				
Balance as at December 31, 2019	733,476	7,328	5,241	746,045
Transfer to (from):				
Stage 1	(7,446)	7,446	-	-
Stage 2	3,667	(3,780)	113	-
Stage 3	870	-	(870)	-
Gross write-offs	-	-	(2)	(2)
Recoveries	-	-	2,996	2,996
Remeasurement [(a)]	(112,590)	(2,215)	(6,205)	(121,010)
Balance as at December 31, 2020	617,977	8,779	1,273	628,029
Commercial				
Balance as at December 31, 2019	1,073,742	-	168,584	1,242,326
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	(154,758)	(154,758)
Recoveries	-	-	3,000	3,000
Remeasurement [(a)]	733,045	-	(16,826)	716,219
Balance as at December 31, 2020	1,806,787	-	-	1,806,787
Commercial leases				
Balance as at December 31, 2019	-	-	-	-
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Remeasurement [(a)]	-	-	-	-
Balance as at December 31, 2020	-	-	-	-
Other				
Balance as at December 31, 2019	80,965	5,551	-	86,516
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Gross write-offs	(28,109)	(1,200)	(134)	(29,443)
Recoveries	9,537	407	45	9,989
Remeasurement [(a)]	121,229	(1,495)	1,797	121,531
Balance as at December 31, 2020	183,622	3,263	1,708	188,593
Total allowance at December 31, 2020	2,608,386	12,042	2,981	2,623,409

a) Remeasurement includes changes in the allowance related to purchases and originations, derecognition and maturities, partial repayments and additional draws on existing facilities, and changes in estimates relating to the costs and the value of collateral reflected in the realizable value of a loan.

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired at December 31 and the related collateral held, are shown below:

	Balance $	Collateral value $	Allowance $
2021			
Residential	204,273	215,000	734
Other	937	-	937
	205,210	215,000	1,671
2020			
Residential	283,460	320,000	1,273
Other	1,708	-	1,708
	285,168	320,000	2,981

Commercial leases

The carrying value of finance leases of certain commercial equipment where the Company is the lessor includes the following:

	2021 $	2020 $
Minimum lease payments receivable:		
Not later than one year	825,590	-
Between one and five years	2,699,021	-
Later than five years	33,280	-
	3,557,891	-
Unearned finance income	(345,445)	-
Gross commercial leases receivable	3,212,446	-

The average weighted term to maturity of the commercial leases is 53 months. The average weighted interest rate on the current receivable is 4.16%.

8 Mortgage backed securities

Balances relating to mortgage backed securities under the NHA MBS program are as follows:

a) Transferred assets that do not qualify for derecognition

The Company securitizes insured residential mortgage loans by participating in the NHA MBS and CMB programs. Through the programs, the Company issues securities backed by residential mortgage loans that are insured against the borrowers' default. Once the mortgage loans are securitized, the Company assigns the underlying mortgages and/or related securities to CMHC. As an issuer of MBS, the Company is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether the amounts have been collected on the underlying transferred mortgages.

In these securitizations, the Company retains certain prepayment risk, timely payment guarantee risk and interest rate risk related to the transferred mortgages. Due to retention of these risks, the transferred mortgages are not derecognized and the securitization proceeds are accounted for as secured borrowings. There are generally no ECLs on the securitized mortgage assets as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of the Company in the event of failure of mortgages to be paid when due.

The following is the Company's net positions on its securitized assets and liabilities that have not been derecognized:

	2021			**2020**		
Carrying value	**Market MBS $**	**CMB $**	**Total $**	**Market MBS $**	**CMB $**	**Total $**
NHA MBS assets	192,055,624	42,395,864	234,451,488	161,221,644	77,919,298	239,140,942
Associated liabilities	191,594,362	42,328,401	233,922,763	160,905,150	77,791,023	238,696,173

NHA MBS assets are recognized on the consolidated balance sheet and are included as part of loans and mortgages.

Assets pledged as collateral

Mortgage loans are pledged against the MBS issuances. As a requirement of the NHA MBS and CMB programs, the Company assigns and transfers to CMHC, all of its rights, title and interest in existing mortgage pools. If the Company fails to make timely payment under an NHA MBS security, CMHC may enforce the assignment to CMHC of the mortgages included in all the mortgage pools backing the securities issued. If CMHC enforces the assignments, all authority and power of the Company under the terms of the NHA MBS guide, whether with respect to securities issued or mortgages pooled in the contract, shall pass to and be vested with CMHC.

b) Transferred assets that have been derecognized

In addition to the MBS above, certain mortgages were sold into the CMB program and derecognized. Balances relating to these transferred assets are as follows:

	2021 $	**2020 $**
Mortgages sold	633,302,340	766,884,757
Gain on sales	3,697,326	4,511,543
Cumulative balance of mortgages sold and derecognized	3,008,371,200	2,375,068,860
Related balances at December 31:		
Retained interests	101,811,321	86,716,469
Servicing liabilities	35,834,245	28,519,061

9 Fixed assets

2021	Land $	Buildings and improvements $	Furniture And equipment $	Total $
Gross carrying amount				
Balance at January 1	351,522	6,505,245	7,222,580	14,079,347
Additions	-	11,032	51,376	62,408
Balance at December 31	351,522	6,516,277	7,273,956	14,141,755
Accumulated depreciation				
Balance at January 1	-	4,999,860	6,832,608	11,832,468
Depreciation	-	292,914	178,340	471,254
Balance at December 31	-	5,292,774	7,010,948	12,303,722
Carrying amount December 31	351,522	1,223,503	263,008	1,838,033
2020				
Gross carrying amount				
Balance at January 1	351,522	6,079,600	7,098,486	13,529,608
Additions	-	425,645	124,094	549,739
Balance at December 31	351,522	6,505,245	7,222,580	14,079,347
Accumulated depreciation				
Balance at January 1	-	4,680,262	6,627,934	11,308,196
Depreciation	-	319,598	204,674	524,272
Balance at December 31	-	4,999,860	6,832,608	11,832,468
Carrying amount December 31	351,522	1,505,385	389,972	2,246,879

10 Deposits

	2021 $	2020 $
Current accounts	113,373,130	108,333,855
Cash management	161,202,184	192,514,892
Segregated liquidity	525,838,273	472,126,409
Registered	8,241,037	7,512,817
Other demand	3,684,691	3,413,791
Total demand deposits	812,339,315	783,901,764
Registered	128,993,651	133,458,528
Other term	931,479,751	745,099,301
Total term deposits	1,060,473,402	878,557,829
	1,872,812,717	1,662,459,593

11 Leases

	Premises $	Computers and equipment $	Total $
2021			
Right-of-use assets			
Gross carrying amount			
Balance at January 1	440,400	99,205	539,605
Balance at December 31	440,400	99,205	539,605
Accumulated amortization			
Balance at January 1	141,802	57,077	198,879
Deprecation	70,977	29,649	100,626
Balance at December 31	212,779	86,726	299,505
Carrying amount December 31	227,621	12,479	240,100
Lease liabilities	242,607	12,957	255,564
Interest expense in financial expense	12,310	745	13,055

	Premises $	Computers and equipment $	Total $
2020			
Right-of-use assets			
Gross carrying amount			
Balance at January 1	440,400	99,205	539,605
Balance at December 31	440,400	99,205	539,605
Accumulated depreciation			
Balance at January 1	70,900	27,429	98,329
Depreciation	70,902	29,648	100,549
Balance at December 31	141,802	57,077	198,879
Carrying amount December 31	298,598	42,128	340,726
Lease liabilities	310,253	43,092	353,345
Interest expense in financial expense	13,818	1,444	15,261

12 Capital stock

Authorized capital stock, and the amounts outstanding, is as follows:

				Outstanding			
				2021		2020	
	Par value $	Redemption price $	Authorized	Shares	Amount $	Shares	Amount $
Opening balance				5,437,543	54,375,430	4,772,392	47,723,920
Issued				2,080,000	20,800,000	665,155	6,651,550
Redeemed				-	-	(4)	(40)
Common shares	None	None	Unlimited	7,517,543	75,175,430	5,437,543	54,375,430
Opening balance				31,991	32	31,991	32
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class B	0.001	100	100,000,000	31,991	32	31,991	32
Opening balance				22,342,626	22,342,626	21,257,245	21,257,245
Issued				13,208,746	13,208,746	1,085,382	1,085,382
Redeemed				-	-	-	-
Preferred shares – Class LSM	None	1	10,000,000	35,551,372	35,551,372	22,342,627	22,342,627
Opening balance				26,690	27	26,690	27
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class NB	0.001	100	10,000,000	26,690	27	26,690	27
Opening balance				4,100	4	4,100	4
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class NL	0.001	100	10,000,000	4,100	4	4,100	4
Opening balance				59,240	59	59,240	59
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class NS	0.001	100	10,000,000	59,240	59	59,240	59
Opening balance				100	-	100	-
Issued				-	-	-	-
Redeemed				-	-	-	-
Preferred shares – Class PEI	0.001	100	10,000,000	100	-	100	-
				43,191,036	110,726,924	27,902,290	76,718,178

Shares are owned by member credit unions, who must maintain Common Shares in amounts proportionate to that member's pro rata share of system assets. Common Share ownership requirements are determined by the Board. All classes of shares are non-voting. Members hold votes proportionate to their pro rata share of system assets.

In 2021, in accordance with Common Share ownership requirements, Central issued $20,800,000 (2020 – $6,651,550) in Common Shares.

All of the Class B, Class NB, Class NL, Class NS and Class PEI shares were issued as part of the business combination described in note 1. Central may at any time, upon providing 30 days' notice, and subject to any limitations set by applicable legislation or Office of the Superintendent of Financial Institutions (OSFI), redeem these shares for the redemption price.

Other than the redemption of shares that would result from the wind-up of a credit union, Central has no plans to redeem any of the remaining Class B, Class NB, Class NL, Class NS or Class PEI shares at this time. The redemption value of the remaining shares is $12,212,100 (2020 – $12,212,100).

Common shareholders have the right to receive any dividends that may be declared out of the ordinary income of Central. Holders of the Class B, Class NB, Class NL, Class NS and Class PEI shares have the right to receive any dividends that may be declared out of the extraordinary income of Central on that respective class of shares. Ordinary income refers to income earned in the ordinary course of business after January 1, 2011. Extraordinary income refers to income which does not typically result from normal business activities.

In December 2021, Central transferred $4,021,065 (2020 – $2,449,478) in Retained Earnings to a Special Reserve to be used to fund future Atlantic credit union initiatives. Spending out of the Special Reserve is reported in the consolidated statement of income in initiatives and restructuring expenses (see note 21).

In 2021, Central issued $12,000,000 (2020 – $nil) in Class LSM shares to further invest in League Savings and Mortgage growth. Also in 2021, Central issued a stock dividend on Class LSM shares in the amount of $889,083 (2020 – $1,243,764).

The consideration for any shares issued or redeemed is cash or, for Class LSM shares, additional shares.

13 Financial instruments

a) Interest rate risk

The Company earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, the Company is exposed to interest rate risk. The table below summarizes carrying amounts of consolidated balance sheet items by the earlier of the contractual repricing or maturity dates. Non-interest sensitive items are those that have no maturity date and do not pay or receive interest.

An estimate of prepayments has been determined by Management and includes the estimated principal portion of regular mortgage payments and full payouts of mortgage loans during their term based upon historical trends for these types of payments.

(Reported in $000's)	Within 3 months $	3 months to 1 year $	1 year to 5 years $	Over 5 years $	Non-interest sensitive $	Total $	Average rate %
2021							
Assets							
Cash and investments	867,278	189,640	336,774	148,013	60,372	1,602,077	0.86
Loans and mortgages	43,924	172,571	406,778	930	(1,997)	622,206	3.28
Other assets	-	-	-	-	122,040	122,040	
	911,202	362,211	743,553	148,943	180,415	2,346,323	
Liabilities and equity							
Deposits	699,416	959,233	128,953	-	85,211	1,872,813	0.66
Other liabilities	-	-	-	-	54,547	54,547	
Mortgage backed securities	3,371	27,640	203,441	-	(529)	233,923	1.49
Equity	-	-	-	-	185,040	185,040	
	702,787	986,873	332,394	-	324,269	2,346,323	
Subtotal	208,415	(624,662)	411,159	148,943	(143,854)	-	
Derivatives	20,000	-	(20,000)	-	-	-	
Prepayment estimate	15,169	45,868	(61,017)	(140)	-	-	
Excess (deficiency)	243,704	(578,794)	330,141	148,803	(143,854)	-	
2020							
Assets							
Cash and investments	818,519	119,217	263,485	96,711	91,811	1,389,743	0.96
Loans and mortgages	39,576	133,017	437,095	1,380	(2,623)	608,445	3.53
Other assets	-	-	-	-	102,308	102,308	
	858,095	252,234	700,580	98,091	191,496	2,100,496	
Liabilities and equity							
Deposits	750,525	726,069	97,649	-	88,217	1,662,460	0.92
Other liabilities	-	-	-	-	51,718	51,718	
Mortgage backed securities	6,846	43,939	188,356	-	(445)	238,696	1.81
Equity	-	-	-	-	147,622	147,622	
	757,371	770,008	286,005	-	287,112	2,100,496	
Subtotal	100,724	(517,774)	414,575	98,091	(95,616)	-	
Prepayment estimate	16,443	49,328	(65,564)	(207)	-	-	
Excess (deficiency)	117,167	(468,446)	349,011	97,884	(95,616)	-	

b) Interest rate swap agreements

The Company may enter into interest rate swap agreements as a component of its overall risk management strategy. These agreements are contractual arrangements between two parties to exchange a series of cash flows. In an interest rate swap agreement, counterparties generally exchange fixed and floating rate interest payments based on a notional value. Typically, the floating rate is reset periodically and the net interest amount is exchanged between counterparties at scheduled dates.

The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Interest rate swap agreements are considered financial derivatives and are recorded at fair value. Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable.

Rates represent the weighted average interest rates the Company is contractually committed to pay/receive until the swap matures. The floating side of all swaps are based on the three-month Canadian Dollar Offered Rate (CDOR). Market value represents the mark to market value of outstanding contracts – generally, the net amount that would be payable or receivable on the reporting date based on the floating rate at current market rates. There were no 'receive fixed' swaps outstanding at December 31.

Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. Mark to market gains (losses) on swaps are recorded in other assets (other liabilities), while the change in market value is recorded in financial expense.

The following interest rate swap contracts were outstanding at December 31, 2021.

	2021			**2020**		
	Notional value $	**Rate %**	**Market value $**	**Notional value $**	**Rate %**	**Market value $**
Pay fixed swaps:						
Terms to maturity						
Within 1 year	-	-	-	-	-	-
1 year to 5 years	20,000,000	1.0925	294,003	-	-	-
Over 5 years	-	-	-	-	-	-
	20,000,000	1.0925	294,003	-	-	-

c) Index linked deposits

The Company offers index linked term deposits, which are non-redeemable three and five-year term deposits that pay, on maturity, a return to the depositor linked to the performance of a market index. The interest paid to the depositor at maturity is based on the growth in the index over the term of the deposits.

To offset the risk of this variable interest rate, the Company enters into agreements whereby the Company pays a fixed rate of interest for the term of each index linked deposit based on the face value of the deposits sold. At the end of the term, the Company receives an amount equal to the amount that will be paid to the depositors. As at December 31, 2021, the balance of outstanding index linked deposits was $24,111,066 (2020 – $4,371,666).

d) Fair value

The following table presents the fair value financial instruments of the Company based on the valuation methods and assumptions set out below. Fair value represents the amount at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions and is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Fair value is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Company's financial instruments.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments, such as prepaid expenses and balances that are statutory in nature. In addition, items such as the value of intangible assets such as customer relationships which, in Management's opinion add significant value to the Company, are not included in the disclosures below.

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

- Level 1 – Quoted prices in active markets for identical financial instruments;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data. This level includes equity investments and debt instruments with significant unobservable components.

The Company's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2021, the Company had no transfers between fair value hierarchy levels.

For investments, corporate equities are valued using quoted market prices (Level 1) and government and corporate debt instruments are valued using market prices provided by third-party brokers (Level 2). Co-operative equities that don't have a quoted price in an active market, are valued based on recent transactions. The ownership of co-operative equities is typically restricted to credit unions and other credit union system partners and is usually a condition of membership or necessary for access to the services provided by a system partner. As a result, transactions in these investments are restricted and typically occur at par value, which is the best estimate of fair value.

Given the nature of most investments in co-operative equities, specifically, the fact that investments are typically not made for the purpose of financial gain (i.e. to earn investment income), the application of valuation techniques to determine fair value are typically not in use. In limited cases where such valuation techniques have been utilized, that information is used in determining the fair value of the co-operative investment. The Company continues to monitor these investments for any indication that a new measure of fair value is available.

For variable rate loans and deposits, the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, co-operative deposit investments, deposits and MBS, the fair value is calculated using a discounted cash flow model, based on current interest rates and the term to maturity of the instrument (Level 2). The discount rates applied were based on the current market rate offered for the average remaining term to maturity.

The following table summarizes the fair value measurements recognized in the consolidated balance sheet by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements.

The carrying value of cash and cash equivalents and accrued interest on assets and liabilities approximates their fair value as they are short-term in nature or are receivable on demand.

The determination of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	Level 1 $	**Level 2** $	**Level 3** $	**Total fair value** $	**Total carrying value** $
2021					
Assets					
Investments	2,275,460	1,508,826,549	19,242,178	1,530,344,187	1,530,344,187
Loans and mortgages	-	621,153,782	-	621,153,782	622,206,133
Liabilities					
Deposits	-	1,874,791,015	-	1,874,791,015	1,872,812,717
Mortgage backed securities	-	229,611,170	-	229,611,170	233,922,763
2020					
Assets					
Investments	1,779,400	1,294,339,397	13,345,260	1,309,464,057	1,309,464,057
Loans and mortgages	-	620,919,495	-	620,919,495	608,445,085
Liabilities					
Deposits	-	1,668,421,245	-	1,668,421,245	1,662,459,593
Mortgage backed securities	-	239,805,367	-	239,805,367	238,696,173

Changes in Level 3 fair value measurements

The table below presents a reconciliation of the changes in Level 3 financial instruments during the years ended December 31, 2021 and 2020, including realized and unrealized gains (losses) included in income and other comprehensive income.

	2021 $	**2020** $
Balance at January 1	13,345,261	9,096,990
Realized and unrealized gains (losses):		
Included in income (loss)	(1,496,121)	33,585
Included in OCI	2,819,732	949,477
Purchases	4,573,305	3,265,209
Disposals	-	-
Balance at December 31	19,242,178	13,345,261

14 Related party transactions

a) Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, and include members of the Board, the President and CEO, and other senior officers of the Company. Compensation to members of the Board is limited to an annual honorarium.

The President and CEO, and each of the four other senior officers of the Company earned variable compensation during the year. The Company's Total Compensation Program does not include guaranteed bonuses or deferred compensation payments. Variable compensation is earned during the year and paid in cash in the following year. Directors do not participate in any variable compensation programs.

The components of total compensation received by key management personnel and balances due to/from key management personnel are as follows:

	2021 **$**	**2020** **$**
Short-term employee benefits	1,289,788	1,352,346
Contributions to group savings for retirement program	79,136	88,746
Variable compensation	287,131	263,933
Deposit balances due to key management	462,591	928,899

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

b) Associates

The Company has a contract with League Data Limited, a related company by virtue of common ownership, for the provision of administrative, management and other services. The companies also transact other business in the ordinary course of operations. The following transactions and balances are measured at the exchange amount:

	2021 **$**	**2020** **$**
Income and fees related to the management contract	60,885	66,000
Services and equipment purchases from League Data Limited	393,345	451,269
Term deposits with League Savings	4,049,116	14,086,694
Other deposits with Central	8,288,514	2,249,281
Amount payable to League Data Limited	(135,910)	(45,305)
Deferred funding for regional marketing program	31,073	41,073

15 Commitments and contractual obligations

a) Approved loans and mortgages

As at December 31, 2021, the Company had approved lines of credit in the amount of $192,724,765 (2020 – $165,887,653) and approved mortgages for syndication in the amount of $120,440,463 (2020 – $81,062,602) and other approved mortgages in the amount of $54,073,113 (2020 – $67,851,044) that have not been advanced to borrowers.

b) Clearing and settlement agreement

Central has entered into a contract for clearing, settlement and US dollar account services. Pricing is subject to annual adjustment effective January 1st of each calendar year. The contract was effective July 31, 2019 and has a five-year term.

c) CCIF Limited Partnership capital contributions

In 2017, in accordance with the terms of a CCIF Limited Partnership Agreement, the Company entered into a subscription agreement to invest in the capital of CCIF Limited Partnership (CCIF). The subscription is for $375,000 in partnership units and $125,000 in partnership loans. As required by the subscription agreement, the Company has made a number of investments in CCIF.

As at December 31, 2021, the Company had the following outstanding commitment to CCIF:

	2021			2020		
	Units	Loans $	Total $	Units	Loans $	Total $
Total commitment	375,000	125,000	500,000	375,000	125,000	500,000
Investment to date	141,938	47,313	189,251	63,213	21,071	84,284
Remaining commitment	233,062	77,687	310,749	311,787	103,929	415,716

The date of the capital call for the remaining committed amount, which is at the discretion of the General Partner of CCIF, has not yet been determined.

16 Income taxes

The significant components of income tax expense are as follows:

	2021 $	2020 $
Current income tax expense		
Federal and provincial	3,071,817	1,981,685
Capital and large corporate tax	1,761,466	1,114,935
	4,833,283	3,096,620
Deferred income tax expense		
Origination and reversal of deductible temporary differences	47,453	(220,268)
	4,880,736	2,876,352

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory income tax rates to income before taxes. This difference results from the following:

	2021	**2020**
	$	**$**
Income before income taxes	14,899,926	9,963,535
Statutory income tax rate	30.74%	31.98%
Expected income tax	4,579,536	3,185,908
Effect on income tax of:		
Recovery on dividends paid	(613,825)	(690,935)
Non-taxable dividends	(408,084)	(420,434)
Permanent tax differences	11,254	9,253
Capital and large corporate tax	1,250,641	786,044
Other	61,214	6,518
Total income tax expense	4,880,736	2,876,352

The components of the future income tax assets (liabilities) are as follows:

		Recognized in			**Recognized in**		
	Balance 2020	**Net income (loss)**	**OCI**	**Balance 2021**	**Net income (loss)**	**OCI**	**Balance 2021**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Deferred tax assets							
Property and equipment	533,272	(22,429)	-	510,843	48,051	-	558,893
Allowance for impaired loans	596,361	166,396	-	762,757	(168,803)	-	593,956
Losses carried forward	155	-	-	155	-	-	155
Net donations carried forward	51,418	(3,181)	-	48,237	50,440	-	98,677
Net capital losses	8,874	(432)	-	8,442	-	-	8,442
	1,190,080	140,355	-	1,330,435	(70,312)	-	1,260,123
Deferred tax liabilities							
Unrealized gains (losses) on investments	2,149,352	-	(79,915)	2,069,437	(22,859)	-	2,046,577
	(959,272)	140,355	79,915	(739,003)	(47,453)	-	(786,455)
Deferred tax asset (liability)							
Attributable to:							
Central	(1,578,798)	(21,622)	79,915	(1,520,505)	134,500	-	(1,386,005)
League Savings	619,526	161,976	-	781,502	(181,953)	-	599,548
	(959,272)	140,355	79,915	(739,004)	(47,453)	-	(786,455)

17 Capital requirements

Federal Bill C-43, which came into effect in December 2014, included provisions repealing Part XVI of the Cooperative Credit Associations Act, which permitted provincial Centrals to operate with oversight from the federal OSFI. As a result of this change, provincial governments become exclusively responsible for the oversight of provincial Centrals.

Central continues to manage its capital under the guidelines established by OSFI, which prescribe a liabilities to capital borrowing multiple not to exceed 20 times capital. The Company is also subject to the requirements of the Credit Union Act, which requires Central to establish and maintain a level of equity that is not less than 5% of its assets.

As a result of the pandemic, credit union deposits with Central increased significantly in 2020 and remained at elevated levels throughout 2021 resulting in a higher borrowing multiple. In November 2020, Central applied to the Superintendent for a temporary increase in the maximum borrowing multiple to 23. The Company continues to apply for the temporary increase in the maximum borrowing multiple until credit union deposits normalize.

League Savings is subject to guidelines OSFI has issued based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors (BCBS). OSFI has adopted capital guidelines based on the standards known as Basel II, which became effective for League Savings in 2008. Pillar 1 of the Basel II framework defines minimum capital requirements, while Pillar 2 addresses standards for the management of capital requirements.

Capital requirements are determined based on exposure to credit risk, operational risk, and for entities with significant trading activity and market risk. The standards provide different methodologies for the calculation of risk exposures based on a company's relative size and sophistication. League Savings has implemented the Standardized Approach for credit risk and the Basic Indicator Approach (BIA) for operational risk. League Savings is not subject to the requirements for market risk.

OSFI's Basel III capital requirements include rules to implement the BCBS guidance on non-viability contingent capital (NVCC). The NVCC rules require that all capital instruments include loss absorption features.

As of January 2019, under the BCBS rules, League Savings is required to meet new minimum requirements of: Common Equity Tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5%, collectively 7%. Including the capital conservation buffer, the minimum Tier 1 ratio will be 8.5% and the Total Capital ratio will be 10.5%. OSFI required Canadian deposit-taking institutions to fully implement the 2019 Basel III reforms in 2013, without the transitional phase-in provisions for capital deductions (referred to as 'all-in'), and achieve a minimum 7% common equity target, by the first quarter of 2013.

The Company has established internal limits to ensure that it meets its regulatory requirements. Capital is monitored regularly and reported to the Board quarterly. The Capital Management Plan, which forecasts capital requirements and includes contingency plans in the event of unanticipated changes, is reviewed by the Board annually.

Details of the Company's regulatory capital as at December 31 were as follows:

Central:

	2021	**2020**
Maximum borrowing multiple	23	23
Actual borrowing multiple	15.8	18.8
Minimum equity ratio	5.0%	5.0%
Actual equity ratio	8.2%	7.6%

League Savings:

	2021	**2020**
	$	**$**
Risk-weighted assets for:		
Credit risk	328,715,000	314,422,000
Operational risk	25,238,000	26,675,000
Total	353,953,000	341,097,000
Capital elements:		
Common shares	36,716,000	25,873,000
Contributed surplus	1,786,000	1,786,000
Accumulated OCI	23,000	660,000
Retained earnings	33,713,000	28,494,000
CET1	72,238,000	56,813,000
Total Tier 1 capital	72,238,000	56,813,000
Stage 1 and Stage 2 allowance	1,997,000	2,621,000
Total Tier 2 capital	1,997,000	2,621,000
Total regulatory capital	74,235,000	59,434,000
	%	**%**
Ratios:		
CET1	20.4	16.7
Total Tier 1	20.4	16.7
Total capital	21.0	17.4
Leverage ratio	9.1	7.8
OSFI targets:		
CET1	7.0	7.0
Total Tier 1	8.5	8.5
Total capital	10.5	10.5
Leverage ratio	4.0	4.0

The Company's capital ratios have been in compliance with the regulatory requirements throughout the year.

18 Credit facilities

Central has established an operating line of credit of $35,000,000 with Central 1. The line of credit bears interest at the institution's prime lending rate. As security, Central has provided an assignment of marketable securities having a carrying value of $35,000,000. As at December 31, 2021 and 2020, there were no amounts outstanding on this facility.

On January 29, 2019, the Company entered into a line of credit agreement with Concentra Bank bearing interest at 3-month CDOR plus 1.00%, up to an amount of $25,000,000. The facility is secured by a charge over insured residential mortgages covering 110% of the loan facility. As at December 31, 2021 and 2020, there were no amounts outstanding on this facility.

19 Assets under administration

a) Mortgages under administration

Assets under administration include mortgages under administration, which are not the property of Central and are not reflected in the consolidated balance sheet.

b) Syndicated loans

Central provides a loan syndication program for credit unions. These loans, which are under Central's administration, are not the property of Central and are not reflected on the consolidated balance sheet. Although most of the loan syndications are purchased by credit unions, Central can be a participant if a loan is not fully subscribed to by credit unions.

When Central participates in the loan syndication, the amount is included in loans and mortgages on the consolidated balance sheet as 'non-residential'. Where a fully subscribed loan syndication has not been distributed to credit unions, the undistributed amount is also included in loans and mortgages as 'non-residential'.

Assets under administration as at December 31 were as follows:

	2021 **$**	**2020** **$**
Mortgages under administration	74,554,193	84,148,625
Syndicated loans	397,926,940	353,423,585
Included in non-residential	7,865,681	12,867,210

20 Non-interest income (expense)

Non-interest income (expense) includes the following:

	2021 $	2020 $
Banking service fees	2,317,728	2,184,226
Securitization expenses	(607,002)	(472,927)
Lending service fees	1,883,503	1,706,329
Lending service expenses	(1,142,707)	(1,201,761)
Investment service fees	28,028	23,075
Investment service expenses	(177,415)	(209,923)
Member assessments	5,379,528	5,044,693
Management fees	60,885	66,000
Fees for service	2,272,836	1,891,111
Rentals	31,271	33,553
Other	415,849	302,558
	10,462,504	9,366,934

The expenses detailed above include direct expenses only. Salary and staff related costs, and other indirect costs required to provide these services are reported in operating expenses.

21 Initiatives and restructuring

Reported in initiatives are the costs of various initiatives relating to transformational change within the Company and the credit union system.

Having successfully outsourced its retail mortgage administration function in 2018, the Company has made several business transformations since. In 2019, the Company shifted focus from direct business referrals from credit unions and instead began pursuing more wholesale strategies directly through the Nominee Deposit market. In 2020, as a result of this strategic shift, management decided that two employee roles were redundant and were thereby terminated.

The costs relating to this restructuring are reported in initiatives and restructuring expenses.

Spending on initiatives and restructuring is as follows:

	2021 $	2020 $
System initiatives	1,318,311	854,011
League Savings restructuring	-	168,760
	1,318,311	1,022,771

22 Investment in CU CUMIS Wealth Holdings Limited Partnership (CCWH)

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

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

	2021 $	2020 $
Assets	145,988,426	135,385,282
Liabilities	17,626,851	11,795,255
Equity	128,361,575	123,590,027
Revenue	26,505,543	22,105,623
Expenses	5,308,731	1,235,924
Net income for the year	21,196,812	20,869,699
Other comprehensive income	(1,397,500)	954,000
Comprehensive income	19,799,312	21,823,699
Interest held by Central	5.76%	5.76%
Net income for the year	1,220,814	1,201,974
Other comprehensive income	(80,488)	54,945
Comprehensive income	1,140,326	1,256,919

23 Compensation

Compensation is a key factor in recruiting, retaining, motivating and rewarding a talented and committed workforce. Pay determination policies and guidelines emphasize continued development of knowledge, expansion of skills, performance and the ability to be flexible and adaptable to change.

The goals of our Total Compensation Program are to provide levels of compensation that are internally equitable, externally competitive, financially feasible and that will enable Central to attract, retain and reward highly qualified individuals. Total Compensation includes base pay, variable pay (which must be re-earned each year) and employee benefits.

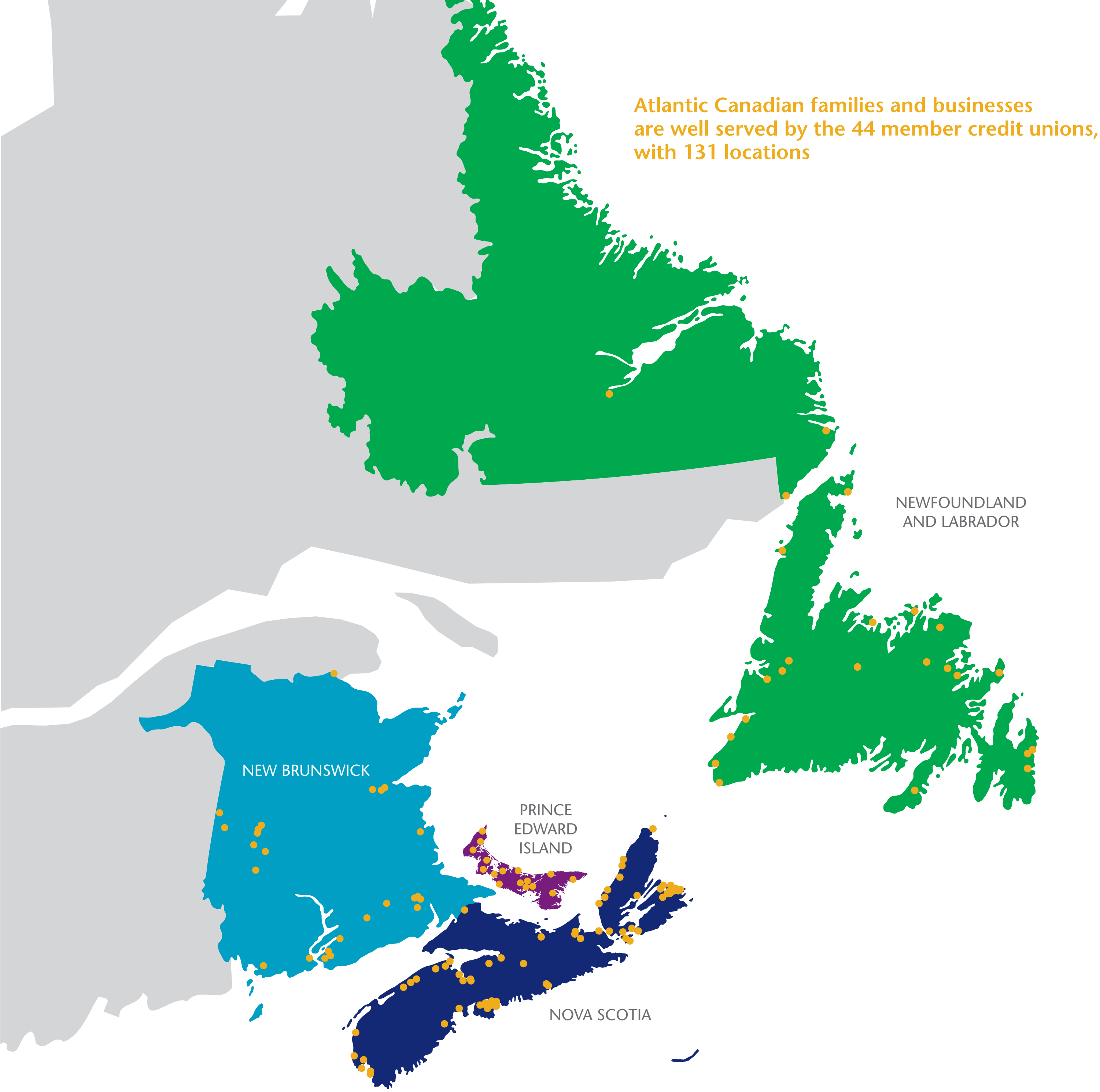
The Executive/HR Committee of the Board is responsible for:

- establishing an annual performance plan with specific objectives and monitoring and conducting annual performance evaluations of the President and CEO against these objectives;
- determining and recommending to the Board an appropriate total compensation package (including variable compensation) for the President and CEO; and
- reviewing annually the terms and conditions of the variable compensation plan for employees and recommending adoption by the Board.

The Board has delegated to the President and CEO the responsibility for the implementation and administration of all management or executive policies, including the Total Compensation Program for employees. The variable compensation program is governed by the Performance Sharing Incentive Plan, which is based on the following principles:

- the President and CEO will have the ultimate discretion to determine whether payment occurs and what the payment will be for the year, based on the annual performance of Central;
- performance is evaluated based on financial, customer service and corporate scorecard results;
- the plan is self-funded – if Central does not achieve the designated level of financial performance there will be no payout under the plan; and
- individual performance will determine participation in and individual payments under the plan. Individual performance is measured against annual individual performance plans.

Compensation to members of the Board is limited to an annual honorarium. Directors do not participate in any variable compensation programs. Compensation paid to Directors and key management personnel are detailed in note 14, related party transactions.



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