GANARASKA CREDIT UNION LTD.

Financial Statements

December 31, 2023

GANARASKA CREDIT UNION LTD.

Table of Contents

December 31, 2023

	Page
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Comprehensive Income	4
Statement of Changes in Members' Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 40

TINKHAM LLP | CHARTERED PROFESSIONAL ACCOUNTANTS

D C Tinkham FCPA FCA CMC LPA
P J Brocklesby CPA CA LPA
M Y Tkachenko CPA CA
M W G Rooke CPA CA LPA
A C Callas CPA CA LPA
G P Kroeplin CPA
C R Braun CPA CA
H S Grewal CPA

300 - 2842 Bloor Street West
Toronto Ontario M8X 1B1
Canada

TEL 1 416 233 2139
FAX 1 416 233 1788

TINKHAMCPA.COM

INDEPENDENT AUDITOR'S REPORT

To the Members of
GANARASKA CREDIT UNION LTD.

Opinion

We have audited the accompanying financial statements of Ganaraska Credit Union Ltd. ("the Credit Union"), which comprise the statement of financial position as at December 31, 2023, and the statements of comprehensive income, changes in members' equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

LLP

TORONTO, Ontario
February 20, 2024

Licensed Public Accountants

GANARASKA CREDIT UNION LTD.
Statement of Financial Position

As at December 31	**2023**	2022
Assets		
Cash (note 6)	**$ 5,225,632**	$ 12,345,746
Investments (note 7)	**13,611,959**	14,985,082
Deferred tax	**66,454**	143,486
Loans to members (note 8)	**171,001,510**	172,157,907
Prepaid expenses and other assets	**889,374**	933,304
Property and equipment (note 9)	**1,415,062**	1,597,132
	$ 192,209,991	$ 202,162,657
Liabilities, Member Entitlements and Members' Equity		
Liabilities		
Accounts payable and accrued liabilities	**$ 51,661**	$ 54,605
Deferred loan commitment fees	**91,326**	195,607
	142,987	250,212
Member entitlements		
Members' deposits (note 10)	**180,972,901**	191,125,486
Members' share capital (note 11)	**1,906,819**	2,015,515
	182,879,720	193,141,001
Members' equity		
Members' share capital (note 11)	**7,715,837**	7,673,382
Retained earnings	**1,471,447**	1,098,062
	9,187,284	8,771,444
	$ 192,209,991	$ 202,162,657

Commitments (note 13)

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director

____________________ Director

GANARASKA CREDIT UNION LTD.
Statement of Comprehensive Income

Year ended December 31		**2023**		2022
Financial income				
Interest on loans to members (note 8)	**$**	**7,471,608**	$	6,102,474
Investment income (note 7)		**1,048,001**		267,622
		8,519,609		6,370,096
Financial expense (recovery)				
Interest on members' deposits (note 10)		**4,976,269**		3,874,923
Recovery of expected credit losses on member loans (note 8)		**(81,701)**		(128,086)
		4,894,568		3,746,837
Financial margin		**3,625,041**		2,623,259
Other income (note 14)		**902,016**		1,330,682
Gain on sale of real property		**-**		573,498
		4,527,057		4,527,439
Operating expenses				
Salaries and employee benefits		**2,255,120**		2,093,469
Data processing		**395,067**		357,790
Administration		**307,080**		323,695
Insurance		**245,189**		251,213
Member service		**210,770**		186,616
Depreciation		**194,623**		239,995
Occupancy		**143,833**		230,422
Advertising		**104,692**		65,938
Professional fees		**104,507**		102,008
Lending		**55,072**		52,935
ATM		**35,828**		34,449
		4,051,781		3,938,530
Net comprehensive income before provision for income taxes		**475,276**		588,909
Provision for income taxes (note 17)				
Deferred		**77,031**		33,483
Net comprehensive income for the year	**$**	**398,245**	$	555,426

See accompanying notes to financial statements.

GANARASKA CREDIT UNION LTD.
Statement of Changes in Members' Equity

	Members' share capital	Retained earnings	Total
Balance as at December 31, 2021	**$ 7,414,555**	**$ 790,516**	**$ 8,205,071**
Net comprehensive income	-	555,426	555,426
Distributions to members (note 11)	-	(247,880)	(247,880)
Net change in member shares (note 11)	258,827	-	258,827
Balance as at December 31, 2022	**$ 7,673,382**	**$ 1,098,062**	**$ 8,771,444**
Net comprehensive income	-	398,245	398,245
Distributions to members (note 11)	-	(24,860)	(24,860)
Net change in member shares (note 11)	42,455	-	42,455
Balance as at December 31, 2023	**$ 7,715,837**	**$ 1,471,447**	**$ 9,187,284**

See accompanying notes to financial statements.

GANARASKA CREDIT UNION LTD.
Statement of Cash Flows

Year ended December 31	**2023**	2022
Operating activities		
Interest received on loans to members	**$ 7,398,416**	$ 6,059,698
Interest received on investments	**772,614**	332,826
Other income received	**797,735**	1,338,622
Interest paid on members' deposits	**(4,528,724)**	(3,989,935)
Payments to employees and suppliers	**(3,816,171)**	(3,624,690)
Recoveries of previous loan write-offs	**20,682**	188,440
Changes in member accounts:		
Net decrease in loans to members	**1,290,608**	466,004
Net decrease in members' deposits	**(10,600,130)**	(9,670,696)
Net cash used by operating activities	**(8,664,970)**	(8,899,731)
Financing activities		
Distributions paid to members	**(24,860)**	(247,880)
Members' share capital issued (redeemed)	**(66,241)**	169,747
Net cash used by financing activities	**(91,101)**	(78,133)
Investing activities		
Proceeds on sale of investments (net)	**1,648,510**	10,320,747
Purchase of property and equipment	**(12,553)**	(81,769)
Proceeds on sale of building	**-**	1,200,000
Net cash provided by investing activities	**1,635,957**	11,438,978
Net increase (decrease) in cash	**(7,120,114)**	2,461,114
Cash, beginning of year	**12,345,746**	9,884,632
Cash, end of year	**$ 5,225,632**	$ 12,345,746

See accompanying notes to financial statements.

1 Nature of business

Ganaraska Credit Union Ltd. ("the Credit Union") is a multi-branch financial institution incorporated under the Credit Unions and Caisses Populaires Act, 2020 ("the Act") of Ontario and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, and commercial loans, chequing and savings accounts, term deposits, registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), tax free savings accounts ("TFSAs"), first home savings accounts ("FHSAs"), automated banking machines ("ABMs"), debit cards and internet banking. The Credit Union head office is located at 17 Queen Street, Port Hope, Ontario, Canada.

2 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB") and legislation for Ontario's Credit Unions and Caisses Populaires.

The Credit Union's functional and presentation currency is the Canadian dollar.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in the financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Details of the Credit Union's accounting policies are included in note 5.

These financial statements have been approved and authorized for issue by the Board of Directors on February 20, 2024.

3 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for those financial instruments recorded at fair value through profit and loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI").

4 Critical accounting estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes.

Classification of financial assets

The Credit Union assesses the business model within which the assets are held and whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding, as described in note 5.

4 Critical accounting estimates and judgments (continued)

Fair value of financial instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 18.

Impairment of financial instruments

The Credit Union assesses whether credit risk on the financial asset has increased significantly since initial recognition and incorporates forward-looking information in the measurement of expected credit loss ("ECL"), as described in note 8.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters. Any differences will be accounted for in the year of settlement.

Deferred income tax assets are recognized in respect of unused tax losses or deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred income tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

5 Material accounting policies

The Credit Union has consistently applied the following accounting policies to all periods presented in these financial statements.

Revenue recognition

i. Interest

Effective interest rate

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

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

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

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

5 Material accounting policies (continued)

Revenue recognition (continued)

i. Interest (continued)

Amortized cost and gross carrying amount

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on 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 expected credit loss allowance.

The ‘gross carrying amount of a financial asset’ is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income and expense presented in the statement of comprehensive income includes interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis.

ii. Fees and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognized using the effective interest method are included with loan balances on the statement of financial position.

Other fee and commission income, including account servicing fees, loan discharge and administration fees, is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

Financial assets and financial liabilities

i. Recognition and initial measurement

The Credit Union initially recognizes loans to members and members' deposits 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 Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL or FVOCI, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, FVTPL or FVOCI.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

ii. Classification (continued)

Financial assets (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

The Credit Union classifies its loans to members and cash at amortized cost.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Credit Union does not have any debt instruments measured at FVOCI.

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

The Credit Union classifies its Central 1 equity securities at FVOCI.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Credit Union classifies its debt instruments as FVTPL.

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union’s stated objective for managing the financial assets is achieved and how cash flows are realized.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

ii. Classification (continued)

Financial assets (continued)

Business model assessment (continued)

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Credit Union’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

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

Financial liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

iii. Derecognition

Financial assets

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

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

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

Financial assets (continued)

Any cumulative gain/loss recognized in OCI in respect of equity investments designated as FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Credit Union is recognized as a separate asset or liability.

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

Financial liabilities

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

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, the gain or loss is presented as interest income.

Financial liabilities

The Credit Union derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in net income for the year.

v. Impairment

The Credit Union recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL or FVOCI:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Credit Union measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- other financial instruments on which credit risk has not increased significantly since initial recognition.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

v. Impairment (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost and debt financial assets carried at FVTPL are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlated with defaults in the group.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

5 Material accounting policies (continued)

Financial assets and financial liabilities (continued)

v. Impairment (continued)

Credit-impaired financial assets (continued)

In making an assessment of whether an investment in debt securities is credit-impaired, the Credit Union considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL on the statement of financial position

Loss allowances for ECL are presented on the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Cash

Cash includes cash on hand and cash in current accounts with Central 1 Credit Union ("Central 1").

Cash is classified and subsequently measured at amortized cost.

Investments

Investments include:

- cash equivalents, and debt securities at FVTPL; and
- equity securities designated as at FVOCI.

Loans to members

Loans to members are recognized when the cash is advanced to the borrower and are initially measured at fair value, net of loan origination fees and inclusion of transaction costs incurred. Loans to members are subsequently measured at amortized cost, using the effective interest rate method.

5 Material accounting policies (continued)

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. The cost comprises the purchase price and any directly attributable costs of preparing the asset for its intended use.

Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. An impairment loss is not reversed if the fair value of the capital asset subsequently increases. As at December 31, 2023, no such impairment exists.

Depreciation is provided over the estimated useful life of assets as follows:

Land	N/A
Buildings and improvements	10 - 50 years straight-line
Computer hardware	5 - 10 years straight-line
Furniture and fixtures	5 - 10 years straight-line
ATMs	5 - 10 years straight-line

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Members' deposits and members' share capital

The Credit Union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments, as described in note 11. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union board of directors, the shares are classified as equity, as per IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

The Credit Union’s membership shares are classified as liabilities as the shares are redeemable at the option of the member. The Credit Union's Class A patronage shares and Class B investment shares are classified as equity as redemption is subject to the sole and absolute discretion of the Credit Union's Board of Directors. All share redemptions are subject to the Credit Union meeting capital adequacy requirements.

Members' deposits and members' share capital that are classified as liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and subsequently measured at amortized cost using the effective interest method.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Credit Union to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

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 other comprehensive 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.

5 Material accounting policies (continued)

Income taxes (continued)

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 which 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 which 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 not 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 assets / liabilities are settled.

Members' dividends

Dividends to members are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows: At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the re-translation of monetary FVTPL and FVOCI financial assets are treated as a separate component of the change in fair value and recognized in net comprehensive income.

Standards, amendments and interpretations not yet effective

There are no IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

6 Cash

Cash consists of cash on hand and amounts on deposit in Central 1 current accounts totaling $4,943,013 (2022 - $12,092,619) and yielding 5.15% on balances up to $10 million, and 4.95% on balances up to $50 million (2022 - 4.40% and 4.20%, respectively) and USD in current accounts totaling $130,539 (2022 - $137,492) and yielding 5.15% (2022 - 4.15%).

7 Investments

As at December 31	**2023**	2022
Investments measured at FVTPL - debt securities	**$ 13,333,345**	$ 12,667,254
Investments measured at amortized cost - deposit instruments	**-**	2,000,000
Investments measured at FVOCI - equity securities	**278,614**	284,900
Accrued interest receivable	**-**	32,928
	$ 13,611,959	$ 14,985,082

7 Investments (continued)

As at December 31	2023	2022
Investments measured at FVTPL - debt securities		
Bonds, maturing less than one year	**$ 2,727,103**	$ 9,472,955
Bonds, maturing later than one year	**9,960,586**	3,184,513
Treasury bills, maturing within one year	**639,466**	-
Cash equivalents	**6,190**	9,786
	$ 13,333,345	$ 12,667,254

Bonds have a face value of $12,959,908 (2022 - $12,774,079). Included in bonds are floating rate debt securities with a fair market value of $2,196,570 (2022 - $2,934,449).

As at December 31	2023	2022
Investments measured at FVOCI - equity securities		
Central 1 shares - Class A	**$ 55,514**	$ 61,800
Central 1 shares - Class E	**223,100**	223,100
	$ 278,614	$ 284,900

Investment income is summarized as follows:

As at December 31	2023	2022
Investment interest and dividends	**$ 739,686**	$ 585,608
Realized and unrealized losses on investments (net)	**308,315**	(317,986)
	$ 1,048,001	$ 267,622

Significant terms and average annual yield on investments are as follows:

As at December 31		2023	2022
Investments measured at FVTPL - debt securities			
Bonds, maturing less than one year			
Yield		**3.74%**	2.28%
Interest		**1.80% to 3.75%**	0.71% to 4.74%
Maturity date(s)	from	**June 2, 2024**	Jan 16, 2023
	to	**Dec 15, 2024**	Dec 15, 2023
Bonds, maturing later than one year			
Yield		**4.21%**	2.46%
Interest		**1.25% to 5.39%**	1.25% to 4.67%
Maturity date(s)	from	**Feb 28, 2025**	Aug 19, 2024
	to	**Mar 15, 2028**	Sept 15, 2026
Treasury bills, maturing within one year			
Yield		**5.06%**	NA
Interest		**NA**	NA
Maturity date		**Jan 4, 2024**	NA

7 Investments (continued)

Significant terms and average annual yield on investments are as follows: (continued)

As at December 31	2023	2022
Investments measured at amortized cost - deposit instruments		
Central 1 term deposit, maturing within one year		
Yield	**NA**	2.13%
Interest	**NA**	2.13%
Maturity date	**NA**	Mar 24, 2023

Investments measured at FVTPL - debt securities

A portfolio of high quality liquid assets ("HQLAs") are invested through the Credit Union's Trust. The category of investment assets within the HQLA portfolio determines the inclusion rate for purposes of determining the amount of the Credit Union's liquid assets and liquidity coverage ratio.

The portfolio of HQLA's is held in the following types of securities:

As at December 31	2023	2022
Federal government issued securities - Canada Mortgage Bonds	**$ 6,324,715**	$ 5,598,365
Federal government issued securities - Bonds	**-**	1,361,252
Provincial government issued securities	**2,302,712**	1,861,540
Other government issued securities	**2,847,878**	1,987,421
Securities issued by a municipality	**-**	684,737
Securities secured by mortgages	**-**	176,579
Other investment - Corporate Bonds	**1,218,574**	997,360
Treasury Bills	**639,466**	-
	$ 13,333,345	$ 12,667,254

Central 1 shares

The Credit Union has designated its investment in Central 1 equity securities as at FVOCI. There is no active market for these shares as they are issued only by virtue of membership in Central 1. The shares are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls as determined by the Central 1 Board of Directors.

Dividends are at the discretion of Central 1. Dividends received on these shares in 2023 amounted to $Nil (2022 - $2,293).

The Central 1 Class A shares are subject to periodic rebalancing and the redemption value is equal to par value. Accordingly, the fair value is considered to be equivalent to par value or redemption value.

The Central 1 Class E shares are not subject to rebalancing and the redemption value is not equal to par value.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union.

8 Loans to members

As at December 31, 2023	**Gross carrying amount**	**Expected credit loss**	**Carrying amount**
Residential mortgages	**$160,676,624**	**$ (139,527)**	**$160,537,097**
Commercial loans	**7,122,361**	**(3,332)**	**7,119,029**
Personal loans	**2,850,389**	**(19,688)**	**2,830,701**
	170,649,374	**(162,547)**	**170,486,827**
Accrued interest	**514,683**	**-**	**514,683**
	$171,164,057	**$ (162,547)**	**$171,001,510**

As at December 31, 2022	Gross carrying amount	Expected credit loss	Carrying amount
Residential mortgages	$161,784,214	$ (206,753)	$161,577,461
Commercial loans	7,503,452	(3,824)	7,499,628
Personal loans	2,659,901	(20,574)	2,639,327
	171,947,567	(231,151)	171,716,416
Accrued interest	441,491	-	441,491
	$172,389,058	$ (231,151)	$172,157,907

Terms and conditions

Residential and commercial mortgage loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of ten years based on a maximum amortization of thirty years. Personal loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest installments over a maximum period of five years. Line of credit loans bear interest at variable rates and are repayable monthly at a minimum of interest only, not in advance, subject to annual review.

Interest income on loans to members is summarized as follows:

Year ended December 31	**2023**	2022
Residential loans	**$ 6,943,794**	$ 5,546,475
Commercial loan	**306,834**	356,154
Personal loans	**220,980**	199,845
	$ 7,471,608	$ 6,102,474

8 Loans to members (continued)

Average yields to maturity

Loans to members bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

2023	**Principal**	**Yield**
Variable rate	**$ 27,421,136**	**7.16%**
Fixed rate due less than one year	**44,707,671**	**4.06%**
Fixed rate due between one and five years	**98,520,567**	**4.63%**
	$170,649,374	

2022	Principal	Yield
Variable rate	$ 32,233,730	6.39%
Fixed rate due less than one year	34,719,794	3.52%
Fixed rate due between one and five years	104,994,043	3.78%
	$171,947,567	

Fair value

The fair value of member loans at December 31, 2023 was $162,607,099 (2022 - $163,606,365).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis.

The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

8 Loans to members (continued)

Expected credit loss

The following table reconciles the opening to the closing balance of the expected credit loss by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 5.

	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit impaired**	**2023 Total**
Balance as at January 1	**$ 152,046**	**$ 79,105**	**$ -**	**$ 231,151**
Transfer to 12-month ECL	**31,812**	**(31,812)**	**-**	**-**
Transfer to lifetime ECL not credit-impaired	**(14,609)**	**14,609**	**-**	**-**
Transfer to lifetime ECL credit impaired	**13,097**	**-**	**(13,097)**	**-**
Loans written off	**-**	**-**	**(7,585)**	**(7,585)**
Recoveries of previous loan write-offs	**-**	**-**	**20,682**	**20,682**
Recovery of expected credit losses on member loans	**(96,611)**	**14,910**	**-**	**(81,701)**
Balance as at December 31	**$ 85,735**	**$ 76,812**	**$ -**	**$ 162,547**

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit impaired	2022 Total
Balance as at January 1	$ 124,686	$ 87,039	$ -	$ 211,725
Transfer to 12-month ECL	37,547	(37,547)	-	-
Transfer to lifetime ECL not credit-impaired	(3,932)	3,932	-	-
Transfer to lifetime ECL credit impaired	147,512	-	(147,512)	-
Loans written off	-	-	(40,928)	(40,928)
Recoveries of previous loan write-offs	-	-	188,440	188,440
Recovery of expected credit losses on member loans	(153,767)	25,681	-	(128,086)
Balance as at December 31	$ 152,046	$ 79,105	$ -	$ 231,151

Credit quality of loans

It is not practical to value all collateral as at the statement of financial position date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

As at December 31	**2023**	2022
Loans secured by real property	**$164,146,496**	$165,257,126
Loans insured by government	**1,171,335**	1,948,379
Loans insured by other	**2,245,206**	1,840,656
Unsecured loans	**3,010,136**	2,850,162
Loans secured by cash, member deposits	**76,201**	51,244
	$170,649,374	$ 171,947,567

For more information on the Credit Union's financial risk management framework, see note 19.

8 Loans to members (continued)

Credit risk

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 5.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2023 Total	2022 Total
Loans to members at amortized cost:					
Low - fair risk	**$155,759,266**	**$ -**	**$ -**	**$155,759,266**	$162,768,090
Watch list	**-**	**14,890,108**	**-**	**14,890,108**	9,179,477
	155,759,266	**14,890,108**	**-**	**170,649,374**	171,947,567
Expected credit loss	**(85,735)**	**(76,812)**	**-**	**(162,547)**	(231,151)
Carrying amount	**$155,673,531**	**$ 14,813,296**	**$ -**	**$170,486,827**	$171,716,416

ii. Collateral held and other credit enhancements

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on collateral appraisals.

As at December 31,	2023	2022
LTV ratio:		
Less than or equal to 40%	**$ 13,914,711**	$ 10,794,917
41 - 60%	**30,340,348**	27,641,113
61 - 80%	**113,416,496**	120,023,939
81 - 95%	**3,005,069**	3,324,245
More than 95%	**-**	-
Total	**$ 160,676,624**	$ 161,784,214

Loans to commercial customers

As at December 31,	2023	2022
LTV ratio:		
Less than 40%	**$ 363,624**	$ 1,229,525
41 - 60%	**5,211,844**	4,181,782
61 - 80%	**1,546,893**	2,092,145
Total	**$ 7,122,361**	$ 7,503,452

8 Loans to members (continued)

Expected credit loss (continued)

Credit risk (continued)

ii. Collateral held and other credit enhancements (continued)

The general creditworthiness of a commercial customer tends to be the most relevant indicator of credit quality of a loan (see note 8(i)). However, collateral provides additional security and the Credit Union generally requests that corporate borrowers provide it. The Credit Union may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Credit Union's focus on commercial customers' creditworthiness, the Credit Union does not routinely update the valuation of collateral held against all loans to commercial customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Credit Union obtains appraisals of collateral because it provides input into determining the management credit risk actions.

iii. Amounts arising from ECL

Significant increase in credit risk

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

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Generating the term structure of PD

The Credit Union collects performance and default information about its credit risk exposures analyzed by region and by type of product and borrower.

The Credit Union employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The Credit Union considers non-sufficient funds activity, loss of employment, gambling activity, late payments, unsustainable lifestyle, potential victimization, escalating unsecured debt, minimal estate value, uninsurable, marital breakdown, illness, declining credit score, title issues and covenant breaches.

8 Loans to members (continued)

Expected credit loss (continued)

Credit risk (continued)

iii. Amounts arising from ECL (continued)

Determining whether credit risk has increased significantly (continued)

Using its expert credit judgment and, where possible, relevant historical experience, the Credit Union may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise by fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Credit Union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Credit Union monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in note 5.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Definition of default

The Credit Union considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Credit Union in full, without recourse by the Credit Union to actions such as realizing security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Credit Union. Overdrafts are considered as being past due once the customer has breached an advanced limit or been advised of a limit smaller than the current amount outstanding;
- the Credit Union agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing;
- the Credit Union has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

8 Loans to members (continued)

Expected credit loss (continued)

Credit risk (continued)

iii. Amounts arising from ECL (continued)

Definition of default (continued)

In assessing whether a borrower is in default, the Credit Union considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Credit Union; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and the significance of the inputs may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Credit Union for regulatory capital purposes.

Incorporation of forward-looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Credit Union formulates a view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios based on a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The view represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. Periodically, the Credit Union carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Credit Union has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used included the following ranges of Canadian key indicators for the year ending December 31:

	2023	2022
Unemployment rates	**Base 5.7%** **Range between 5.1% and 7.2%**	Base 5.7% Range between 4.7% and 8.0%
GDP growth	**Base 4.0%** **Range between reduction of 2.2% and increase of 7.1%**	Base 3.5% Range between increase of 0.2% and 16.0%
Interest rates	**Base 3.2%** **Range between 1.9% and 4.6%**	Base 4.4% Range between 4.4% and 4.6%
House prices	**Base 1.1%** **Range between reduction of (10.5%) and increase of 9.3%**	Base 7.6% Range between reduction of (9.0%) and increase of 25.6%

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

8 Loans to members (continued)

Expected credit loss (continued)

Credit risk (continued)

iii. Amounts arising from ECL (continued)

Measurement of ECL (continued)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large commercial counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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

EAD represents the expected exposure in the event of a default. The Credit Union derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Credit Union measures ECL considering the risk of default over the maximum collateral period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Credit Union considers a longer period. The maximum contractual period extends to the date at which the Credit Union has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts that include both a loan an an undrawn commitment component, the Credit Union measures ECL over a period longer than the maximum contractual period when the Credit Union's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Credit Union's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Credit Union can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Credit Union becomes aware of an increase in credit risk management actions that the Credit Union expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Loans that are past due but not impaired

Loans that are "past due but not impaired" are those for which contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Credit Union. The amounts disclosed exclude assets measured at FVTPL.

9 Property and equipment

	Land	Buildings and improvements	Computer hardware	Furniture and fixtures	ATMs	Total
Cost						
Balance as at December 31, 2021	$ 424,803	$ 2,801,677	$ 1,247,127	$ 802,657	$ 269,100	**$ 5,545,364**
Additions	-	28,596	48,812	4,361	-	**81,769**
Disposals	(156,950)	(682,673)	-	(96,384)	(142,575)	**(1,078,582)**
Balance as at December 31, 2022	267,853	2,147,600	1,295,939	710,634	126,525	**4,548,551**
Additions	-	2,198	10,355	-	-	**12,553**
Balance as at December 31, 2023	**$ 267,853**	**$ 2,149,798**	**$ 1,306,294**	**$ 710,634**	**$ 126,525**	**$ 4,561,104**
Accumulated depreciation						
Balance as at December 31, 2021	$ -	$ 1,500,271	$ 838,480	$ 618,060	$ 207,753	**$ 3,164,564**
Depreciation expense	-	76,359	100,744	45,575	17,317	**239,995**
Disposals	-	(242,783)	-	(88,478)	(121,879)	**(453,140)**
Balance as at December 31, 2022	-	1,333,847	939,224	575,157	103,191	**2,951,419**
Depreciation expense	-	60,332	85,680	40,158	8,453	**194,623**
Balance as at December 31, 2023	**$ -**	**$ 1,394,179**	**$ 1,024,904**	**$ 615,315**	**$ 111,644**	**$ 3,146,042**
Net book value						
December 31, 2022	$ 267,853	$ 813,753	$ 356,715	$ 135,477	$ 23,334	$ 1,597,132
December 31, 2023	**$ 267,853**	**$ 755,619**	**$ 281,390**	**$ 95,319**	**$ 14,881**	**$ 1,415,062**

10 Members' deposits

As at December 31	2023	2022
Demand deposits	**$ 56,686,473**	$ 60,126,964
Registered retirement income funds	**11,676,725**	11,109,180
Registered retirement savings plans	**14,016,203**	17,683,980
Tax free savings accounts and first home savings account	**23,494,491**	22,655,139
Term deposits	**72,048,722**	76,947,481
	177,922,614	188,522,744
Accrued interest payable	**3,050,287**	2,602,742
	$180,972,901	$191,125,486

Interest expense on members' deposits is comprised of:

Year ended December 31	2023	2022
Demand deposits	**$ 159,423**	$ 60,725
Member distributions	**34,461**	27,400
Registered retirement income funds	**405,213**	272,968
Registered retirement savings plans	**564,491**	551,989
Tax free savings accounts and first home savings account	**857,625**	609,975
Term deposits	**2,955,056**	2,351,866
	$ 4,976,269	$ 3,874,923

Terms and conditions

Chequing accounts and demand savings accounts are due on demand and bear interest at variable rates which depend upon the type of account and the balance maintained.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or at maturity.

Registered plans and tax free savings accounts consist of fixed rated deposits and variable rate deposits.

Average yields to maturity

Members' accounts and deposits bear interest at both variable and fixed rates with the following average yields, before transaction costs, at December 31:

2023	**Principal**	**Yield**
Variable rate	**$ 60,528,047**	**0.20%**
Fixed rate due less than one year	**58,648,856**	**4.25%**
Fixed rate due between one and five years	**58,745,711**	**4.46%**
	$177,922,614	

2022	Principal	Yield
Variable rate	$ 64,339,732	0.15%
Fixed rate due less than one year	104,591,532	3.19%
Fixed rate due between one and five years	19,591,480	3.87%
	$188,522,744	

10 Members' deposits (continued)

Fair value

The fair value of member deposits at December 31, 2023 was $182,045,243 (2022 - $190,002,697).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

11 Members' share capital

Authorized share capital

Membership shares

The Credit Union is authorized to issue an unlimited number of membership shares. As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $50 in membership shares with the exception of trust and youth accounts. These membership shares are redeemable at par only when a membership is withdrawn. Members also have the option of purchasing an additional $1,000 in non-voting membership shares. Dividends are at the discretion of the Board of Directors.

Funds invested by members in members' shares are not insured by the Financial Services Regulatory Authority of Ontario ("FSRA"). The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital, as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

Patronage shares

The Credit Union is authorized to issue an unlimited number of Class A patronage shares which are non-voting, can be issued only to members of the Credit Union, and are redeemable at par. The withdrawal of patronage shares is subject to the Credit Union maintaining adequate regulatory capital, as is the payment of any distributions on these shares. These shares are redeemable by written request of the members at the discretion of the Board of Directors to a maximum of 10% of the shares outstanding at the previous year end. Any difference between the total patronage shares and the liability amount are classified as equity. Class A shares available for redemption as of December 31, 2023 total $28,192 (2022 - $25,923).

Dividends are paid at the discretion of the Directors in the form of cash or additional shares. Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Investment shares

The Credit Union is authorized to issue an unlimited number of Class B investment shares which are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the directors in the form of cash or additional shares. They are redeemable thereafter subject to the Credit Union maintaining adequate regulatory capital, as is the payment of any distributions on these shares. These shares are redeemable by written request of the members at the discretion of the Board of Directors to a maximum of 10% of the shares outstanding at the previous year end. The Credit Union has the option to redeem these shares in whole or in part or on a pro-rata basis any time after five years from the date of issuance. Any difference between the total investment shares and the liability amount are classified as equity. Class B shares available for redemption as of December 31, 2023 total $753,411 (2022 - $751,434).

11 Members' share capital (continued)

The issued share capital consists of the following:

As at December 31	**2023**		2022	
	Liability	**Equity**	Liability	Equity
Membership shares	**$ 1,906,819**	**$ -**	$ 2,015,515	$ -
Class A patronage shares	**-**	**281,921**	-	259,231
Class B investment shares	**-**	**7,534,106**	-	7,514,341
Less: transaction costs	**-**	**(100,190)**	-	(100,190)
	$ 1,906,819	**$ 7,715,837**	$ 2,015,515	$ 7,673,382

Dividends are paid at the discretion of the Board of Directors in the form of cash or additional shares. The Board of Directors have approved dividends totaling $59,321 for fiscal 2023 (2022 - $275,280).

Distributions to members for each class of shares is as follows:

Year ended December 31	**2023**		2022	
	Net income	**Equity**	Net income	Equity
Membership shares	**$ 34,461**	**$ -**	$ 27,400	$ -
Class A patronage shares	**-**	**5,095**	-	3,524
Class B investment shares	**-**	**19,765**	-	244,356
	$ 34,461	**$ 24,860**	$ 27,400	$ 247,880

12 Capital and liquidity management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The processes for managing capital include setting policies for capital management, monitoring and reporting, setting policies for related areas such as asset liability management, reporting to the Board of Directors regarding financial results and capital adequacy, and setting budgets and reporting variances to those budgets.

The Credit Union may not pay dividends on members' shares if there are reasonable grounds for believing that the Credit Union is, or would by that payment become, insolvent, or that regulatory liquidity or capital levels would not be met after payment.

The Credit Union considers its capital to include membership shares, Class A patronage shares, Class B investment shares and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous year.

Risk weighted assets are calculated by applying risk weighted percentages, as prescribed by the Act, to each asset class, operational and interest rate risk criteria. The prescribed risk weightings are dependant on the degree of inherent risk in the asset.

12 Capital and liquidity management (continued)

Regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

As at December 31	2023	2022
Tier 1 Capital		
Membership shares	**$ 1,906,819**	$ 2,015,515
Investment and patronage shares	**7,715,837**	7,673,382
Less: redeemable portion of investment and patronage shares	**(781,603)**	(777,357)
Retained earnings	**1,471,447**	1,098,062
	10,312,500	10,009,602
Tier 2 Capital		
Redeemable portion of investment and patronage shares	**781,603**	777,357
Expected credit loss - stage 1 and stage 2	**162,547**	231,151
	944,150	1,008,508
Total regulatory capital	**$ 11,256,650**	$ 11,018,110

Capital adequacy ratios are summarized as follows:

As at December 31	2023	2022
Tier 1 capital ratio	**13.41%**	12.63%
Retained earnings to risk weighted assets ratio	**1.91%**	1.38%
Capital conservation buffer ratio	**6.63%**	5.89%
Risk weighted capital ratio	**14.63%**	13.89%
Total supervisory capital ratio	**14.63%**	13.89%
Leverage ratio	**5.82%**	5.40%

As at December 31, 2023 and December 31, 2022, the Credit Union is not compliant with the minimum retained earnings to risk weighted assets ratio of 3.00% imposed by the Act, and as required by FSRA.

The Act also requires that the Credit Union maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs.

Assets qualifying for liquidity comprise:

As at December 31	2023	2022
Cash	**$ 5,225,632**	$ 12,345,746
Investments measured at FVTPL - debt securities	**13,333,345**	12,667,254
Investments measured at amortized cost - deposit instruments	**-**	2,000,000
	$ 18,558,977	$ 27,013,000

13 Commitments

(a) Credit facilities

The Credit Union maintains line of credit and overdraft facilities with Central 1 totaling $5,830,400 which includes a $1,400,000 Canadian clearing facility, $40,000 US clearing facility, $4,320,400 core line of credit facility, and a $70,000 capital markets facility.

The Canadian clearing facility bears interest at the Bank of Canada Overnight Lending Rate, currently 5.00% (2022 - 4.25%) plus 0.95%. The US clearing facility bears interest at the U.S. Base Rate, currently 9.00% (2022 - 8.00%). The core line of credit facility bears interest at the Central 1 Prime Rate minus 1.30% (2022 - Canadian Dollar Offered Rate (CDOR) plus 0.50%).

The facilities are renewable annually and are secured by an assignment of book deposits and a general security agreement. As at December 31, 2023, the Credit Union has not drawn on these facilities.

(b) Loans to members

The Credit Union has the following commitments to its members on account of unadvanced loans and unused lines of credit:

As at December 31	**2023**	2022
Unadvanced loans	**$ 2,484,869**	$ 3,383,041
Unused lines of credit	**11,564,519**	11,872,937
	$ 14,049,388	$ 15,255,978

When the loans are advanced, they are subject to the same terms and conditions as described in note 8.

14 Other income

Year ended December 31	**2023**	2022
Member fees and surcharges	**$ 371,067**	$ 372,113
Loan fees and penalties	**342,308**	809,768
Other	**106,276**	58,098
Commissions	**49,845**	67,498
Foreign exchange	**32,520**	23,205
	$ 902,016	$ 1,330,682

15 Related party transactions

(a) Compensation

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, *Related Party Disclosures*, as those persons having authority or responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

Year ended December 31	**2023**	2022
Salaries and other short-term employee benefits	**$ 463,735**	$ 406,066
Pension and other benefits	**89,702**	76,670
Director remuneration	**60,450**	61,450
	$ 613,887	$ 544,186

15 Related party transactions (continued)

(a) Compensation (continued)

The Act requires credit unions to disclose remuneration paid during the year to the officers and employees of the Credit Union whose total remuneration for the year exceeds $175,000.

The summary below provides this information for the current year:

	Title	Salary & Variable Compensation	Benefits	Total Remuneration
Kathy Foster	Chief Executive Officer	$173,804	$46,870	$220,674

(b) Loans and deposits

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same terms and conditions which apply to members for each class of loan. All loans conform to the Credit Union's policies with respect to term, interest rates and limits and have been approved by the Board of Directors. None of the loans to restricted parties were impaired as at December 31, 2023 and accordingly, there is no allowance for impaired loans required.

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

As at December 31	**2023**	2022
Loans to key management personnel:		
Aggregate value of loans advanced	**$ 3,748,493**	$ 2,273,886
Interest received on loans advanced	**80,573**	41,105
Aggregate value of unadvanced loans	**12,494**	22,651
Deposits from key management personnel:		
Aggregate value of deposits	**$ 2,352,588**	$ 2,225,041
Interest paid on deposits	**29,173**	32,862

Under the Credit Union's policy for lending, loans to staff and directors are eligible to receive a 2% reduction in the approved interest rate, after completion of the regular loan application process.

16 Post-employment benefits

The Credit Union has a defined contribution pension plan for employees. Pension plan benefits expense included in salaries and benefits for the year was $115,954 (2022 - $105,851).

17 Income taxes

The reconciliation of the income tax computed at statutory rates to income tax expense is as follows:

Year ended December 31	**2023**	2022
Income before income taxes	**$ 475,276**	$ 588,909
Less: distribution to members	**(24,860)**	(247,880)
Income subject to taxation	**450,416**	341,029
Statutory income tax rate	**26.50%**	26.50%
Expected provision for income taxes	**119,360**	90,373
Increase (decrease) in taxes resulting from:		
Small business and credit union deduction	**(64,409)**	(48,767)
Non-deductible expenses and other reconciling items	**22,080**	(8,123)
Income tax provision	**$ 77,031**	$ 33,483
Comprised of:		
Current	**-**	-
Deferred	**77,031**	33,483
	$ 77,031	$ 33,483

The movement in 2023 deferred tax assets (liabilities) is:

	Opening Balance at January 1, 2023	**Recognize in net income**	**Closing Balance at December 31, 2023**
Deferred tax assets (liabilities)			
Unused tax losses	**$ 56,558**	**$ (3,874)**	**$ 52,684**
Expected credit losses	**35,828**	**(10,633)**	**25,195**
Unrealized (gain) loss on FVTPL investments	**69,365**	**(76,035)**	**(6,670)**
Property and equipment	**(18,266)**	**13,511**	**(4,755)**
2023 net deferred tax asset	**$ 143,485**	**$ (77,031)**	**$ 66,454**

The movement in 2022 deferred tax asset (liabilities) is:

	Opening Balance at January 1, 2022	Recognize in net income	Closing Balance at December 31, 2022
Deferred tax assets (liabilities)			
Unused tax losses	$ 137,570	$ (81,012)	$ 56,558
Expected credit losses	32,817	3,011	35,828
Unrealized loss on FVTPL investments	20,590	48,775	69,365
Other	8,486	(8,486)	-
Property and equipment	(22,495)	4,229	(18,266)
2022 net deferred tax asset	$ 176,968	$ (33,483)	$ 143,485

18 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

The following table provides a reconciliation between the line items on the statement of financial position and categories of the carrying amount by classification.

December 31, 2023	**Designated at FVTPL**	**Designated at FVOCI**	**Amortized cost**	**Total carrying amount**
Cash	**$ -**	**$ -**	**$ 5,225,632**	**$ 5,225,632**
Investments	**13,333,345**	**278,614**	**-**	**13,611,959**
Loans to members	**-**	**-**	**171,001,510**	**171,001,510**
Total financial assets	**$ 13,333,345**	**$ 278,614**	**$176,227,142**	**$189,839,101**
Accounts payable and accrued liabilities	**$ -**	**$ -**	**$ 51,661**	**$ 51,661**
Deferred loan commitment fee revenue	**-**	**-**	**91,326**	**91,326**
Members' deposits	**-**	**-**	**180,972,901**	**180,972,901**
Member's share capital	**-**	**-**	**1,906,819**	**1,906,819**
Total financial liabilities	**$ -**	**$ -**	**$183,022,707**	**$183,022,707**

December 31, 2022	Designated at FVTPL	Designated at FVOCI	Amortized cost	Total carrying amount
Cash	$ -	$ -	$ 12,345,746	$ 12,345,746
Investments	12,667,254	284,900	2,032,928	14,985,082
Loans to members	-	-	172,157,907	172,157,907
Total financial assets	$ -	$ -	$186,536,581	$199,488,735
Accounts payable and accrued liabilities	$ -	$ -	$ 54,605	$ 54,605
Deferred loan commitment fee revenue	-	-	195,607	195,607
Members' deposits	-	-	191,125,486	191,125,486
Member's share capital	-	-	2,015,515	2,015,515
Total financial liabilities	$ -	$ -	$193,391,213	$193,391,213

Fair value hierarchy

The following table represents the fair values of the Credit Union's financial assets and financial liabilities for each classification of financial instruments. The fair values for short-term financial assets and liabilities approximate carrying value. These include cash, accrued interest receivable, accounts payable and accrued liabilities and accrued interest, dividends and patronage return payable. The fair values disclosed do not include the value of assets that are not considered financial instruments.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18 Financial assets and financial liabilities (continued)

Fair value hierarchy (continued)

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

	Level 1	Level 2	Level 3
December 31, 2023			
Investments measured at FVOCI - equity securities	**$ -**	**$ 278,614**	**$ -**
Investments measured at FVTPL - debt securities	**13,333,345**	**-**	**-**
	$ 13,333,345	**$ 278,614**	**$ -**
Financial assets for which fair value is disclosed			
Loans to members	**$ -**	**$ -**	**$162,607,099**
Financial liabilities for which fair value is disclosed			
Members' deposits	**$ -**	**$ -**	**$182,045,243**

	Level 1	Level 2	Level 3
December 31, 2022			
Investments measured at FVOCI - equity securities	$ -	$ 284,900	$ -
Investments measured at FVTPL - debt securities	12,667,254	-	-
	$ 12,667,254	$ 284,900	$ -
Financial assets for which fair value is disclosed			
Loans to members	$ -	$ -	$163,606,365
Financial liabilities for which fair value is disclosed			
Members' deposits	$ -	$ -	$190,002,697

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2023 and December 31, 2022.

19 Financial instrument risk management

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives monthly reports from the Credit Union's Manager of Risk through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

<u>Risk measurement</u>

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the members' character, ability to pay, and value of collateral available to secure the loan.

<u>Objectives, policies and procedures</u>

The Credit Union's risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Processes for measuring ECL, including initial approval, regular validation and back-testing of the models used and incorporation of forward-looking information; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and expected credit loss monthly.

19 Financial instrument risk management (continued)

Credit risk (continued)

Objectives, policies and procedures (continued)

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken. Additional security is taken in the form of mortgage insurance from the government and Sagen as disclosed in note 8.

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a target liquidity ratio of between 6% and 15% (2022 - 6% and 12%).

The Credit Union manages liquidity risk by:

- Continuously monitoring 30-day net cash inflows and outflows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity coverage ratio monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. As at December 31, 2023, the Credit Union's liquidity ratio was 10.44% which is within the maximum target limit of the policy.

The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

19 Financial instrument risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, policies and procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on member deposits. The objective of asset / liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FSRA as required by Credit Union Regulations. For the year-ended December 31, 2023, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Expected maturities	Assets	Yield(%)	Liabilities	Cost (%)	Asset / liability gap
(Thousands)					
Interest sensitive					
0 - 6 months	$ 60,854	4.76	$ 85,506	1.32	$ (24,652)
6 - 12 months	19,861	4.44	33,673	4.41	(13,812)
1 - 2 years	26,817	4.09	22,921	4.66	3,896
2 - 3 years	29,672	3.89	6,654	3.29	23,018
3 - 4 years	30,119	3.68	10,581	4.25	19,538
4 - 5 years	21,884	5.49	18,588	4.74	3,296
	$ 189,207		$ 177,923		$ 11,284
Non-interest sensitive	$ 632		$ 5,100		$ (4,468)

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 0.25% could result in an increase to net income of $79,353 while a decrease in interest rates of 0.25% could result in a decrease to net income of $73,640.

19 Financial instrument risk management (continued)

Market risk (continued)

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

Risk measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to within $100,000 of the cash reserves held by the credit union in US funds.

For the year-ended December 31, 2023, the Credit Union's exposure to foreign exchange risk is within policy.

The Credit Union has the following balances denominated in U.S. dollars:

As at December 31		**2023**		2022
Cash on hand and on deposit	**$**	**146,069**	$	154,201
Member accounts and deposits		**(149,653)**		(162,223)
Net exposure	**$**	**(3,584)**	$	(8,022)

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Union's portfolio does not include significant equity holdings and is therefore not subject to significant equity risk.

Changes in risk

Other than the impact of the rapid increase in interest rates, there have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.