Financial Statements of

NORTHERN CREDIT UNION LIMITED

And Independent Auditor’s Report thereon

Year ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Members of Northern Credit Union Limited

Opinion

We have audited the accompanying financial statements of Northern Credit Union Limited (the "Credit Union"), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of income for the year then ended
- the statement of comprehensive income for the year then ended
- the statement of changes in members' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policies

(Hereinafter referred to as the "financial statements").

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 IFRS Accounting 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 auditor's 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 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 IFRS Accounting 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
February 16, 2024

NORTHERN CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2023, with comparative information for 2022

(in thousands of Canadian dollars)		2023		2022
Assets				
Cash and cash equivalents (note 5)	$	39,749	$	49,325
Investments (note 6)		135,680		131,605
Derivative financial instruments (note 22)		1,329		3,255
Loans to members (notes 8)		1,629,978		1,619,228
Other assets (note 7)		8,110		6,875
Deferred income taxes (note 17)		2,444		2,289
Right-of-use assets (note 14)		1,424		2,119
Property and equipment (note 10)		10,086		11,150
Intangible assets (note 10)		184		296
Total assets	$	1,828,984	$	1,826,142
Liabilities and Members' Equity				
Members' deposits (note 11)	$	1,536,978	$	1,532,369
Accounts payable and accrued liabilities		8,291		6,500
Derivative financial instruments (note 22)		1,329		3,255
Lease liabilities (note 14)		1,474		2,177
Securitized liabilities (note 13)		173,405		178,884
Liabilities qualifying as regulatory capital:				
Share capital (note 15)		26,893		28,270
Total liabilities		1,748,370		1,751,455
Members' equity:				
Contributed surplus		19,134		19,134
Retained earnings		57,321		52,494
Accumulated other comprehensive income		4,159		3,059
Total members' equity		80,614		74,687
Commitments and contingencies (note 18)				
Total liabilities and members' equity	$	1,828,984	$	1,826,142

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director

Max S. Luchi ____________________ Director

NORTHERN CREDIT UNION LIMITED

Statement of income

Year ended December 31, 2023, with comparative information for 2022

(in thousands of Canadian dollars)		2023		2022
Revenue:				
Interest - residential mortgage loans	$	37,709	$	29,126
- personal loans		17,312		15,210
- commercial loans		13,840		12,797
Investment income		6,157		1,889
		75,018		59,022
Cost of financing:				
Interest - demand deposits		5,999		3,435
- term deposits		13,518		6,843
- registered savings plans		13,709		7,257
Distribution to members (note 15)		1,328		1,182
Interest on external borrowings		5,689		4,394
		40,243		23,111
Net interest income		34,775		35,911
Impairment loss on loans (note 9)		2,280		3,109
Net interest income after impairment loss on loans		32,495		32,802
Non-interest revenue (note 19)		12,197		13,876
		44,692		46,678
Operating expenses:				
Salaries, wages and benefits		18,129		17,037
Board and committee		354		344
Data processing and clearing		1,179		1,079
General and administration		13,454		12,403
Insurance		1,893		1,828
Occupancy		2,720		2,715
Depreciation and amortization		1,538		2,499
		39,267		37,905
Income before income taxes		5,425		8,773
Income taxes (note 17):				
Current		1,149		2,060
Deferred (recovery)		(551)		(402)
		598		1,658
Net income	$	4,827	$	7,115

See accompanying notes to financial statements.

NORTHERN CREDIT UNION LIMITED

Statement of Comprehensive Income

Year ended December 31, 2023, with comparative information for 2022

(in thousands of Canadian dollars)		2023		2022
Net income	$	4,827	$	7,115
Other comprehensive income, net of income taxes:				
Items that are or may be reclassified subsequently to profit or loss:				
Net gain on cash flow hedges		(54)		192
Net change in fair value of debt investments		1,321		(2,307)
Debt investments at FVOCI – reclassified to profit or loss		(55)		667
Related income tax (expense) recovery (note 17)		(321)		384
Items that will never be reclassified to profit or loss:				
Defined benefit plan actuarial gains (note 20)		268		2,386
Net change in fair value of equity investments		16		(40)
Related income tax expense (note 17)		(75)		(622)
		1,100		660
Comprehensive income	$	5,927	$	7,775

Statement of Changes in Members' Equity

Year ended December 31, 2023, with comparative information for 2022

(in thousands of Canadian dollars)		2023		2022
Contributed surplus	$	19,134	$	19,134
Retained earnings		52,494		45,379
Net income		4,827		7,115
As at December 31		57,321		52,494
Accumulated other comprehensive income:				
Representing the fair value reserve:				
As at January 1		3,059		2,399
Other comprehensive income		1,100		660
Balance, end of year		4,159		3,059
Member's equity, end of year	$	80,614	$	74,687

See accompanying notes to financial statements.

NORTHERN CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022

(in thousands of Canadian dollars)	2023	2022
Cash flows from operating activities:		
Net income	$ 4,827	$ 7,115
Adjustments for:		
Change in non-cash items:		
Net interest income	(34,775)	(35,911)
Provision for impaired loans	2,280	3,109
Provision for income tax	598	1,658
Depreciation and amortization	1,538	2,499
Depreciation on right-of-use assets	766	949
Gain on disposal of property and equipment and intangibles	-	(154)
	(24,766)	(20,735)
Change in operating assets/liabilities:		
Changes in other assets	(164)	(2,969)
Changes in accounts payable and accrued liabilities	1,144	1,160
	980	(1,809)
Changes in member activities (net):		
Changes in member loans	(12,466)	(156,541)
Changes in member deposits	(1,814)	39,748
	(14,280)	(116,793)
Cash flows related to interest and income taxes:		
Interest received on member loans	68,297	56,686
Interest received on investments	6,102	2,556
Interest paid on member deposits	(26,807)	(15,175)
Interest paid on external borrowings	(4,138)	(3,476)
Income taxes paid	(2,631)	(2,800)
	40,823	37,791
	2,757	(101,546)
Cash flows from financing activities:		
Payments of lease liabilities	(815)	(1,006)
(Redemption) issuance of membership shares - net	(45)	6
Issuance of loyalty shares - net	-	1
Redemption of Class A patronage shares	(47)	(38)
Redemption of Class B investment shares - net	(1,285)	(1,107)
Issuance of securitized liabilities	38,223	103,827
Payments to securitized liabilities	(45,265)	(62,215)
	(9,234)	39,468
Cash flows from investing activities:		
Net investment (purchases) proceeds	(2,737)	64,665
Proceeds on disposal of property and equipment	-	215
Additions to intangible assets	(10)	(35)
Additions to property and equipment	(352)	(270)
	(3,099)	64,575
Net (decrease) increase in cash and cash equivalents	(9,576)	2,497
Cash and cash equivalents, beginning of year	49,325	46,828
Cash and cash equivalents, end of year	$ 39,749	$ 49,325

See accompanying notes to financial statements.

1. Reporting entity:

Northern Credit Union Limited (the “Credit Union”), was incorporated under the laws of Ontario and operates in compliance with the Credit Union (“Unions”) and Caisse Populaires (“Caisses”) Act of Ontario (the “Act”). The Credit Union is a member of the Financial Services Regulatory Authority of Ontario (“FSRA”) and of the Central 1 Credit Union (“Central 1”). The Credit Union is domiciled in Canada. The address of the Credit Union’s registered office is 280 McNabb Street, Sault Ste. Marie, Ontario. The Credit Union is primarily involved in corporate and retail banking.

2. Basis of preparation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with IFRS Accounting Standards (IFRS).

These financial statements have been authorized for issue by the Board of Directors on February 16, 2024.

(b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency. They are prepared on the historical cost basis except as described in the accounting policies below.

(c) Use of estimates and judgments:

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 and note 9.

3. Material accounting policies:

The Credit Union adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRA Practice Statement 2)* from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of ‘material’, rather than ‘significant’, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updated to the information disclosures in this note (2022 – significant accounting policies) in certain instances in line with the amendments.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3. Material accounting policies (continued):

(a) Financial instruments:

The Credit Union initially recognizes loans and advances, deposits and mortgage securitization liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) 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 fair value through profit/loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

(i) Classification:

On initial recognition, a financial asset is classified and measured at: amortized cost, fair value through other comprehensive income (FVOCI) or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash 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.

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

- the asset is held within a business model whose objective is 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.

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 OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

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.

Subsequent to initial recognition, FVOCI financial assets are measured at fair value whereby the unrealized gains and losses are recorded in other comprehensive income (“OCI”) and included in accumulated other comprehensive income (“AOCI”). Upon derecognition, the cumulative gains or losses of debt instruments are reclassified from OCI and recorded in the Statement of Income.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued):

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.

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.

The Credit Union has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on this established criteria the financial asset is expected to be securitized as part of a portfolio that:

- qualifies for derecognition as detailed below, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL; or
- does not qualify for derecognition, the Credit Union has elected, as its accounting policy, to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued):

<u>Assessment whether contractual cash flows are solely payments of principal and interest</u>

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. nonrecourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

<u>Reclassifications</u>

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models related to previously designated assets for the years ended December 31, 2023 and December 31, 2022.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued):

The classifications are noted below:

Financial asset/liability	Classification
Cash and cash equivalents	Amortized Cost
Investments – debt securities:	
Marketable securities	FVOCI
Liquidity reserves:	
Excess liquidity deposits	Amortized Cost
Other investments	Amortized Cost
Investments – equity instruments:	
Class A & E – Central 1	FVOCI
Other equity investments	FVOCI
Derivative financial instruments	FVTPL
Loans to members	Amortized Cost
Deposits from members	Amortized Cost
Accounts payable and accrued liabilities	Amortized Cost
Short-term borrowings	Amortized Cost
Securitization liabilities	Amortized Cost

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(ii) Recognition and measurement:

Financial assets

At initial recognition, the Credit Union has the option to designate certain financial assets as FVTPL to eliminate or significantly reduce an accounting mismatch which would otherwise arise.

Financial liabilities

The Credit Union has designated certain financial liabilities as FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(iii) Effective interest method:

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

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

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

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

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(iv) Impairment of financial assets:

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

- financial assets that are measured at amortized cost
- loan commitments issued.
- debt instruments measured at FVOCI: no loss allowance is recognized in the Consolidated Statement of Financial Position because the carrying amount of these assets is their fair value. The loss allowance is recognized in other comprehensive income.

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:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see note 9).

The Credit Union considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. 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.

<u>Measurement of ECL</u>

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.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(iv) Impairment of financial assets (continued):

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 FVOCI 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; or
- the disappearance of an active market for a security because of financial difficulties.

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.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(iv) Impairment of 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.

<u>Presentation of allowance for ECL in the statement of financial position</u>

Loss allowances for ECL are presented in 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;
- 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; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

<u>Write-offs</u>

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.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(v) Derecognition of financial assets:

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.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at 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.

In certain transactions, the Credit Union retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Credit Union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage Housing Corporation that issue bonds to third party investors. This includes securitization of insured residential mortgages by participating in the National Housing Act (NHA) mortgage-backed securities (MBS) program. Through the program, the Credit Union issues securities backed by residential mortgages that are insured against borrower's default. All securitization transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the Credit Union's securitizations do not qualify for derecognition based on the above criteria, the Credit Union does not derecognize the transferred financial assets but records a secured borrowing with respect to any consideration received. These secured borrowings are measured at amortized cost under IFRS 9.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(v) Derecognition of financial assets (continued):

For securitizations that result in derecognition, retained interests are recognized as investment securities and carried at FVOCI. Gains or losses on securitization are recorded in other revenue.

Financial liabilities

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

(vi) Transaction costs:

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs related to FVTPL financial assets and liabilities are expensed as incurred. Transaction costs relating to amortized cost financial instruments are capitalized and amortized over the expected life of the instrument using the effective interest method. Transaction costs related to FVOCI are recognized in other comprehensive income (OCI) and amortized to the statement of income over the expected life of the instrument using the effective interest method.

(vii) Derivative instruments:

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices such as interest rate swaps, equity swap agreements and bond forwards. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are recorded on the statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are closely related to the host contracts. Changes in the fair value of those derivative instruments are recognized in net income for the year.

(viii) Hedge accounting:

The Credit Union formally documents all relationships between hedging instruments and hedged items; as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities recognized on the statement of financial position or specific firm commitments or forecasted transactions that are highly probable to occur and prevent exposure to variations in cash flows that could ultimately affect reported net income. The Credit Union also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk.

3. Material accounting policies (continued):

(a) Financial instruments (continued):

(viii) Hedge accounting (continued):

IFRS specifies the criteria that must be satisfied in order for hedge accounting to be applied and prescribes the accounting treatment for those permitted hedging strategies applicable to the Credit Union's cash flow hedges.

In a cash flow hedge, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income ("OCI") and presented in the cash flow hedging reserve in equity. The amount recognized in OCI is reclassified and included on the statement of income in the same period that the hedged cash flows affect income. This will be offset by net interest income on assets and liabilities that are hedged. The Credit Union utilizes cash flow hedges primarily to convert floating rate liabilities to fixed rate. Any hedge ineffectiveness is measured and is immediately recognized in the statement of income.

When a cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in income as the hedged item impacts earnings or immediately if the forecast transaction is no longer expected to occur.

(ix) Embedded derivatives:

Derivatives may be embedded in another contractual arrangement (a host contract). The Credit Union accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely
- related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in net income unless they form part of a qualifying cash flow hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

As at December 31, 2023, the Credit Union does not have any embedded derivatives that require separation.

3. Material accounting policies (continued):

(b) Interest income and expense:

Interest income and expense are recognized in the statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. 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.

The calculation of the effective interest rate includes all fees and points paid or received and transaction costs and discounts or premiums 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 liability.

(c) Non-interest revenue:

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Net income from other financial instruments designated at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities so designated, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of investment income, net income from other financial instruments at FVTPL or other operating income is based on the underlying classification of the equity investment.

3. Material accounting policies (continued):

(d) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand, current accounts, cheques and other items in transit. Cash is carried at amortized cost in the statement of financial position.

(e) Intangible assets:

Computer software that is not an integral part of other property and equipment is accounted for as intangible assets. Computer software is stated at cost less accumulated amortization and is presented as part of property and equipment on the statement of financial position. Amortization of computer software is calculated by applying the straight-line method at rates based on estimated useful lives between 3 and 10 years.

(f) Property and equipment:

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	5 to 50 years
Parking areas	3 to 10 years
Furniture, office and computer equipment	3 to 15 years
Leasehold improvements	Maximum of remaining term of lease plus 1 renewal

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

(g) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Impairment charges are included in net income.

3. Material accounting policies (continued):

(h) 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 reporting date.

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

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available 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 no longer probable that the related tax benefit will be realized.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(i) Foreign currency translation:

The financial statements are presented in Canadian dollars, which is the Credit Union's presentation and functional currency. Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchanges rates in effect on the date of the transactions. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3. Material accounting policies (continued):

(j) Employee retirement benefits:

i) Defined benefit plans:

The Credit Union's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Credit Union, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Credit Union determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Credit Union recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

ii) Defined contribution plans:

The Credit Union also has defined contribution plans providing pension benefits for eligible employees not included in the defined benefit plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

3. Material accounting policies (continued):

(k) Leases:

At inception of a contract, the Credit Union assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Credit Union, as a lessee, recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

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

The Credit Union has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Credit Union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(l) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as financing cost.

3. Material accounting policies (continued):

(m) Future changes in accounting policy:

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2024 and earlier application is permitted; however, the Credit Union has not early adopted them in preparing these financial statements. The following amended standards are not expected to have a significant impact on the Credit Union's financial statements

- Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1)
- Supplies Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Lack of Exchangeability (Amendments to IAS 21)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

4. Critical accounting estimates and judgments:

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

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

Fair value of financial instruments:

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

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

(in thousands of Canadian dollars)

4. Critical accounting estimates and judgments (continued):

Classification of financial instruments:

The classification of financial assets includes an assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Details on this assessment are described in not 3 a) (i).

Member loan expected credit loss:

Impairment of financial instruments is assessed based on management's judgment on whether credit risk on the financial asset (loans to members) has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit loss ("ECL").

Further details on the key judgements used to determine the expected credit loss are provided in note 9.

Employee retirement benefits:

The Credit Union estimates the present value of employee retirement benefits, which depends on a number of assumptions including discount rates, expected salary and other cost increases, and mortality rates. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to information provided in note 20.

Securitizations and derivatives:

The Credit Union enters into securitization transactions and derivative instruments and hedging which require management's best estimates of key assumptions that market participants would use in determining fair value. For more information relating to these estimates refer to note 13 for securitizations and note 22 for hedging.

5. Cash and cash equivalents:

	2023	2022
Cash on hand	$ 10,638	$ 11,446
Cash at Central 1	28,979	37,092
Cash with investment custodian	132	787
	$ 39,749	$ 49,325

(in thousands of Canadian dollars)

6. Investments:

		2023		2022
Amortized cost:				
Excess liquidity deposits	$	45,002	$	45,000
Accrued interest on investments		143		61
Other investment		150		150
		45,295		45,211
Fair value through other comprehensive income:				
Marketable securities		86,894		82,849
Accrued Interest on marketable securities		430		467
Central 1 Credit Union Limited:				
Class A shares		501		509
Class E shares		2,544		2,544
		90,369		86,369
Other equity investments		16		25
		90,385		86,394
	$	135,680	$	131,605

The following summarizes the Credit Union's investments by the contractual repricing or maturity date, whichever is earlier:

		2023			2022	
		Principal Balance	Average Yield		Principal Balance	Average Yield
Within 1 year	$	83,364	4.30%	$	97,358	4.03%
Over 1 year		48,532	3.59%		30,491	1.59%
		131,896	4.04%		127,849	3.45%
Non-rate sensitive		3,211			3,228	
Accrued interest		573			528	
	$	135,680		$	131,605	

a) Shares in Central 1:

As a member of Central 1, the Credit Union is required to maintain an investment in Central 1 shares equal to its share of the level of capital required by Central 1. The Credit Union's Share of Central 1 capital requirements are based on asset size relative to other Class "A" members. Central 1 rebalances the investment annually. During 2023, the Credit Union redeemed $8 (2022 – $14) in Central 1 Class A shares.

6. Investments (continued):

a) Shares in Central 1 (continued):

As there is no active market for these shares, the shares are not sellable, and, as a result of continued investment in these shares, the Credit Union receives significant benefits from Central 1, fair market value is not reliably determinable as future cash flows cannot be adequately predicted with a standard valuation technique. As a result, these shares are measured at FVOCI.

The shares may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central 1 by-law providing for the redemption of its share capital.

b) Marketable securities:

The Credit Union holds a portfolio of investment grade marketable securities to maintain adequate liquidity levels in order to protect the credit union in the event of potential liquidity stresses. The Credit Union's business model objective is achieved by collecting contractual cashflows and by selling the financial assets and classify the investments as FVOCI.

c) Excess liquidity deposits:

The Credit Union maintains other investments with various financial institutions to hold excess liquidity deposits. The investments are mainly held in Guaranteed Investment Certificates and are in compliance with liquidity and investment policies. The deposits bear interest at varying rates, dependent upon the term of the investment, and are measured at amortized cost.

d) Other equity investments:

The Credit Union maintains other equity instruments which are non-interest bearing and are measured at FVOCI. Other investments which are interest bearing are measured at amortized cost.

(in thousands of Canadian dollars)

7. Other assets:

	2023	2022
Prepayments	$ 6,972	$ 6,875
Income tax receivable	1,138	-
	$ 8,110	$ 6,875

8. Loans to members:

2023	Principal and interest	Allowance for impaired loans	Net
Residential mortgage loans	$ 1,084,145	$ 1,356	$ 1,082,789
Personal loans	279,126	4,094	275,032
Commercial loans	273,921	1,764	272,157
	$ 1,637,192	$ 7,214	$ 1,629,978

2022	Principal and interest	Allowance for impaired loans	Net
Residential mortgage loans	$ 1,058,890	$ 898	$ 1,057,992
Personal loans	294,837	4,397	290,440
Commercial loans	272,243	1,447	270,796
	$ 1,625,970	$ 6,742	$ 1,619,228

(in thousands of Canadian dollars)

8. Loans to members (continued):

Commercial loans consist of the following loan types:

	2023	2022
Commercial	$ 214,743	$ 220,711
Syndicated	20,939	14,786
Agricultural	34,763	32,243
Institutional	3,422	3,660
Unincorporated associations	54	843
Allowance for impaired loans	(1,764)	(1,447)
	$ 272,157	$ 270,796

Certain Residential Mortgage Loans are securitized and have legally transferred the contractual rights to receive certain cash flows from these mortgages to other entities for funding purposes. These loans are administered by the Credit Union and recognized on the statement of financial position to the extent of the Credit Union’s continuing involvement. The balance of loans securitized at December 31, 2023, is $200,935 (2022 – $213,915) and is included within residential mortgage loans.

Total fees paid to third parties associated with lending activities capitalized in the related assets were $4,728 as at December 31, 2023 (2022 – $5,024). Charges amortized into interest expense in respect of these fees was $2,220 (2022 – $2,089).

The following summarizes the Credit Union’s loan portfolio by the contractual repricing or maturity date, whichever is earlier:

	2023		2022	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	$ 169,578	8.84%	$ 173,480	8.17%
Within 1 year	260,537	4.12%	193,526	4.06%
Over 1 year	1,207,077	4.16%	1,258,964	3.54%
	1,637,192	4.63%	1,625,970	4.09%
Allowance for impaired loans	(7,214)		(6,742)	
	$ 1,629,978		$ 1,619,228	

8. Loans to members (continued):

Canada Emergency Business Account Loans

In 2020, the Canadian government launched Canada Emergency Business Account ("CEBA") Program to support businesses facing economic hardship due to the COVID-19 pandemic. Under the CEBA Program, the Credit Union has outstanding loans amounting to $12,955 (2022 - $22,482) that were funded by the government. The Credit Union assessed whether substantially all the risks and rewards of the loans were transferred to the government and determined they qualify for derecognition, therefore these loans are not recorded on the Statement of Financial Position. No gain or loss was recognized on derecognition.

To provide options for businesses to pay back the CEBA loan, the Credit Union provided a lending product that businesses could partake in.

9. Allowance for impaired loans:

Measurement of ECL

The ECL impairment model measures the credit losses using the following three-stage approach based on the extent of credit deterioration of the financial assets since initial recognition:

- 12 month ECL (stage 1) – Where there has not been a significant increase in credit risk ("SICR") since initial recognition of a financial instrument, an amount equal to twelve months ECL is recorded. The ECL is computed using a probability of default ("PD") occurring over the next twelve months.
- Lifetime ECL – non-credit impaired (stage 2) – When a financial instrument experiences a SICR subsequent to initial recognition but is not considered to be in default, it is included in stage 2. This requires the computation of ECL based on the PD over the remaining estimated life of the financial instrument.
- Lifetime ECL – credit impaired (stage 3) – Financial instruments that are considered to be in default are included in this stage. Similar to stage 2, this required the computation of ECL based on the PD over the remaining estimated life of the financial instrument.

The PD, exposure at default ("EAD"), and loss given default ("LGD") are inputs used to estimate the ECL, and are modelled based on macroeconomic factors that are closely related with credit losses in the relevant portfolios, and are probability-weighted using three scenarios.

Details of these statistical parameters/inputs are as follows:

- PD is an estimate of the likelihood of default over a given time horizon, and is expressed as a percentage.
- EAD is the expected exposure in the event of default at a future default date, and is expressed as an amount.
- LGD is an estimate of the loss arising in cases where a default occurs at a given time and is based on the difference between the contractual cash flows due and those that the Credit Union would expect to receive, including from the realization of any collateral. It is expressed as a percentage of the EAD.

(in thousands of Canadian dollars)

9. Allowance for impaired loans (continued):

	12-month ECL (Stage 1)	Lifetime non-credit impaired (Stage 2)	Lifetime credit impaired (Stage 3)	2023 Total
Balance at January 1	$ 2,170	$ 3,016	$ 1,556	$ 6,742
Transfer to (from):				
Stage 1	1,050	(1,023)	(27)	–
Stage 2	(183)	267	(84)	–
Stage 3	(19)	(96)	115	–
Re-measurement	(1,218)	1,419	2,418	2,619
Originations	439	259	105	803
Discharges	(270)	(394)	(478)	(1,142)
Realized losses	(16)	(102)	(2,191)	(2,309)
Recoveries	–	–	501	501
Balance, end of year	$ 1,953	$ 3,346	$ 1,915	$ 7,214

	12-month ECL (Stage 1)	Lifetime non-credit impaired (Stage 2)	Lifetime credit impaired (Stage 3)	2022 Total
Balance at January 1	$ 1,643	$ 2,339	$ 1,628	$ 5,610
Transfer to (from):				
Stage 1	746	(699)	(47)	–
Stage 2	(128)	194	(66)	–
Stage 3	(7)	(68)	75	–
Re-measurement	(515)	1,407	2,102	2,994
Originations	698	335	24	1,057
Discharges	(262)	(425)	(255)	(942)
Realized losses	(5)	(67)	(2,366)	(2,438)
Recoveries	–	–	461	461
Balance, end of year	$ 2,170	$ 3,016	$ 1,556	$ 6,742

Net impairment loss on loans amounted to $2,280 (2022 – $3,109) and is comprised of ECL related to re-measurement changes of $2,619 (2022 – $2,994) and loan originations of $803 (2022 – $1,057) less loan discharges of $1,142 (2022 – $942).

(in thousands of Canadian dollars)

9. Allowance for impaired loans (continued):

2023	Gross amount	Allowance for credit losses Stage1	Stage 2	Stage 3	Total	Net amount
Residential mortgage loans	$ 1,084,145	$ (466)	$ (483)	$ (407)	$ (1,356)	$ 1,082,789
Personal loans	279,126	(1,282)	(1,860)	(952)	(4,094)	275,032
Commercial loans	273,921	(205)	(1,003)	(556)	(1,764)	272,157
Balance, end of year	$1,637,192	$ (1,953)	$ (3,346)	$ (1,915)	$ (7,214)	$ 1,629,978

2022	Gross amount	Allowance for credit losses Stage1	Stage 2	Stage 3	Total	Net amount
Residential mortgage loans	$ 1,058,890	$ (524)	$ (338)	$ (36)	$ (898)	$ 1,057,992
Personal loans	294,837	(1,408)	(1,971)	(1,018)	(4,397)	290,440
Commercial loans	272,243	(238)	(707)	(502)	(1,447)	270,796
Balance, end of year	$1,625,970	$ (2,170)	$ (3,016)	$ (1,556)	$ (6,742)	$ 1,619,228

Details of the activity in the provision for impaired loans are as follows:

	Residential Mortgage Loans	Personal Loans	Commercial Loans	2023 Total	2022 Total
Balance, beginning of year	$ 898	4,397	1,447	6,742	$ 5,610
Loans written-off	(1)	(2,308)	–	(2,309)	(2,438)
Recoveries	–	501	–	501	461
Provision for impaired loans during the year	459	1,504	317	2,280	3,109
Balance, end of year	$ 1,356	4,094	1,764	7,214	$ 6,742

(in thousands of Canadian dollars)

9. Allowance for impaired loans (continued)

Details of the impaired loans, net of expected credit loss are as follows:

2023	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Impaired loans	$ 20,518	$ 6,239	$ 2,996	$ 29,753
Expected credit loss	(462)	(1,331)	(549)	(2,342)
Balance, end of year	$ 20,056	$ 4,908	$ 2,447	$ 27,411

2022	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Impaired loans	$ 15,471	$ 5,586	$ 3,722	$ 24,779
Expected credit loss	(78)	(1,371)	(502)	(1,951)
Balance, end of year	$ 15,393	$ 4,215	$ 3,220	$ 22,828

The Credit Union's commercial loan portfolio contains Member concentration risk, whereby a large amount of the loans are connected to certain members. Collectively, the largest five commercial Members by loan dollar value are associated with approximately 20% (2022 – 19%) of the commercial loan portfolio.

The Credit Union's commercial loan portfolio consists of the following industry sectors:

	2023	2022
Hospitality	13%	13%
Retail and Commercial Buildings	47%	50%
Agriculture	12%	12%
Other	28%	25%

Past due but not impaired loans:

The Credit Union has the following loans that are past due but not impaired:

	2023	2022
31 to 90 days past due	$ 1,402	$ 1,597

(in thousands of Canadian dollars)

9. Allowance for impaired loans (continued):

Collateral:

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair valuation exercise of non-financial collateral is performed if there has been a significant change in the terms and conditions of the loan and (or) the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loan.

The amount and type of collateral and other credit enhancements required depend upon the Credit Union's assessment of counterparty credit quality and repayment capacity. The Credit Union complies with industry standards for collateral valuation, frequency of recalculation of the collateral requirements, documentation, registration and perfection procedures and monitoring.

Non-financial assets accepted by the Credit Union as collateral include vehicles, residential real estate, real estate under development, commercial real estate and certain business assets (accounts receivable, inventory, property and equipment). Financial collateral includes cash and negotiable securities issued by governments and investment grade issuers. Guarantees are also accepted to reduce credit risk. The Credit Union also uses credit insurance on mortgage loans to reduce the credit risk.

The fair value of collateral held with respect to assets that are either past due greater than 30 days or impaired is $43,630 as at December 31, 2023 (2022 – $33,766).

Credit risk:

The following table sets out information about the credit quality of financial assets measured at amortized cost.

	12 month ECL	Lifetime not credit-impaired	Lifetime ECL credit-impaired	2023 Total
Grade 1: Little or no risk	$ 11,261	$ 869	$ –	$ 12,130
Grade 2: Low Risk	169,139	8,317	–	177,456
Grade 3: Average Risk	1,321,743	73,307	14	1,395,064
Grade 4: Cautionary Risk	54	22,735	–	22,789
Grade 5: Impaired	10,356	10,923	8,474	29,753
	1,512,553	116,151	8,488	1,637,192
Allowance for impairment	1,953	3,346	1,915	7,214
Balance, end of year	$ 1,510,600	$ 112,805	$ 6,573	$1,629,978

For the year ended December 31, 2023, accrued interest of $216 was recorded on impaired loans (2022 – $107).

(in thousands of Canadian dollars)

9. Allowance for impaired loans (continued):

	12 month ECL	Lifetime not credit-impaired	Lifetime ECL credit-impaired	2022 Total
Grade 1: Little or no risk	$ 13,828	$ 797	$ –	$ 14,625
Grade 2: Low Risk	143,541	4,986	–	148,527
Grade 3: Average Risk	1,358,227	64,604	–	1,422,831
Grade 4: Cautionary Risk	1,570	13,638	–	15,208
Grade 5: Impaired	8,548	10,565	5,666	24,779
	1,525,714	94,590	5,666	1,625,970
Allowance for impairment	2,170	3,016	1,556	6,742
Balance, end of year	$ 1,523,544	$ 91,574	$ 4,110	$1,619,228

Refer to note 24 – Financial Risk Management for a detailed explanation of the credit risk rating process of both portfolios.

Forward-looking information (“FLI”)

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 estimation and application of FLI requires significant judgement. The Credit Union relies on a broad range of FLIs, such as expected GDP growth, unemployment rates, interest rates, and house price indices. The economic scenarios used as at December 31, 2023 included the following ranges of Canadian key indicators for the year ending December 31, 2023.

	2023
Unemployment rates:	
Base	6.73%
Range	5.82%-7.89%%
Interest rates:	
Base	4.03%
Range	2.75%-5.44%%
GDP growth:	
Base	1.27%
Range	-4.79%-3.97%
House prices:	
Base	-3.37%
Range	-11.76%-4.24%

9. Allowance for impaired loans (continued):

Assessment of significant increase in credit risk (“SICR”)

The determination of whether the ECL on a financial instrument is calculated on a twelve-month period or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition.

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, delinquency and monitoring. With regards to delinquency and monitoring, there is a rebuttable presumption that the risk of default of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue. The monitoring typically involves use of the following data:

Commercial loans:

- Information obtained during periodic reviews of customer files
- Data from credit references agencies, changes in external credit ratings
- Actual and expected significant changes to business activities and/or environment

Personal loans and residential mortgage loans:

- External data from credit reference agencies including industry standard credit scores
- Affordability metrics

All loans:

- Payment history including overdue status
- Utilization of the granted limit
- Requests for and granting of forbearances
- Existing and forecasted changes in business, financial and economic condition

(in thousands of Canadian dollars)

10. Property and equipment and intangible assets:

		Land	Parking areas	Buildings and improvements	Leasehold improvements	Furniture, office and computer equipment	Automated banking machines	Total Property and equipment	Intangible assets (software)		2023 Total
Cost											
Balance, beginning of the year	$	1,942	274	18,579	5,208	17,433	1,647	45,083	6,314	$	51,397
Additions		-	6	259	24	63	-	352	10		362
Disposals/transfers		-	-	-	-	-	(107)	(107)	-		(107)
Balance, end of year	$	1,942	280	18,838	5,232	17,496	1,540	45,328	6,324	$	51,652
Accumulated depreciation											
Balance, beginning of the year	$	-	239	11,452	3,902	16,732	1,608	33,933	6,018	$	39,951
Disposals/transfers		-	-	-	-	-	(107)	(107)	-		(107)
Amortization expense		-	9	791	280	310	26	1,416	122		1,538
Balance, end of year	$	-	248	12,243	4,182	17,042	1,527	35,242	6,140	$	41,382
Carrying amount - 2023	$	1,942	32	6,595	1,050	454	13	10,086	184	$	10,270

(in thousands of Canadian dollars)

10. Property and equipment and intangible assets:

		Land	Parking areas	Buildings and improvements	Leasehold improvements	Furniture, office and computer equipment	Automated banking machines	Total Property and equipment	Intangible assets (software)		2022 Total
Cost											
Balance, beginning of the year	$	1,942	274	18,646	5,175	17,294	1,647	44,978	6,279	$	51,257
Additions		-	-	98	33	139	-	270	35		305
Disposals/transfers		-	-	(165)	-	-	-	(165)	-		(165)
Balance, end of year	$	1,942	274	18,579	5,208	17,433	1,647	45,083	6,314	$	51,397
Accumulated depreciation											
Balance, beginning of the year	$	-	228	10,795	3,628	16,263	1,480	32,394	5,162	$	37,556
Disposals/transfers		-	-	(104)	-	-	-	(104)	-		(104)
Amortization expense		-	11	761	274	469	128	1,643	856		2,499
Balance, end of year	$	-	239	11,452	3,902	16,732	1,608	33,933	6,018	$	39,951
Carrying amount - 2022	$	1,942	35	7,127	1,306	701	39	11,150	296	$	11,446

(in thousands of Canadian dollars)

11. Members' deposits:

		2023		2022
Non-interest bearing deposits	$	78	$	82
Deposits with variable interest rates:				
Chequing		428,896		441,067
Savings		298,337		331,824
Registered retirement plans		69,913		72,750
		797,146		845,641
Deposits with fixed interest rates:				
Term deposits		365,676		350,342
Registered retirement plans		358,625		327,270
Accrued interest		15,453		9,034
		739,754		686,646
	$	1,536,978	$	1,532,369

The following summarizes the Credit Union's Members' deposits by the contractual repricing or maturity date, whichever is earlier:

		2023			2022	
		Principal Balance	Average Yield		Principal Balance	Average Yield
Floating	$	797,140	0.89%	$	845,638	0.94%
Within 1 year		423,881	4.21%		423,333	3.07%
Over 1 year		300,420	4.09%		254,280	2.49%
		1,521,441	2.45%		1,523,251	1.79%
Non-rate sensitive		15,537			9,118	
	$	1,536,978		$	1,532,369	

12. Short-term borrowings with Central 1 Credit Union:

The Credit Union has authorized credit facilities available with Central 1 in the aggregate amount of $69,500 (2022 – $69,500). These credit facilities are secured by a general security agreement and an assignment of book debts. At the end of the year, $Nil (2022 – $Nil) was outstanding under this facility.

(in thousands of Canadian dollars)

13. Securitized liabilities:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund loan growth by selling residential mortgages to unrelated third parties.

As part of these mortgage receivable transfers, the Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities. The Credit Union's retained interest in the mortgages sold also consists of their right to future cash flows arising from any excess of the mortgage cash flows over and above the contractual return due to the mortgage pool investors. The Credit Union's retained interests are subject to credit, prepayment, and interest rate risks on the securitized mortgages.

The third parties, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets.

In accordance with the Credit Union's accounting policy, the transferred financial assets are recognized in their entirety. Derecognition occurs when the contractual rights to the cash flows have ceased to exist or substantially all the risks and rewards have been transferred.

Transferred Financial Assets that are recognized in their entirety:

At year end, Mortgage Backed Securities secured by residential mortgage loans of $173,405 (2022 – $178,884) bearing a weighted average fixed interest rate of 3.3941% (2022 – 3.0850%), with an expected weighted average maturity date of 2026 were outstanding under this arrangement.

Mortgage Securitization Liabilities		2023		2022
Balance, beginning of year	$	178,884	$	136,599
Securitization pools issued and sold		38,223		103,827
Principal repayments on existing pools		(43,702)		(61,542)
Balance, end of year	$	173,405	$	178,884

During the year discounts totaling $1,563 (2022 – $673) were amortized to the statement of income within interest on external borrowings.

(in thousands of Canadian dollars)

14. Leases:

The Credit Union leases a number of branches, office premises and IT infrastructure. The leases typically run for periods between 5 and 10 years, with an option to renew the lease after that date.

When measuring lease liabilities for leases that were classified as operating leases, the Credit Union discounted lease payments using its average incremental borrowing rate. The Credit Union estimated its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms.

Information about leases for which the Credit Union is a lessee is presented below.

(i) Right-of-use assets:

	2023	2022
Balance, beginning of year	$ 2,119	$ 1,795
Additions to right-of-use assets	71	1,273
Depreciation charge for the year	(766)	(949)
Balance, end of year	$ 1,424	$ 2,119

Depreciation charges of $602 (2022 – $600) related to buildings and $164 (2022 – $349) related to IT infrastructure are included in Occupancy and General and administration expenses respectively.

(ii) Lease liabilities:

	2023	2022
Balance, beginning of year	$ 2,177	$ 1,857
Additions to lease liabilities	71	1,273
Interest on lease liabilities	41	53
Repayments	(815)	(1,006)
Balance, end of year	$ 1,474	$ 2,177

Interest on lease liabilities is included in interest on external borrowings on the statement of income.

(iii) Maturity analysis for leased liabilities – contractual undiscounted cash flows:

	2023	2022
Less than one year	$ 574	$ 795
1 to 5 years	952	1,469
Over 5 years	–	–
Total undiscounted lease liabilities	$ 1,526	$ 2,264

(in thousands of Canadian dollars)

15. Liabilities qualifying as regulatory capital:

	2023	2022
Membership shares	$ 1,757	$ 1,802
Patronage shares	937	984
Loyalty shares	27	27
Investment shares	24,172	25,457
	$ 26,893	$ 28,270

Patronage and Investment shares are recognized as a liability based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2 Members' Shares in Cooperative Entities and Similar Instruments. They are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and Conditions

Membership Shares

The Credit Union is authorized to issue an unlimited number of membership shares. Membership shares have a par value of $5 per share and members eighteen years of age and over are required to have a minimum of five shares. Members under the age of eighteen are required to have one share. Membership share balances can be withdrawn only upon termination of membership and approval of the directors. At December 31, 2023, there were 70,373 members of the Credit Union holding 351,410 membership shares (2022 – 72,762 members holding 360,426 shares). Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by FSRA. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see note 16), as is the payment of any dividends on these shares. Membership shares are available for redemption and based on their features are classified as a liability.

Patronage Shares

The Credit Union is authorized to issue an unlimited number of non-voting, non-participating, Class A non-cumulative, redeemable patronage shares. Class A non-cumulative redeemable patronage shares can only be withdrawn subject to any restrictions imposed by the Credit Unions and Caisses Populaires Act, 2020. Issued and outstanding shares as at December 31, 2023, were 937,797 (2022 – 984,303). Patronage shares are available for redemption and based on their features are classified as a liability. Patronage shares are not insured by FSRA.

Patronage share redemptions are at the discretion of the Directors to a maximum of 10% of the shares outstanding at the previous year end.

(in thousands of Canadian dollars)

15. Liabilities qualifying as regulatory capital (continued):

Loyalty Shares

The Credit Union is authorized to issue additional membership shares that have a value of $1 per share. Loyalty share balances can be withdrawn only upon termination of membership and approval of the directors. At December 31, 2023, there were $27 in outstanding Loyalty shares balances (2022 – $27). Dividends are at the discretion of the Board of Directors.

Funds invested by members in Loyalty shares are not insured by FSRA. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see note 16), as is the payment of any dividends on these shares. Loyalty shares are available for redemption and based on their features are classified as a liability.

Investment Shares

Class B investment shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. 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 to a maximum of 10% of the shares outstanding at the previous year end. Issued and outstanding shares as at December 31, 2023 were 24,171,994 (2022 – 25,457,076). Investment shares are non-voting, are available for redemption and based on their features are classified as a liability. Funds invested by members in investment shares are not insured by FSRA.

On December 7, 2023, the Board of Directors declared a share dividend of 5.47% (2022 – 4.62%) on Class B investment shares. The value of the declared dividend was $1,328 (2022 – $1,182).

The tables that follow present a reconciliation of the change in the number of shares issued during the year:

Membership shares	2023	2022
Opening balance	360,426	358,843
Shares issued during the year	22,065	25,995
Shares redeemed	(31,081)	(24,412)
Ending balance	351,410	360,426

Patronage shares	2023	2022
Opening balance	984,303	1,022,732
Shares issued during the year	–	–
Shares redeemed	(46,505)	(38,429)
Ending balance	937,798	984,303

Loyalty shares	2023	2022
Opening balance	26,670	26,135
Shares issued during the year	350	670
Shares redeemed	(515)	(135)
Ending balance	26,505	26,670

(in thousands of Canadian dollars)

15. Liabilities qualifying as regulatory capital (continued):

Investment shares	2023	2022
Opening balance	25,457,076	26,564,440
Dividends issued as shares during the year	1,149,227	687,905
Shares redeemed	(2,434,309)	(1,795,269)
Ending balance	24,171,994	25,457,076

16. Capital management:

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are to implement a policy that:

- ensures that the quantity, quality and composition of capital needed that reflects the inherent risks of the Credit Union and to support the current and planned operations; and
- provides distributions of dividends and redemptions of capital instruments to members.

The Credit Union Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk inherent in the asset. The leverage ratio calculates regulatory capital as a percentage of assets.

The Credit Union and Caisses Populaire Act, 2020 was approved and enacted by the Ministry of Finance. The Act includes new regulatory capital rules effective as of March 1, 2022 requiring credit unions to maintain a minimum capital ratio of 3.0% and a minimum risk weighted capital ratio of 8.0% along with various other ratios listed below:

- Minimum tier 1 capital ratio of 6.5% of total risk weighted assets
- Minimum retained earnings of 3.0% of total risk weighted assets
- Minimum total capital ratio of 8.0% of total risk weighted assets
- Minimum capital conservation buffer of 2.5% of total risk weighted assets
- Minimum total supervisory capital ratio of 10.5% of total risk weighted assets
- Minimum leverage ratio of 3.0% of total net assets

(in thousands of Canadian dollars)

16. Capital management (continued):

The Credit Union manages its Tier 1 and Tier 2 capital in accordance with internal policies and regulatory requirements. Tier 1 capital is the highest quality and consists of retained earnings, membership shares and the portion of the value of Class A patronage shares and Class B investment shares that are not redeemable within 12 months. Tier 2 capital is comprised of the value of Class A patronage shares and Class B investment shares ineligible as Tier 1 capital and the eligible portion of the allowance for impaired loans.

The December 31, 2022 figures presented for comparative purposes are calculated and presented in accordance with the Credit Union and Caisse Populaires Act effective as of December 31, 2021. These new measures require the disclosure of the Tier 1 Capital ratio, Retained Earnings to Risk Weighted Capital and Capital Conservation Buffer as of the effective date of the Act.

	2023	2022	Minimum
Regulatory Capital	$ 112,713	$ 108,011	
Tier 1 Capital Ratio	12.13%	11.45%	6.50%
Retained Earnings to Risk Weighted Capital	8.65%	8.05%	3.00%
Capital Conservation Buffer	4.75%	4.13%	2.50%
Risk Weighted Capital (Total Capital Ratio)	12.75%	12.13%	8.00%
Total Supervisory Capital	12.75%	12.13%	10.50%
Leverage	6.09%	5.84%	3.00%

(in thousands of Canadian dollars)

16. Capital management (continued):

The amount of composition of Tier 1 and Tier 2 capital was as follows:

	2023	2022
Tier 1 Capital		
Retained earnings	$ 57,321	$ 52,494
Contributed surplus	19,134	19,134
Membership shares	1,757	1,802
Loyalty shares	27	27
Class A non-cumulative redeemable patronage shares (90%)	886	920
Class B non-cumulative, non-voting, non-participating investments shares (90%)	24,061	24,585
Accumulated other comprehensive income (less cash flow hedge reserve)	4,065	2,927
Tier 2 Capital		
Class A non-cumulative redeemable patronage shares (10%)	52	64
Class B non-cumulative, non-voting, non-participating investment shares (10%)	111	872
Stage 1 and stage 2 allowance for impaired loans	5,299	5,186
Total regulatory capital	$ 112,713	$ 108,011

17. Income taxes:

The components of income tax expense are as follows:

	2023	2022
Current income tax expense	$ 1,149	$ 2,060
Deferred income tax expense (recovery)	(551)	(402)
Total income tax expense	$ 598	$ 1,658

(in thousands of Canadian dollars)

17. Income taxes (continued):

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory rate of 26.5% (2022 – 26.5%) to income before income taxes. The reasons for the difference are as follows:

		2023		2022
Income before income tax	$	5,425	$	8,773
Statutory tax rate		26.5%		26.5%
Computed tax expense	$	1,438	$	2,325
Increase (decrease) resulting from:				
Non-deductible expenses		7		12
Benefit on preferred rate amount		(524)		(979)
Impact of items charged to OCI		(325)		394
Other		2		(94)
Total income tax expense	$	598	$	1,658

The movements of deferred tax assets and liabilities are presented below:

2023		Opening Balance	Recognized in OCI	Recognized Directly in Equity	Recognized in Profit or loss	Closing Balance
Deferred tax assets:						
Employee retirement benefits	$	412	(71)	–	74	415
Allowance for impaired loans		1,477	–	–	(22)	1,455
Investments		71	(325)	–	325	71
Property and equipment and intangibles		315	–	–	175	490
Right-of-use assets		14	–	–	(1)	13
Total deferred tax assets	$	2,289	(396)	–	551	2,444
Deferred tax liabilities:						
Property, equipment and intangible assets	$	–	–	–	–	–
Bargain purchase gain		–	–	–	–	–
Total deferred tax liabilities	$	–	–	–	–	–
Total movement taken to income tax expense	$	2,289	(396)	–	551	2,444

(in thousands of Canadian dollars)

17. Income taxes (continued):

2022		Opening Balance	Recognized in OCI	Recognized Directly in Equity	Recognized in Profit or loss	Closing Balance
Deferred tax assets:						
Employee retirement benefits	$	1,027	(632)	–	17	412
Allowance for impaired loans		1,098	–	–	379	1,477
Investments		71	394	–	(394)	71
Property and equipment and intangibles		–	–	–	315	315
Right-of-use assets		16	–	–	(2)	14
Total deferred tax assets	$	2,212	(238)	–	315	2,289
Deferred tax liabilities:						
Property, equipment and intangible assets	$	(62)	–	–	62	–
Bargain purchase gain		(25)	–	–	25	–
Total deferred tax liabilities	$	(87)	–	–	87	–
Total movement taken to income tax expense	$	2,125	(238)	–	402	2,289

The ultimate realization of deferred tax assets is dependent upon generation of taxable income during future periods in which the unused tax losses are available.

The Credit Union has net capital loss carryforwards of $875 (2022 – $875) with no expiry date which are available to reduce future taxable income. The tax benefit of the losses will be recognized in the year that it is determined that it is probable that they will be realized.

(in thousands of Canadian dollars)

18. Commitments and contingencies:

(a) As at December 31, 2023, commitments for authorized but not issued loans to members amounted to approximately $8,499 (2022 – $18,295).

(b) As at December 31, 2023, commitments for unused lines and letters of credit amounted to approximately $175,460 and $4,237 respectively (2022 – $183,324 and $3,851, respectively).

(c) The Credit Union has commitments for various community sponsorships which expire on various dates to 2028. Future annual minimum payments are approximately as follows:

2024	$	62
2025		51
2026		40
2027		40
2028		20

(d) The Credit Union, in the normal course of business, is involved in certain legal matters and litigation from time to time, the outcomes of which are not presently determinable. The effects, if any, from such contingencies will be accounted for in the periods in which the matters are probable.

19. Non-interest revenue:

The components of non-interest revenue were as follows:

		2023		2022
Service charges	$	7,273	$	7,541
Insurance commissions		912		1,220
Loan and commitment fees		1,467		2,178
Wealth management		1,044		955
Rental income		–		8
Foreign exchange		399		406
Gain on sale of property		–		154
Other		1,102		1,414
	$	12,197	$	13,876

(in thousands of Canadian dollars)

20. Employee future benefits:

The Credit Union has a defined benefit pension plan for certain management employees. All other employees of the Credit Union may elect to participate in the Canadian Credit Union Employees Pension Plan, a defined contribution plan, as provided by Co-operators Life Insurance Company.

The total expense for the pension plans are as follows:

	2023	2022
Defined benefit pension plan net benefit expense	$ 441	$ 1,094
Defined contribution pension plan	488	438
	$ 929	$ 1,532

Information about the Credit Union's defined benefit plan is as follows:

	2023	2022
Accrued benefit obligation:		
Balance, beginning of year	$ 16,466	$ 21,815
Curtailment (gain) loss	–	(824)
Current service cost	532	1,129
Interest cost	837	671
Benefits paid	(940)	(907)
Actuarial losses (gains)	397	(5,284)
Administration fees	(113)	(134)
Balance, end of year	$ 17,179	$ 16,466

(in thousands of Canadian dollars)

20. Employee future benefits (continued):

		2023		2022
Plan assets:				
Fair value, beginning of year	$	16,174	$	19,084
Expected return on plan assets		809		564
Employer contributions		329		324
Employee contributions		119		142
Benefits paid		(940)		(907)
Actuarial gains (losses)		665		(2,898)
Administration fees		(113)		(135)
Fair value, end of year	$	17,043	$	16,174

Experience adjustments incurred were as follows:

		Defined Benefit Pensions 2023		2022
Accrued benefit obligation (loss) gain	$	(397)	$	5,284
Plan assets gain (loss)		665		(2,898)
Total for the year	$	268	$	2,386

The accrued benefit liability is included in accounts payable and accrued liabilities.

The following table provides the amount recognized in the statement of financial position:

		Defined Benefit Pensions 2023		2022
Funded deficit being accrued benefit liability included in accounts payable and accrued liabilities	$	(136)	$	(292)
Net amount recognized	$	(136)	$	(292)

(in thousands of Canadian dollars)

20. Employee future benefits (continued):

The significant actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligations are as follows:

	Defined Benefit Pensions 2023	2022
Discount rate	4.60%	5.10%
Rate of compensation increase	3.00%	3.00%
Expected long-term rate of return on plan assets	3.00%	3.00%
Rate of maximum pension increase	3.00%	3.00%

The expected rate of return on plan assets is based on the risks and associated returns expected of the underlying plan assets. Plan assets are held in long bond index funds.

The Credit Union's net benefit plan expense is as follows:

	Defined Benefit Pensions 2023	2022
Current service cost, net of employees' contributions	$ 413	$ 987
Interest cost	837	671
Expected return on plan assets	(809)	(564)
Net benefit plan expense	$ 441	$ 1,094

These net benefit plan expenses are included in salaries and employee benefits on the statement of income. Aggregate contributions relating to the defined benefit pensions plan for the year ended December 31, 2023 is $329 (2022 – $324).

The defined benefit plan assets comprise:

	2023	2022
Mawer balanced fund	$ –	$ 10,041
Addenda Tactical balanced fund	–	2,998
Long Bond Index fund	17,043	3,135
	$ 17,043	$ 16,174

20. Employee future benefits:

The actual return on plan assets for the year-ended December 31, 2023 was a gain of $1,474 (2022 – $2,335 loss).

A 1% decrease in the discount rate would increase the pension benefit obligation at December 31, 2023 by 13.15% or $2,260 to $19,439 (2022 – 14.75% or $2,429 to $18,895). In addition, a 1% decrease in the discount rate would increase the fiscal net service cost by 9.09% or $17 to $208 (2022 – by 20.1% or $78 to $464).

A 1% decrease in the salary scale would decrease the pension benefit obligation at December 31, 2023 by 0.06% or $10 to $17,169 (2022 – 3.3% or $539 to $15,927). In addition, a 1% increase in the salary scale would increase the fiscal 2023 net service cost by 0.11% or $1 to $191 (2022 – 7.4% or $28 to $415).

21. Fair value of financial instruments:

The following table represents the fair values of the Credit Union's financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments, such as fixed assets.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, some of the Credit Union's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuations techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

(in thousands of Canadian dollars)

21. Fair value of financial instruments (continued):

	December 31, 2023			December 31, 2022		
	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
Amortized Cost						
Cash resources	39,749	39,749	–	$ 49,325	49,325	–
Loans to members	1,629,978	1,573,945	(56,033)	1,619,228	1,557,758	(61,470)
Investments	45,295	45,274	(21)	45,211	45,211	–
Fair Value through OCI						
Investments	90,385	90,385	–	86,394	86,394	–
Fair Value through profit and loss						
Derivative instruments	1,329	1,329	–	3,255	3,255	–
Total financial assets	1,806,736	1,750,682	(56,054)	$ 1,803,413	1,741,943	(61,470)
Amortized Cost						
Member deposits	1,536,978	1,536,354	(624)	$ 1,532,369	1,518,140	$ (14,229)
Accounts payable and accrued liabilities	8,291	8,291	–	6,650	6,650	–
Securitized liabilities	173,405	170,661	(2,744)	178,884	176,685	(2,199)
Fair Value through profit and loss						
Derivative instruments	1,329	1,329	–	3,255	3,255	–
Total financial liabilities	1,720,003	1,716,635	(3,368)	$ 1,721,158	1,704,730	(16,428)

Interest rate sensitivity is the main cause of change in fair values of the Credit Union's financial instruments.

21. Fair value of financial instruments (continued):

The following methods and assumptions were used to estimate the fair value of financial instruments:

(a) The fair values of cash resources and accounts payable and accrued liabilities are assumed to approximate their book values, due to their short–term nature.

(b) The fair value of investments is based on quoted market values where available. Where no quoted market price is available, the following assumptions were used to determine the fair value, which was completed as at the statement of financial position date:

i. Derivative financial instruments - fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates.

ii. The Credit Union has concluded that the fair value cannot be reliably measured for Central 1 Credit Union Limited Class A shares, Class E shares, and certain other investments, as these investments do not have a quoted market price in an active market. These investments are carried at fair value through other comprehensive income.

(c) The estimated fair value of floating rate loans, demand deposits and floating rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis. These instruments are classified as level 2 and there has been no change in the classification from the prior year.

(d) The estimated fair values of fixed rate investments, fixed rate loans and fixed rate deposits are determined by discounting the expected future cash flows of these investments, loans, deposits and borrowings at current market rates for products with similar terms and credit risks. These instruments are classified as level 2 and there has been no change in the classification from the prior year.

Fair value measurements can be classified in a hierarchy in order to discern the significance of management assumptions and other inputs incorporated into the measurements. The three levels of fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. This category includes instruments valued using, quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are consider less than active; or other valuation techniques where all significant inputs are directly or indirectly observable form market data.

Level 3 – Inputs for the asset or liability that are not based on observable market data. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments are required to reflect differences between the instruments.

(in thousands of Canadian dollars)

21. Fair value of financial instruments (continued):

The following table summarizes the classification of the Credit Union's financial instruments held and reported on the Statement of Financial Position at fair value:

2023	Level 1	Level 2	Level 3	Total
Assets				
Investments – FVOCI securities	$ 87,324	$ –	$ 3,061	$ 90,385
Derivative financial instruments	–	1,329	–	1,329
	$ 87,324	$ 1,329	$ 3,061	$ 91,714
Liabilities				
Derivative financial instruments	$ –	$ 1,329	$ –	$ 1,329
	$ –	$ 1,329	$ –	$ 1,329

2022	Level 1	Level 2	Level 3	Total
Assets				
Investments – FVOCI securities	$ 83,316	$ –	$ 3,078	$ 86,394
Derivative financial instruments	–	3,255	–	3,255
	$ 83,316	$ 3,255	$ 3,078	$ 89,649
Liabilities				
Derivative financial instruments	$ –	$ 3,255	$ –	$ 3,255
	$ –	$ 3,255	$ –	$ 3,255

22. Derivative financial instruments:

a) Notional amounts of derivatives:

The notional amounts of derivatives shown in the tables below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Credit Union through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates.

The Credit Union is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of interest rate contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

b) Interest rate risk management:

The Credit Union enters into interest rate contracts to manage interest rate risk and variable rates to alter interest rate exposure. Interest rate swaps allow the Credit Union to finance transactions and effectively swap them into fixed rate terms. Under interest rate swaps, the Credit Union agrees with the counterparty to exchange, at the maturity date, the difference between fixed-rate and floating-rate interest amounts calculated by reference to the notional amount.

The Credit Union did not have any swaps or options in place at December 31, 2023.

c) Foreign exchange forward contracts:

As part of its ongoing program of managing foreign currency exposure, the Credit Union enters into forward rate agreements to purchase US dollars. These agreements function as a hedge against the Credit Union's net US dollar denominated liability position.

The Credit Union did not have foreign exchange swaps in place at December 31, 2023.

d) Market-linked term deposits:

At December 31, 2023, the Credit Union has issued $12,592 (2022 – $18,121) of market-linked term deposit products to its members. These term deposits pay interest to the depositors at the end of the term, based on the performance of various stocks or indices.

The Credit Union has entered into hedge agreements with Central 1 and Desjardins to offset the exposure to the equities associated with these products. The Credit Unions pays a fixed amount on the face value of these term deposit products. At the end of the respective terms, the Credit Union receives payments equal to the amount required to be paid to the depositors based on the performance of the specified stocks or indices.

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have a fair value that varies based on the particular contract and changes in the interest rates. The fair value of these swap agreements is $1,329 at December 31, 2023 (2022 – $3,255) and has been accounted for as a derivative in accordance with the Credit Union's accounting policy classified as FVTPL under IFRS 9.

(in thousands of Canadian dollars)

23. Related party transactions:

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

	2023	2022
Compensation:		
Salaries and other short-term employee benefits	$ 1,465	$ 1,251
Total pension and other post-employment benefits	444	319
	$ 1,909	$ 1,570

	2023	2022
Loans to key management personnel:		
Aggregate value of loans advanced	$ 1,919	$ 319
Interest received on loans advanced	42	8
Aggregate value of unadvanced loans	130	124

The Credit Union's policy for lending to key management personnel is that the loans are granted at a discount rate, consistent with industry practices and in accordance with board approved policy. Loan and mortgage balances to key management personnel are secured as per the Credit Union's lending policies.

	2023	2022
Deposits from key management personnel:		
Aggregate value of term and savings deposits	$ 391	$ 402
Total interest paid on term and saving deposits	8	3

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted at a discount rate, consistent with industry practices and in accordance with board approved policy.

(in thousands of Canadian dollars)

23. Related party transactions (continued):

The total remuneration paid to the directors and committee members amounted to $187 (2022 – $187). The aggregate value of loans to related parties is as follows:

		2023		2022
Directors and committee members	$	3,210	$	992

All loans issued to related parties conform to the Credit Union's policies for terms, interest rates, limits and credit.

In accordance with the required disclosure under Ontario Regulation 105/22, section 40, of the Credit Unions and Caisses Populaires Act 2020, the Act requires disclosure of the five highest paid officers and employees of the Credit Union where total remuneration exceeds $175. The names, positions and remuneration paid during the year ended December 31, 2023 of those employees are as follows:

		Salary and variable compensation		Benefits		Total
Richard Adam, President and Chief Executive Officer	$	442	$	192	$	634
Brandy Heikoop, Senior Vice-President Human Resources		231		61		292
Liisa Woolley, Senior Vice-President Member Experience		242		59		301
Tammy Buchanan, Senior Vice-President and Chief Financial Officer		238		58		296
Abid Khawaja, Senior Vice-President Credit		207		56		263

24. Financial risk management:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. An Asset Liability Committee (ALCO) has been established consisting of senior management with support from an external consultant providing advice and reporting. This committee meets on a monthly basis to review the results of income simulation models and duration analysis and reports regularly to the Board on its activities.

24. Financial risk management (continued):

a) Liquidity risk:

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund our balance sheet under both normal and stressed market environments. The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework of polices and limits approved by the Board. These policies and limits ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Credit Union Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits.

The Credit Union believes that liquidity risk management is a necessary part of prudent financial administration and is committed to engaging in proper liquidity risk management practices to comply with regulatory requirements and to guarantee the orderly funding of member needs and obligations. The Credit Union will ensure responsible liquidity risk management at all times to provide a cushion for unforeseen liquidity needs.

The key elements of the Credit Union's liquidity risk management framework establishes an overall framework of liquidity risk management which ensures that the Credit Union faces limited exposure to all material risks as well as addressing limits on the sources, quality and amount of liquid assets to meet normal operational, contingency funding for significant deposit withdrawals, and regulatory requirements.

The Credit Union targets to maintain operating liquidity within the range of 8% to 16%. The low end of the range has been established to ensure sufficient levels of liquidity exist for regular activities. A maximum level has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2023, the Credit Union's liquidity ratio was 11.13% (2022 – 12.51%).

Assets held for liquidity purposes consist of cash resources designated as amortized cost in the amount of $39,749, marketable securities designated as FVOCI totaling $87,324, excess liquidity deposits available within 30 days designated as amortized cost totaling $15,000, and internal mortgage backed securities pooled but unsold of $27,312.

(in thousands of Canadian dollars)

24. Financial risk management (continued):

a) Liquidity risk (continued):

The table below sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in note 18.

December 31, 2023:

		Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets:						
Cash and cash equivalents	$	39,749	–	–	–	39,749
Investments		64,629	16,761	54,290	–	135,680
Loans to members		216,115	211,173	1,079,672	123,018	1,629,978
Derivative financial instruments		2	512	815	–	1.329
Total financial assets	$	320,495	228,446	1,134,777	123,018	1,806,736
Financial liabilities						
Members' deposits	$	862,601	374,408	299,797	172	1,536,978
Securitized liabilities		12,355	41,261	119,789	–	173,405
Other liabilities		1,237	8,528	–	–	9,765
Derivative financial instruments		2	512	815	–	1,329
Share capital		26,893	–	–	–	26,893
Total financial liabilities	$	903,088	424,709	420,401	172	1,748,370

(in thousands of Canadian dollars)

24. Financial risk management (continued):

a) Liquidity risk (continued):

December 31, 2022:

		Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets:						
Cash and cash equivalents	$	49,325	–	–	–	49,325
Investments		66,432	31,503	33,669	–	131,604
Loans to members		213,582	150,904	1,118,807	135,935	1,619,228
Derivative financial instruments		84	2,557	614	–	3,255
Total financial assets	$	329,423	184,964	1,153,090	135,935	1,803,412
Financial liabilities						
Members' deposits	$	907,016	371,073	254,180	100	1,532,369
Securitized liabilities		12,355	41,261	125,268	–	178,884
Other liabilities		1,026	7,651	–	–	8,677
Derivative financial instruments		84	2,557	614	–	3,255
Share capital		28,270	–	–	–	28,270
Total financial liabilities	$	948,751	422,542	380,062	100	1,751,455

b) Credit risk:

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create a methodological approach to its credit risk assessment in order to better understand, select and manage our exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope, and is managed through an infrastructure based upon:

- Ensuring that credit quality is not compromised for growth;
- Diversifying credit risks in transactions, relationships and portfolios;
- Using our credit risk weighting and scoring systems, policies and tools;
- Pricing appropriately for the credit risk taken;
- Mitigating credit risk through preventive and detective controls;
- Transferring credit risk to third parties where appropriate through approved credit; and, risk mitigation techniques including insurance coverage.

(in thousands of Canadian dollars)

24. Financial risk management (continued):

c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, equity rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

i) Interest rate risk:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when it enters into banking transactions with our members, primarily deposit and lending activities. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is re-priced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board.

At the reporting date, the interest rate profile of the Credit Union's interest-bearing financial instruments was:

	Carrying amount 2023	2022
Fixed rate instruments		
Financial assets	$ 1,580,762	$ 1,552,546
Financial liabilities	(913,160)	(865,530)
	$ 667,602	$ 687,016
Variable rate instruments		
Financial assets	$ 221,434	$ 244,385
Financial liabilities	(824,116)	(873,993)
	$ (602,682)	$ 629,608

24. Financial risk management (continued):

c) Market risk (continued):

i) Interest rate risk (continued):

It is estimated that immediate and sustained parallel increase in interest rates of 1% across all maturities and currencies would increase net interest income by approximately $432 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately $613 over the next twelve months using the following assumptions:

(i) accrued interest receivable and payable as at December 31, 2023 are excluded from the calculation;

(ii) no hedging or interest rate exposures are made;

(iii) instruments reprice evenly within their respective time bands, and;

(iv) existing credit commitments will not be drawn upon.

Fair value sensitivity analysis for fixed rate instruments:

The Credit Union does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Credit Union does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model; therefore a change in interest rates at the reporting date would not affect profit or loss.

A key metric involved in management of interest rate risk includes the use of Economic Value of Equity at Risk (EVEaR). EVEaR is defined as the difference in the change in the present value of the asset portfolio and the change in present value of the liability portfolio resulting from a change in interest rates. An increase of 100 basis points in interest rates would have decreased EVEaR by $4,451 (2022 – $3,834).

The Credit Union uses income simulation modeling to measure exposure to changes in interest rates over short-term periods. Earnings at risk, is calculated by forecasting the net interest margin for the next 12 months using the most likely assumptions. These assumptions include management's estimates of future growth rates, and future interest rates and term preferences of members. Future growth rates are initially based on the board approved budget. Future interest rates are based on the most current interest rate path. These earnings at risk are then shocked by a change in rates sustained for a 12-month period. The resulting change in the forecast as a result of the rate shock then determines the earnings at risk. Maximum limits are established under these scenarios and are approved by the Board of Directors.

Long-term interest rate risk is measured using duration analysis. The duration of an asset is an expression of its term to maturity taking into account the yield of the asset.

(in thousands of Canadian dollars)

24. Financial risk management (continued):

c) Market risk (continued):

i) Interest rate risk (continued):

Maximum limits are established for both earnings at risk and duration of capital and are approved by the Board of Directors. The current maximum limit and projected change is indicated below:

	Maximum limit	Projected change
0.50% shock down	$ (600)	$ (148)
1.0% shock up	(600)	290

Cash Flow Hedges

The Credit Union has also designated hedging relationships involving bond forwards that hedged forecasted debt issuances associated with securitization activity as cash flow hedges. Realized gains (losses) on these derivatives are recorded in other comprehensive income and amortized to the Statement of Income in accordance with the effective interest rate method along with the debt originated. The fair value of bond forwards involved in these hedges at the end of the year was a gain of $127 (2022 – $181 gain). The amount of other comprehensive gain that is expected to be reclassified to the Statement of Income over the next 12 months is $56 (2022 – $54 gain).

ii) Foreign currency risk:

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The Credit Union's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices.

Prudent limits will be placed on unhedged liquid assets denominated in a foreign currency. Limits are established in relation to the size of the overall liquidity portfolio and are to apply at the time of purchase.

At December 31, 2023, the Credit Union was in compliance with Board policy on financial risk management.