# Valley Credit Union Limited

Consolidated Financial Statements
**December 31, 2022**

# Independent auditor's report

To the Members of Valley Credit Union Limited

## Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Valley Credit Union Limited and its subsidiary (together, the Company) as at December 31, 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

**What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of income and comprehensive income for the year then ended;
- the consolidated statement of changes in members' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## Basis for opinion

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

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

**Independence**

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is

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necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

St. John's, Newfoundland and Labrador
March 30, 2023

# Valley Credit Union Limited

## Consolidated Statement of Financial Position

**As at December 31, 2022**

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents (note 5) | 36,638,682 | 44,936,340 |
| Other assets (note 6) | 663,504 | 272,058 |
| Members' loans (note 7) | 233,062,662 | 203,497,572 |
| Long-term investments (note 8) | 6,792,109 | 8,559,076 |
| Property and equipment (note 9) | 2,952,874 | 3,145,397 |
| | 280,109,831 | 260,410,443 |
| **Liabilities** | | |
| Payables and accruals | 1,482,346 | 1,509,757 |
| Income taxes payable | 425,363 | 209,163 |
| Members' deposits (note 11) | 257,844,985 | 241,234,140 |
| Lease liabilities | 233,134 | 157,888 |
| Deferred income taxes (note 12) | 45,759 | 80,730 |
| | 260,031,587 | 243,191,678 |
| **Members' Equity** | | |
| **Equity shares** (note 14) | 43,670 | 42,779 |
| **Retained earnings and restricted surplus** | 20,034,574 | 17,175,986 |
| | 20,078,244 | 17,218,765 |
| | 280,109,831 | 260,410,443 |

**Commitments and contingencies** (note 18)

**Approved by the Board of Directors**

_______________________ Director _______________________ Director

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

# Valley Credit Union Limited

## Consolidated Statement of Income and Comprehensive Income

**For the year ended December 31, 2022**

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Financial income** | | |
| Members' loans | 9,301,968 | 7,558,023 |
| Cash and cash equivalents | 443,141 | 162,556 |
| Dividend income | 380,348 | 168,435 |
| | 10,125,457 | 7,889,014 |
| **Financial expense** | | |
| Members' deposits | 1,482,035 | 929,524 |
| Other | (29,063) | (13,375) |
| | 1,452,972 | 916,149 |
| **Net financial income** | 8,672,485 | 6,972,865 |
| Fee and commission income (note 15) | 2,492,083 | 2,521,398 |
| Provision for (recovery of) impaired loans (note 7) | (86,764) | 11,540 |
| **Net interest and other income** | 11,077,804 | 9,505,803 |
| **Operating expenses** | | |
| Personnel | 3,610,578 | 3,445,294 |
| General business (note 21) | 2,655,248 | 2,362,374 |
| Occupancy costs (note 21) | 669,079 | 675,684 |
| Members' security (note 21) | 333,438 | 321,726 |
| | 7,268,343 | 6,805,078 |
| **Income before the following** | 3,809,461 | 2,700,725 |
| **Loss on sale of assets** | (1,005) | - |
| **Income before income taxes** | 3,808,456 | 2,700,725 |
| **Income tax expense (recovery)** (note 12) | | |
| Current | 984,839 | 603,147 |
| Deferred | (34,971) | (9,048) |
| | 949,868 | 594,099 |
| **Net income and comprehensive income for the year** | 2,858,588 | 2,106,626 |
| **Net income and comprehensive income attributable to members** | 2,858,588 | 2,106,626 |

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

| | Equity shares $ | Restricted surplus $ (note 13) | Retained earnings $ | Total members' equity $ |
|---|---|---|---|---|
| **Balance – December 31, 2020** | 43,130 | 390,271 | 14,679,089 | 15,112,490 |
| Net income and comprehensive income | - | - | 2,106,626 | 2,106,626 |
| Issuance of members' shares, net of redemption (note 14) | (351) | - | - | (351) |
| **Balance – December 31, 2021** | 42,779 | 390,271 | 16,785,715 | 17,218,765 |
| Net income and comprehensive income | - | - | 2,858,588 | 2,858,588 |
| Issuance of members' shares, net of redemption (note 14) | 891 | - | - | 891 |
| **Balance – December 31, 2022** | 43,670 | 390,271 | 19,644,303 | 20,078,244 |

# Valley Credit Union Limited

Consolidated Statement of Cash Flows

**For the year ended December 31, 2022**

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income and comprehensive income for the year | 2,858,588 | 2,106,626 |
| Charges (credits to income not involving cash) | | |
| Depreciation of property and equipment | 365,543 | 435,388 |
| Provision for impaired loans | 86,764 | (11,540) |
| Loans written off during the year, net of recoveries | (44,971) | (34,822) |
| Deferred income taxes | (34,971) | (9,048) |
| Income from investment in associate | (90,588) | (104,608) |
| Loss on sale of assets | 1,005 | - |
| | 3,141,370 | 2,381,996 |
| Net change in non-cash working capital balances related to operations | | |
| Other assets | (391,446) | (29,896) |
| Accrued interest receivable | (170,215) | 43,315 |
| Payables and accruals | (27,411) | 155,445 |
| Income tax payable | 216,200 | 149,229 |
| Accrued interest payable | 289,522 | (119,799) |
| | 3,058,020 | 2,580,290 |
| **Financing activities** | | |
| Payments on lease liabilities | (30,399) | (59,927) |
| Net increase in members' deposits | 16,321,323 | 25,731,811 |
| Net increase (decrease) in equity shares | 891 | (351) |
| | 16,291,815 | 25,671,533 |
| **Investing activities** | | |
| Net increase in members' loans | (29,436,668) | (26,694,179) |
| Net decrease (increase) in investments | 1,857,555 | (2,153,026) |
| Additions to property and equipment (net of right-of-use assets) | (68,380) | (249,722) |
| | (27,647,493) | (29,096,927) |
| **Net change in cash and cash equivalents during the year** | (8,297,658) | (845,104) |
| **Cash and cash equivalents – Beginning of year** | 44,936,340 | 45,781,444 |
| **Cash and cash equivalents – End of year** | 36,638,682 | 44,936,340 |

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

## 1 General information

Valley Credit Union Limited (the credit union) is incorporated under the Nova Scotia Credit Union Act, and the operation of the credit union is subject to the Financial Institution Act. The credit union provides a full range of bank services to its members in 7 branches located throughout western Nova Scotia. The credit union's head office is located in Waterville, Nova Scotia, Canada.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 28, 2023.

## 2 Changes in accounting standards

There were no changes in accounting standards during the year that had a significant impact on the credit union.

### Future changes in accounting standards

There are no changes in accounting standards that have been issued but are not yet effective that are expected to have a significant impact on the credit union.

## 3 Summary of significant accounting policies

### Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The credit union presents its consolidated statement of financial position on a non-classified basis in order of liquidity. The following balances are generally classified as current: cash and cash equivalents, loans outstanding due within one year, members' deposits due on demand or within one year and payables and accruals.

The credit union classifies its expenses by the nature of expenses method.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the credit union's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The areas involving a higher degree of judgment or complexity, where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

### Basis of consolidation

These consolidated financial statements include the amounts of the credit union's wholly-owned subsidiary, 3100522 Nova Scotia Ltd. Intercompany transactions and balances have been eliminated from the consolidated accounts.

### Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities at fair value through profit and loss (FVTPL).

### Financial instruments

- Financial assets and liabilities

  The credit union classifies its financial instruments in the following measurement categories: FVTPL; fair value through other comprehensive income (FVOCI); or amortized cost. Management determines the classification of its financial instruments at initial recognition. The credit union uses trade date accounting for regular way contracts when recording financial asset transactions.

- Measurement methods

  - Amortized cost and effective interest rate

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

    The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any loan loss allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses (ECLs) and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the credit union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income and comprehensive income.

- Interest income and expense

  Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the ECL provision).

- Initial recognition and measurement

  Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

  At initial recognition, the credit union measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in net income. At the first reporting date after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in net income when an asset is newly originated.

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

- Classification and subsequent measurement

  Financial assets are subsequently classified using the following measurement categories:

  - FVTPL;
  - FVOCI; or
  - Amortized cost

  Assets carried at amortized cost will continue to be measured as outlined in measurement methods above.

- Investments

  The classification requirements for debt and equity instruments are below.

- Debt instruments

  Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective and would include term deposits held by the credit union.

  Classification and subsequent measurement of debt instruments depend on the business model for managing the asset and the cash flow characteristics of the asset. Based on these factors, the credit union classifies its debt instruments into one of the following two measurement categories:

  - FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in net income and presented in the consolidated statement of income and comprehensive income within investment income in the period in which it arises.

  - FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest (SPPI) and that are not designated at FVTPL, are measured at FVOCI. Changes in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in net income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income.

- Business model

  The business model reflects how the credit union manages the assets in order to generate cash flows. That is, whether the credit union's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (i.e. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the credit union in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

- Solely payments of principal and interest (SPPI)

  Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the credit union assesses whether each financial instrument's cash flows represent SPPI. In making this assessment, the credit union considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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

- Equity instruments

  Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

  The credit union subsequently measures all equity investments at FVTPL, except where the credit union's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in net income as investment income when the credit union's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in investment income in the consolidated statement of income and comprehensive income.

- Investment in associates

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

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

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

- Impairment

  The credit union assesses on a forward-looking basis ECL associated with its assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The credit union recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events and current conditions.

  Note 17 provides more detail of how the ECL is measured.

- Modification of loans

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

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

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

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

- Derecognition

  Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the credit union transfers substantially all the risks and rewards of ownership, or (ii) the credit union neither transfers nor retains substantially all the risks and rewards of ownership and the credit union has not retained control.

  The credit union enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the credit union:

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

**Financial liabilities**

The credit union designates members' deposits, payables and accruals and secured borrowing as financial liabilities. In both the current and prior period, financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

- Derecognition

  Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, held in current accounts, interest bearing liquidity deposits held at Atlantic Central and bank overdrafts.

**Foreclosed assets**

Foreclosed assets, if any, are recorded at the lower of the amortized cost of the loan or mortgage foreclosed, adjusted for revenues received and costs incurred subsequent to foreclosure, and estimated net proceeds from the sale of the assets.

### Property and equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized using the following methods and rates:

| | |
|---|---|
| Buildings | 5% declining-balance |
| Furniture and equipment | 20% declining-balance |
| Vault, security equipment and paving | 10% declining-balance |
| Leasehold improvements | straight-line over the term of the lease |
| Computer equipment | 3 years straight-line |
| Automated banking machine and cash dispensing unit | 5 years straight-line |

Right-of-use assets comprise the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

### Leases

Leases are recognized as a right-of-use-asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payment, less any lease incentives receivable;
- Variable lease payments that are based on an index or rate;
- Amounts expected to be payable under residual value guarantees; and
- Payments of penalties for terminating the lease, if the lease term reflects the credit union exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases of the credit union, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### 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 the value in use and fair value less costs to sell, the asset is written down accordingly.

Impairment charges are included in net income and comprehensive income.

### Members' deposits

All members' deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Members' deposits are subsequently measured at amortized cost, using the effective interest rate method.

### Patronage rebates

The credit union policy is to accrue patronage rebates when approved by the Board of Directors. These rebates are recorded in the consolidated statement of income and comprehensive income in the year to which they relate.

### Other income

Fee and commissions are recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured. Income from profit sharing arrangements is recognized when received.

### Income taxes

a) Current income tax

Income tax payable is calculated on the basis of current Canadian tax law and is recognized as an expense for the period except to the extent that it relates to items that are recognized in other comprehensive income or directly in equity.

Where the credit union has tax losses that can be relieved against a tax liability for a previous year, it recognizes those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are offset against deferred tax liabilities carried in the consolidated statement of financial position.

The credit union does not offset income tax liabilities and current income tax assets.

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax asset or liability is realized or settled. The principal temporary differences arise from depreciation of property and equipment and specific provisions for impaired loans. Deferred tax assets are recognized when it is probable that future taxable profit will be available against which these temporary differences can be utilized.

**Foreign exchange**

The functional currency of the credit union is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies (US dollars) are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income and comprehensive income for the year.

## 4 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the credit union's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed.

Significant estimates made in the preparation of these consolidated financial statements include, but are not limited to the following areas, with further information contained in the applicable accounting policy note.

**Measurement of the ECL allowance**

The credit union reviews its loan portfolio to assess the ECL allowance for loans at least on a quarterly basis. The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (i.e. the likelihood of members defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 17.

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

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

**Derecognition of financial assets**

The credit union's securitization activities are complex arrangements which require the credit union to make significant judgments about the extent to which the rights to the cash flows of the transferred receivables and/or the obligation to pay cash flows have been transferred to third parties in order to determine whether the transfers should be accounted for as a sale for accounting purposes. In making such judgment, the credit union needs to assess the extent to which the exposure to the future variability of cash flows was transferred in assessing whether the risks and rewards of the financial assets have been substantially transferred or retained.

Depending on the nature of the transfer arrangements, the credit union may carry out quantitative as well as qualitative tests to support its conclusion as to whether the risks and rewards of a financial asset have been transferred to third parties.

**Fair value of equity investments**

The equity investments held by the credit union do not have quoted market prices in an active market. For certain shares, fair value is considered to approximate par value based on the terms of those shares. The credit union continues to monitor these shares for any indication that a new measure of fair value is available.

## 5 Cash and cash equivalents

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Cash on hand and in current accounts | 3,896,435 | 4,163,381 |
| Atlantic Central interest bearing deposits | 32,742,247 | 40,772,959 |
| | 36,638,682 | 44,936,340 |

## 6 Other assets

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| League Data share dividend receivable | 2,729 | 2,729 |
| Prepaid expenses and other | 660,775 | 269,329 |
| | 663,504 | 272,058 |

Included in other assets are the credit union's prepayments to League Data of $344,355 (2021 – $nil) related to the development and construction of the new core banking system. This system is expected to replace the credit union's current banking system in 2024. See note 18 for further information on the credit union's commitments related to the development of this system.

## 7 Members' loans

As at December 31, 2022, loans to members are presented net of allowance for ECLs totalling $332,177 (2021 – $290,385). The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the credit unions maximum exposure to credit risk on these assets.

| | | | | **2022** |
|---|---|---|---|---|
| | **Stage 1 $** | **Stage 2 $** | **Stage 3 $** | **Total $** |
| Personal | | | | |
| Term loan | 14,502,617 | 217,111 | 14,289 | 14,734,017 |
| Line of credit | 15,275,583 | - | 26,463 | 15,302,046 |
| Mortgage | 100,180,831 | - | 284,817 | 100,465,648 |
| Business | | | | |
| Term loan | 93,635,097 | - | 8,835 | 93,643,932 |
| Line of credit | 4,010,898 | - | 10,519 | 4,021,417 |
| Mortgage | 4,742,905 | - | - | 4,742,905 |
| Accrued interest | 484,875 | - | - | 484,875 |
| Gross carrying amount | 232,832,806 | 217,111 | 344,923 | 233,394,840 |
| Loss allowance | (252,091) | (50,062) | (30,025) | (332,178) |
| Carrying amount | 232,580,715 | 167,049 | 314,898 | 233,062,662 |

| | | | | **2021** |
|---|---|---|---|---|
| | **Stage 1 $** | **Stage 2 $** | **Stage 3 $** | **Total $** |
| Personal | | | | |
| Term loan | 15,094,731 | 7,398 | 188,163 | 15,290,292 |
| Line of credit | 13,732,086 | - | 12,684 | 13,744,770 |
| Mortgage | 92,940,260 | - | 281,464 | 93,221,724 |
| Business | | | | |
| Term loan | 72,219,396 | - | - | 72,219,396 |
| Line of credit | 2,138,459 | - | - | 2,138,459 |
| Mortgage | 6,858,656 | - | - | 6,858,656 |
| Accrued interest | 314,660 | - | - | 314,660 |
| Gross carrying amount | 203,298,248 | 7,398 | 482,311 | 203,787,957 |
| Loss allowance | (217,898) | (3,699) | (68,788) | (290,385) |
| Carrying amount | 203,080,350 | 3,699 | 413,523 | 203,497,572 |

### Loss allowance

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

- Transfers between Stage 1 and Stages 2 or 3 due to members' loans experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

| | | | | **2022** |
|---|---|---|---|---|
| | **Stage 1 12-month ECL $** | **Stage 2 Lifetime ECL $** | **Stage 3 Lifetime ECL $** | **Total $** |
| **Personal** | | | | |
| Loss allowance as at January 1, 2022 | 136,786 | 3,699 | 66,177 | 206,662 |
| Transfers | (7,435) | (3,699) | 11,134 | - |
| Net remeasurement of loss allowance | 19,347 | 50,062 | (2,315) | 67,094 |
| Write-offs | - | - | (55,206) | (55,206) |
| Recoveries | - | - | 10,235 | 10,235 |
| Loss allowance as at December 31, 2022 | 148,698 | 50,062 | 30,025 | 228,785 |

| | **2022** | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL $** | **Stage 2 Lifetime ECL $** | **Stage 3 Lifetime ECL $** | **Total $** |
| **Business** | | | | |
| Loss allowance as at January 1, 2022 | 81,112 | - | 2,611 | 83,723 |
| Transfers | 2,611 | - | (2,611) | - |
| Net remeasurement of loss allowance | 19,670 | - | - | 19,670 |
| Recoveries | - | - | - | - |
| Loss allowance as at December 31, 2022 | 103,393 | - | - | 103,393 |

| | **2021** | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL $** | **Stage 2 Lifetime ECL $** | **Stage 3 Lifetime ECL $** | **Total $** |
| **Personal** | | | | |
| Loss allowance as at January 1, 2021 | 127,062 | 37,894 | 38,392 | 203,348 |
| Transfers | (17,749) | (37,894) | 55,643 | - |
| Net remeasurement of loss allowance | 27,473 | 3,699 | 6,964 | 38,136 |
| Write-offs | - | - | (73,120) | (73,120) |
| Recoveries | - | - | 38,298 | 38,298 |
| Loss allowance as at December 31, 2021 | 136,786 | 3,699 | 66,177 | 206,662 |

| | **2021** | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL $** | **Stage 2 Lifetime ECL $** | **Stage 3 Lifetime ECL $** | **Total $** |
| **Business** | | | | |
| Loss allowance as at January 1, 2021 | 60,625 | - | 72,775 | 133,400 |
| Transfers | 70,164 | - | (70,164) | - |
| Net remeasurement of loss allowance | (49,677) | - | - | (49,677) |
| Recoveries | - | - | - | - |
| Loss allowance as at December 31, 2021 | 81,112 | - | 2,611 | 83,723 |

### Foreclosed collateral

During the year, there were $nil in foreclosed loans (2021 – $nil). Foreclosed properties are sold as soon as is practicable and when, in management's opinion, it is the most advantageous time to mitigate the risk of additional loss. As at December 31, 2022, the credit union had $nil (2021 – $nil) in foreclosed properties held for resale.

## 8 Long-term investments

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Shares | | |
| Atlantic Central | 5,721,368 | 5,559,640 |
| Concentra Financial | 500,000 | 500,000 |
| League Data Limited | 54,580 | 54,580 |
| Other | 310 | 310 |
| Long-term deposit | | |
| Concentra Financial | - | 2,000,000 |
| Investment in associate | | |
| CU Financial Management Limited | 515,851 | 444,546 |
| | 6,792,109 | 8,559,076 |

Investments in debt and equity securities have been classified as FVTPL. Investments in associates are accounted for using the equity method.

## 9 Property and equipment

| | Land $ | Buildings $ | Furniture and equipment $ | Vault security equipment and paving $ | Leasehold improvements $ | Computer equipment $ | Right-of-use assets $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **Year ended December 31, 2021** | | | | | | | | |
| Opening net book value | 841,538 | 1,185,427 | 305,215 | 449,911 | 247,073 | 105,508 | 196,391 | 3,331,063 |
| Additions | - | 76,544 | 106,444 | 31,309 | - | 35,425 | - | 249,722 |
| Depreciation | - | (60,833) | (71,954) | (112,417) | (57,074) | (73,870) | (59,240) | (435,388) |
| Closing net book value | 841,538 | 1,201,138 | 339,705 | 368,803 | 189,999 | 67,063 | 137,151 | 3,145,397 |
| **At December 31, 2021** | | | | | | | | |
| Cost | 841,538 | 2,386,951 | 1,749,008 | 1,110,575 | 706,564 | 1,107,068 | 333,819 | 8,235,523 |
| Accumulated depreciation | - | (1,185,813) | (1,409,303) | (741,772) | (516,565) | (1,040,005) | (196,668) | (5,090,126) |
| Net book value | 841,538 | 1,201,138 | 339,705 | 368,803 | 189,999 | 67,063 | 137,151 | 3,145,397 |
| **Year ended December 31, 2022** | | | | | | | | |
| Opening net book value | 841,538 | 1,201,138 | 339,705 | 368,803 | 189,999 | 67,063 | 137,151 | 3,145,397 |
| Additions | - | 14,146 | 15,608 | 6,111 | - | 32,515 | 105,645 | 174,025 |
| Depreciation | - | (59,952) | (68,461) | (108,508) | (45,711) | (49,923) | (32,988) | (365,543) |
| Disposals | - | - | (6,074) | - | - | - | - | (6,074) |
| Depreciation on disposals | - | - | 5,069 | - | - | - | - | 5,069 |
| Closing net book value | 841,538 | 1,155,332 | 285,847 | 266,406 | 144,288 | 49,655 | 209,808 | 2,952,874 |
| **At December 31, 2022** | | | | | | | | |
| Cost | 841,538 | 2,401,097 | 1,758,542 | 1,116,686 | 706,564 | 1,139,583 | 439,464 | 8,403,474 |
| Accumulated depreciation | - | (1,245,765) | (1,472,695) | (850,280) | (562,276) | (1,089,928) | (229,656) | (5,450,600) |
| Net book value | 841,538 | 1,155,332 | 285,847 | 266,406 | 144,288 | 49,655 | 209,808 | 2,952,874 |

## 10 Line of credit

The credit union has an operating line of credit with Atlantic Central of $6,516,000 (2021 – $5,809,000); of this amount, $6,516,000 was available at December 31, 2022 (2021 – $5,809,000). The interest rate on the line of credit is prime, which was 6.45% at December 31, 2022 (2021 – 1.95%). The credit union has pledged all of its assets as security for its line of credit.

## 11 Members' deposits

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Savings | 72,226,641 | 77,768,198 |
| Chequing | 116,614,221 | 111,708,663 |
| Term deposits | 30,836,787 | 18,243,851 |
| Registered savings and retirement plans | 12,805,832 | 11,931,123 |
| Tax free savings accounts | 24,823,772 | 21,334,095 |
| Accrued deposit interest | 537,732 | 248,210 |
| | 257,844,985 | 241,234,140 |

## 12 Income taxes

### Tax rate reconciliation

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Income before income taxes | 3,808,456 | 2,700,725 |
| Taxes at statutory rates | 1,104,452 | 783,210 |
| Impact of income taxable at preferred rate | (87,500) | (87,500) |
| Permanent differences and other | (7,966) | (42,846) |
| Non-taxable dividends | (59,118) | (58,765) |
| | 949,868 | 594,099 |

### Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 29% (2021 – 29%), which is calculated as follows.

The movement in the deferred income tax account is as follows:

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Balance, January 1** | (80,730) | (89,778) |
| Deferred income tax recovery | 34,971 | 9,048 |
| **Balance, December 31** | (45,759) | (80,730) |

Deferred income tax asset (liability) is attributable to the following items:

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Deferred income tax asset (liability)** | | |
| Allowance for impaired loans | 96,332 | 65,293 |
| Property and equipment | 95,368 | 100,228 |
| Atlantic Central shares | (119,770) | (119,770) |
| Investment in CU Financial Management Limited | (143,916) | (128,918) |
| Other | 26,227 | 2,437 |
| | (45,759) | (80,730) |

## 13 Capital requirements and management

### Capital management

The credit union's capital consists of retained earnings, restricted surplus and equity shares.

The credit union's strategic plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives and dividend/patronage rebate policy and assumes a significant influence on customer-owner service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the credit union's Investment and Lending Policy and credit risk profile reflect a loan portfolio composition and levels of risk that are consistent with the credit union's strategic objectives.

In accordance with the Credit Union Act, the credit union shall maintain a level of equity that is not less than 5% of its assets. As at December 31, 2022, members' equity was 7.1% (2021 – 6.6%).

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations.

**Restricted surplus**

In 2011, the credit union received a non-cash stock dividend from Atlantic Central of $520,000 in the form of 5,200 Class NS shares having a redemption value of $100 per share. This amount was included in income for 2011 with a corresponding current and deferred tax liability of $129,729, resulting in net income of $390,271 from this transaction.

Pursuant to a directive issued by CUDIC, the $390,271 net income and retained earnings resulting from this stock dividend transaction cannot be distributed until such time as total equity of the credit union is equal to or greater than 8% of total assets and retained earnings are equal to or greater than 4% of total assets.

## 14 Equity shares

The credit union is authorized to issue an unlimited number of common shares. Common shares can only be withdrawn with the approval of the Board of Directors. The shares have a par value of $5 per share and each member is required to hold one share. During 2022, the net increase in common shares was 178 (2021 – net decrease of 70) for cash consideration of $891 (2021 – $351). The total number of shares issued at the end of the year was 9,138 (2021 – 8,960).

## 15 Fee and commission income

| | 2022<br>$ | 2021<br>$ |
|---|---:|---:|
| Interac fees | 20,934 | 19,404 |
| Service charges | 1,895,103 | 1,884,803 |
| Commissions | 167,394 | 179,572 |
| Rebates | 115,134 | 128,669 |
| Rental income | 62,736 | 62,608 |
| Mortgage penalties | 153,438 | 219,529 |
| Other | 77,344 | 26,813 |
| | 2,492,083 | 2,521,398 |

## 16 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date.

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. The credit union has estimated fair values taking into account changes in interest rates that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the credit union's financial instruments. The carrying value is a reasonable approximation of fair value for the credit union's cash and cash equivalents, demand deposits and payables and accruals, due to their short-term nature.

The fair values of financial instruments are as follows.

**Loans**

In determining the fair value of loans, the credit union incorporates the following assumptions:

- For fixed rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms.
- For floating rate performing loans, changes in interest rates have minimal impact on the fair value since loans reprice to market. On that basis, fair value is assumed to equal carrying value.
- The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans to determine the fair value of the credit union's loan portfolio.

**Deposits**

In determining the fair value of deposits, the credit union incorporates the following assumptions:

- For fixed rate and fixed maturity deposits, the credit union discounts the remaining contractual cash flows at market interest rates offered for deposits with similar terms and risks.
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market. On that basis, fair value is assumed to equal carrying value.

The table below sets out the fair values of financial instruments, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that are not considered financial instruments.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Carrying value $ | Fair value $ | Carrying value $ | Fair value $ |
| **Assets** | | | | |
| Cash and cash equivalents | 36,638,682 | 36,638,682 | 44,936,340 | 44,936,340 |
| Members' loans | 232,909,965 | 231,343,688 | 203,473,297 | 199,882,926 |
| Long-term investments | 6,792,109 | 6,792,109 | 8,559,076 | 8,559,076 |
| **Liabilities** | | | | |
| Members' deposits | 257,307,253 | 259,193,069 | 240,985,930 | 241,839,903 |
| Payables and accruals | 1,482,346 | 1,482,346 | 1,509,757 | 1,507,757 |

**Fair value hierarchy**

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Level 1 $ | Level 2 $ | Level 3 $ | Level 1 $ | Level 2 $ | Level 3 $ |
| Investments | - | 6,276,258 | 515,851 | - | 8,114,530 | 444,546 |

## 17 Risk management

The credit union, through its financial assets and liabilities, has exposure to the following risks from use of its financial instruments: credit risk, liquidity risk and market risk (interest rate risk). Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

### Credit risk

Credit risk is the risk of financial loss to the credit union if a member or counterparty of a financial instrument fails to meet its contractual obligations resulting in financial loss to the credit union. This risk arises primarily from the credit union's personal and commercial loans, mortgages and loan commitments arising from such lending activities.

The measurement of ECL uses the information and approaches that the credit union uses to manage credit risk, though certain adjustments are made in order to comply with the applicable guidance. The approach taken for measurement purposes is discussed below.

Credit risk is the single largest risk for the credit union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is provided by management who reports to the Board of Directors.

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

*Credit risk exposure*

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

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Atlantic Central interest bearing deposits** | 32,742,245 | 40,772,959 |
| **Members' loans** | | |
| Personal | 130,501,711 | 122,256,786 |
| Business | 102,408,254 | 81,216,511 |
| Investments | 6,792,109 | 8,559,076 |
| | 272,444,319 | 252,805,332 |

Beyond the credit risk associated with the above financial assets, the credit union is also exposed to credit risk associated with undrawn lines of credit and undisbursed commitments to members for loans at year end as disclosed in note 18.

See note 7 for further disclosure on credit risk.

Short-term deposits and cash at banks have a low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the credit union's underwriting methodologies and risk modeling is customer based rather than product based. The credit union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing credit risk.

- ECL measurement

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

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

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

  The key judgments and assumptions adopted by the credit union in addressing the requirements of the standard are discussed below.

- Significant increase in credit risk

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

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

For personal loans:

- contractual cash flow obligations are more than 30 days past due; and/or
- available information at the reporting date indicates that the ability of the borrower to fulfill its contractual cash flow obligations has been reduced (i.e. using internal watch lists for monitoring the credit risk of borrowers).

For business loans:

- contractual cash flow obligations are more than 30 days past due; and/or
- available information at the reporting date indicates that the borrower's ability to fulfill its contractual cash flow obligations has been reduced (i.e. significant deterioration in risk rating, in short-term forbearance, early signs of cash flow/liquidity problems, adverse change in operating results, adverse changes in business, financial or economic conditions in which the business operates).

The credit union has not used the low credit risk exemption for any financial instruments in the year ended December 31, 2022.

- Definition of default and credit-impaired assets

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

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

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

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

- Measuring ECL — Explanation of inputs, assumptions and estimation techniques

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

  - The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
  - EAD is based on the amounts the credit union expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the credit union includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
  - LGD represents the credit union's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the loan.

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

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

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

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

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

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

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

- Collateral and other credit enhancements

The credit union employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The credit union has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The credit union prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges against chattels;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are either secured or unsecured.

The credit union's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the credit union since the prior period.

**Liquidity risk**

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

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

*Exposure to liquidity risk*

The credit union is required to maintain 9% (2021 – 9%) of members' deposits in liquid investments of which 90% must be held with Atlantic Central. The credit union was in compliance with this requirement at December 31, 2022.

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Required liquidity | 23,184,610 | 21,715,968 |
| Liquid assets | 39,140,199 | 47,055,140 |
| Excess liquidity | 15,955,589 | 25,339,172 |
| Liquid assets comprise | | |
| Cash on hand | 1,610,902 | 1,939,567 |
| Current accounts, short-term investments and liquidity deposits | 37,529,297 | 45,115,573 |
| | 39,140,199 | 47,055,140 |

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

| | | | | 2022 |
|---|---|---|---|---|
| | On demand<br>$ | Under 1 year<br>$ | 1 – 3 years<br>$ | Over 3 years<br>$ |
| Members' deposits | 203,596,649 | 43,131,733 | 8,902,024 | 1,676,847 |
| Trade and other payables | - | 1,482,346 | - | - |
| Undrawn lines of credit | 20,137,496 | - | - | - |
| | 223,734,145 | 44,614,079 | 8,902,024 | 1,676,847 |

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

| | | | | 2021 |
|---|---|---|---|---|
| | On demand<br>$ | Under 1 year<br>$ | 1 – 3 years<br>$ | Over 3 years<br>$ |
| Members' deposits | 204,504,730 | 29,053,000 | 6,847,000 | 581,200 |
| Trade and other payables | - | 1,509,757 | - | - |
| Undrawn lines of credit | 19,265,915 | - | - | - |
| | 223,770,645 | 30,562,757 | 6,847,000 | 581,200 |

**Market and interest rate risk**

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the credit union as part of its normal trading activities. As the credit union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk.

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

*Interest rate risk policies and processes*

The credit union meets its objectives for interest rate risk management by structuring the consolidated statement of financial position to take advantage of the yield curve and mismatch opportunities while limiting risk exposure to approved levels to ensure that net interest income and net market values are not significantly impacted when there is an adverse change in interest rates.

*Interest rate risk measurement techniques*

The credit union uses a number of techniques to manage interest rate risk. In order to manage the repricing of assets and liabilities, the credit union will alter the product mix through the marketing of particular products and pricing initiatives. Decisions on determining the appropriate mix of assets and liabilities are based on economic conditions, member behaviour, capital levels, liquidity levels and policies that limit exposure by instrument and counterparty.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the credit union's net interest revenue to a 1% movement in rates. As at December 31, 2022, the credit union's risk related to a 1% movement in rates was 13 basis points or $365,280.

The determination of interest rate sensitivity encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets and liabilities used to manage interest rate risk.

The gap position presented below is as at December 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on member behaviour and the application of the credit union's asset and liability management policies.

The assumptions on December 31 were as follows:

*Assets*

- Fixed term assets, such as mortgages and personal loans, are reported based on scheduled repayments.
- Variable rate and non-interest-bearing assets that are related to the prime rate or other short-term market rates are reported in the within the three-month category.

*Liabilities*

- Fixed rate liabilities, such as term deposits, are reported at scheduled maturity.
- Interest-bearing deposits on which the member interest rate changes with prime or other short-term market rates are reported in the demand category.

*Rates*

- Rates are based on the weighted average interest rates for the assets and liabilities on December 31.

**2022**

| | **Demand principal $** | **Rate %** | **Under 1 year principal $** | **Rate %** | **1 – 3 years principal $** | **Rate %** | **Over 3 years principal $** | **Rate %** |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and investments | 3,896,435 | - | 32,742,247 | 3.00 | 500,000 | 3.80 | 5,776,258 | 3.30 |
| Members' loans | 18,929,078 | 4.30 | 66,803,628 | 4.20 | 69,672,369 | 3.60 | 77,504,890 | 3.70 |
| | 22,825,513 | 3.60 | 99,545,875 | 3.80 | 70,172,369 | 3.60 | 83,281,148 | 3.70 |
| **Liabilities** | | | | | | | | |
| Members' deposits | 203,690,249 | 0.40 | 43,098,133 | 2.60 | 8,117,090 | 2.20 | 2,401,781 | 2.60 |
| **Asset/liability gap** | (180,864,736) | | 56,447,742 | | 62,055,279 | | 80,879,367 | |

**2021**

| | **Demand principal $** | **Rate %** | **Under 1 year principal $** | **Rate %** | **1 – 3 years principal $** | **Rate %** | **Over 3 years principal $** | **Rate %** |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and investments | 4,163,400 | - | 42,773,230 | 0.57 | 500,000 | 3.73 | 5,614,240 | 2.48 |
| Members' loans | 32,838,397 | 5.35 | 26,984,500 | 3.58 | 46,151,000 | 4.13 | 97,499,400 | 3.48 |
| | 37,001,797 | 4.75 | 69,757,730 | 1.74 | 46,651,000 | 4.12 | 103,113,640 | 3.42 |
| **Liabilities** | | | | | | | | |
| Members' deposits | 204,504,730 | 0.32 | 29,053,000 | 1.01 | 6,847,000 | 1.45 | 581,200 | 1.44 |
| **Asset/liability gap** | (167,502,933) | | 40,704,730 | | 39,804,000 | | 102,532,440 | |

## 18 Commitments and contingencies

### Credit commitments

The following amount represents the maximum amount of additional credit that the credit union could be obligated to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements may expire or terminate without being utilized.

| | $ |
|---|---|
| Undrawn lines of credit | 20,137,496 |

The credit union has committed its share of costs to the system conversion project to replace the existing core banking platform. The credit union has paid $344,355 of its total commitment of $1,721,775. This commitment is based on the credit union's percentage of assets in the system. The remaining expected commitment is as follows:

| | $ |
|---|---|
| 2023 | 860,888 |
| 2024 | 516,532 |

### Contingencies

In the ordinary course of business, the credit union has legal proceedings brought against it and provisions have been included in liabilities where appropriate. As at December 31, 2022, $nil (2021 – $nil) provisions have been recorded.

## 19 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 having authority and responsibility for planning, direction and controlling the activities of the credit union.

### Key management

| | 2022 $ | 2021 $ |
|---|---|---|
| Salaries | 451,296 | 620,849 |
| Post-employment benefits | 21,868 | 66,928 |
| | 473,164 | 687,777 |

### Directors' remuneration

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Honorarium | 10,200 | 12,848 |
| Payment for expenses incurred while on credit union business or training | 20,844 | 352 |
| | 31,044 | 13,200 |

### Loans to directors, key management personnel and their families

Loans to directors and key management personnel are either unsecured or secured by registered mortgage over eligible security in accordance with standard lending policies.

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Loans outstanding at January 1 | 211,795 | 685,242 |
| Loans issued during the year | 370,571 | 182,760 |
| Changes in key management during the year | 77,443 | (90,811) |
| Loan repayments during the year | (62,036) | (565,396) |
| Loans outstanding at December 31 | 597,773 | 211,795 |
| Interest income earned | 15,461 | 4,503 |

No provisions have been recognized in respect of loans given to key management. The loans issued to directors, key management personnel and close family members during the year of $370,571 (2021 – $182,760) are repayable over 0 – 25 years and have interest rates of 2.24% – 6.45% (2021 – 2.95% – 5.45%).

## 20 Company pension plan

The credit union provides its employees with an RPP matching pension plan. As at December 31, 2022, there were no required future contributions in respect of past service and all contributions required under the plan had been funded.

During the fiscal year, the credit union contributed $129,662 (2021 – $127,584) towards the pension plan.

## 21 Operating expenses

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **General business** | | |
| Advertising and promotion | 124,915 | 100,025 |
| Banking fees | 757,097 | 743,751 |
| Board expenses | 31,044 | 20,249 |
| Computer costs | 513,587 | 489,704 |
| Courier and postage | 24,169 | 26,209 |
| Credit Union Central | 214,502 | 217,554 |
| Depreciation – equipment and computer | 132,622 | 161,062 |
| Equipment maintenance and rent | 69,821 | 65,882 |
| Meetings | 29,299 | 6,873 |
| Membership | 54,347 | 48,576 |
| Office | 148,594 | 139,963 |
| Other | 252,008 | 200,535 |
| Professional fees | 269,380 | 120,554 |
| Staff travel | 33,863 | 21,437 |
| | 2,655,248 | 2,362,374 |
| **Occupancy costs** | | |
| Depreciation | 232,921 | 274,002 |
| Rent | 59,930 | 40,676 |
| Repairs and maintenance | 106,275 | 106,942 |
| Taxes | 87,757 | 88,919 |
| Utilities | 182,196 | 165,145 |
| | 669,079 | 675,684 |
| **Members' security** | | |
| CUDIC | 189,452 | 191,704 |
| Insurance and other | 143,986 | 130,022 |
| | 333,438 | 321,726 |