Financial statements of
Reddy Kilowatt
Credit Union Limited

December 31, 2023

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's NL A1E 0E4
Canada

Tel: 709-576-8480
Fax: 709-576-8460
www.deloitte.ca

Independent Auditor's Report

Opinion

We have audited the financial statements of Reddy Kilowatt Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2023, and the statements of comprehensive income and retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies (collectively 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 International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
March 6, 2024

Reddy Kilowatt Credit Union Limited
Statement of comprehensive income and retained earnings
Year ended December 31, 2023
(CDN dollars)

	Notes	2023 $	2022 $
Financial revenue			
Members’ loans and mortgages	4	**5,231,630**	4,065,554
Investment income		**279,770**	263,189
		5,511,400	4,328,743
Cost of funds			
Interest on members’ deposits	5	**2,816,379**	1,823,982
Net financial margin		**2,695,021**	2,504,761
Other income			
Other		**459,071**	462,256
Commissions		**396,167**	359,509
Financial margin and other income		**3,550,259**	3,326,526
Operating expenses			
Personnel		**1,213,353**	1,051,617
General business	12	**1,052,960**	921,561
Members’ security		**410,539**	325,870
Total operating expenses		**2,676,852**	2,299,048
Earnings before income taxes		**873,407**	1,027,478
Income taxes - current	14	**40,796**	46,378
Income taxes - deferred	14	**10,083**	16,979
		50,879	63,357
Net comprehensive income for the year		**822,528**	964,121
Retained earnings, beginning of year		**3,581,741**	3,117,620
Dividends and patronage rebates	11	**(450,000)**	(500,000)
Retained earnings, end of year		**3,954,269**	3,581,741

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

Reddy Kilowatt Credit Union Limited

Statement of financial position

As at December 31, 2023
(CDN dollars)

	Notes	2023 $	2022 $
Assets			
Cash and cash equivalents	6	**2,469,821**	2,172,394
Investments	7	**7,438,251**	10,079,799
Loans and mortgages receivable	8 and 9	**84,217,433**	79,994,834
Property, plant and equipment	10	**4,466,811**	4,590,864
Income tax receivable		**5,587**	—
Other assets		**983,496**	473,173
		99,581,399	97,311,064
Liabilities			
Accounts payable and accrued liabilities		**567,251**	470,870
Income taxes payable		**—**	18,873
Deferred tax liability	14	**66,589**	56,506
Dividends and patronage rebates payable	11	**450,000**	500,000
Members' deposits	11	**94,543,290**	92,683,074
		95,627,130	93,729,323
Members' equity			
Retained earnings		**3,954,269**	3,581,741
		99,581,399	97,311,064

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

Approved on behalf of the Board:

_______________________________, Director

_______________________________, Director

Reddy Kilowatt Credit Union Limited
Statement of cash flows
Year ended December 31, 2023
(CDN dollars)

	Notes	2023 $	2022 $
Operating activities			
Net comprehensive income		**822,528**	964,121
Adjustments for			
Provision for impaired loans and mortgages	9	**110,498**	36,762
Financial revenue		**(5,511,400)**	(4,328,743)
Cost of funds - interest on members' deposits	5	**2,816,379**	1,823,982
Depreciation	10	**132,720**	134,144
Income taxes - current	14	**40,796**	46,378
Income taxes - deferred	14	**10,083**	16,979
		(1,578,396)	(1,306,377)
Changes in operating assets/liabilities			
Change in loans and mortgages receivable		**(4,333,097)**	(3,986,708)
Change in members' deposits		**1,432,622**	(2,892,926)
Change in other operating assets		**(515,910)**	(360,445)
Change in other operating liabilities		**96,381**	168,053
Cash (used in) generated from operating activities before interest and taxes		**(4,898,400)**	(8,378,403)
Interest received		**5,511,400**	4,328,743
Interest paid		**(2,385,400)**	(1,815,132)
Income taxes paid		**(59,669)**	(11,810)
		(1,832,069)	(5,876,602)
Investing activities			
Decrease in investments		**2,641,548**	6,680,832
Purchase of property, plant and equipment	10	**(8,667)**	(6,068)
		2,632,881	6,674,764
Financing activities			
Change in membership share capital	11	**(3,385)**	(67,185)
Dividends and patronage rebates paid		**(500,000)**	(225,000)
		(503,385)	(292,185)
Increase in cash and cash equivalents		**297,427**	505,977
Cash and cash equivalents, beginning of year		**2,172,394**	1,666,417
Cash and cash equivalents, end of year		**2,469,821**	2,172,394

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

1. Reporting entity

Reddy Kilowatt Credit Union Limited (the "Credit Union") is incorporated under the Credit Union Act of Newfoundland and Labrador (the "Act"). The Credit Union has 2,462 members and provides financial services to residents of the Province. The registered office of the Credit Union is at 885 Topsail Road, Mount Pearl, Newfoundland and Labrador.

2. Basis of preparation

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Board of Directors on February 22, 2024 authorized the financial statements for the year ended December 31, 2023 for issue.

Basis of preparation

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 for financial instruments at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI), which are stated at their fair values.

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2. Basis of preparation (continued)

Use of significant accounting judgments, estimates and assumptions (continued)

Judgments made by management in the application of IFRS have a significant effect on these financial statements. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's financial statements are as follows:

(a) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates and prepayment rates. The valuation of financial instruments is described in more detail in Note 16.

(b) Impairment losses on loans and advances under IFRS 9 – Financial Instruments ("IFRS 9")

The measurement of impairment losses on loans to members is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Please see the impairment of financial assets section of Note 3 for further detail on these. A number of significant judgments are also required in applying the accounting requirements for measuring the expected credit loss ("ECL"), such as:

- Determining criteria for significant increase of credit risk: IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Credit Union takes into account qualitative and quantitative reasonable and supportable information.
- Choosing appropriate models and assumptions: The Credit Union uses various models and assumptions in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.
- When measuring ECL the Credit Union uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers.
- Probability of default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, and assumptions/expectations of future conditions.
- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

The impairment loss on loans to members is disclosed in more detail in Note 8 and Note 9.

(c) Economic lives of property, plant and equipment

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

2. Basis of preparation (continued)

Use of significant accounting judgments, estimates and assumptions (continued)

(d) Provisions

The amount recognized as provisions and accrued liabilities is the best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

3. Material accounting policies

Financial instruments

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

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

(a) Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding, are subsequently measured at amortized cost.

3. Material accounting policies (continued)

Financial instruments (continued)

(a) Financial assets (continued)

The measurement and classification categories of financial assets in accordance with IFRS 9 are outlined below. The Credit Union has no debt instruments that are subsequently measured at FVTOCI.

Financial Instrument	Classification
Cash and cash equivalents	Amortized cost
Investments:	
Equity investments	FVTPL
Liquidity reserve deposits	Amortized cost
Loans and mortgages	Amortized cost
Other assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Members' deposits	Amortized cost
Other liabilities	Amortized cost

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Credit Union determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Credit Union's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Credit Union has business models for managing its financial instruments which reflect how the Credit Union manages its financial assets in order to generate cash flows. The Credit Union's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Credit Union considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Credit Union does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

3. Material accounting policies (continued)

Financial instruments (continued)

(b) Debt instruments at amortized cost

The Credit Union assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Credit Union's business model for managing the asset.

For an asset to be classified and measured at amortized cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

At initial recognition of a financial asset, the Credit Union determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Credit Union reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Credit Union has not identified a change in its business models.

Debt instruments are measured at amortized cost using the effective interest method, and are subject to impairment. Interest income on debt instruments at amortized cost is recognized in interest on loans to members and investment income on the statement of comprehensive income.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability, and of allocating interest income or expense over the relevant period. The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(c) Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 16.

(d) Impairment

The Credit Union assesses loss allowances for expected credit losses ("ECLs") on its financial instruments that are not measured at FVTPL. Loss allowances are recognized on loans to members (Note 9).

No impairment loss is recognized on equity investments.

3. Material accounting policies (continued)

Financial instruments (continued)

(d) Impairment (continued)

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECLs that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECLs that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition.

For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are an estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Credit Union under the contract and the cash flows that the Credit Union expects to receive, discounted at the asset's EIR.

The Credit Union measures ECL on an individual basis. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

(i) Credit-impaired financial assets

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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Credit Union assesses whether debt instruments that are financial assets measured at amortized cost are credit-impaired at each reporting date.

(ii) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see below).

The Credit Union considers the following as constituting an event of default:

- the borrower is past due more than 90 days on the credit obligation to the Credit Union; or
- the Credit Union considers the borrower to be unlikely to pay the loan to the Credit Union in full, without recourse by the Credit Union to actions such as realizing security.

3. Material accounting policies (continued)

Financial instruments (continued)

(d) Impairment (continued)

(ii) Definition of default (continued)

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Credit Union takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in commercial lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status are key inputs in this analysis.

(e) Significant increase in credit risk

The Credit Union monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Credit Union will measure the loss allowance based on lifetime rather than 12-month ECL. The Credit Union's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Credit Union monitors all financial assets that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Credit Union compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the date when the financial instrument was first recognized. In making this assessment, the Credit Union considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Credit Union allocates its loans to members to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD that was estimated based on facts and circumstances at the time of initial recognition.

The PDs used are forward looking and the Credit Union uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. For corporate lending there is particular focus on assets that are included on a 'watch list', given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Credit Union considers events such as bankruptcy and consumer proposals.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

3. Material accounting policies (continued)

Financial instruments (continued)

(e) Significant increase in credit risk (continued)

As a back-stop when an asset becomes 30 days past due, the Credit Union considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL, unless the Credit Union has reasonable and supportable information that demonstrates otherwise.

More information about significant increase in credit risk is provided in Note 17.

(f) Impairment

(i) Measurement of ECL

The key inputs used for measuring ECL are:

- Probability of default (“PD”);
- Loss given default (“LGD”); and
- Exposure at default (“EAD”).

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect forward-looking information, where applicable.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is largely based on historical default rates by category of loan product and credit rating. PDs are estimated considering the contractual maturities of exposures. The estimation is based on current conditions, adjusted where applicable to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account cost of realization of collateral. LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Credit Union’s modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, and changes in utilization of undrawn commitments. The Credit Union uses EAD models that reflect the characteristics of the portfolios.

The Credit Union measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities that include both a loan and an undrawn commitment component, the Credit Union’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the Credit Union’s exposure to credit losses to the contractual notice period. For such financial instruments the Credit Union measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period.

3. Material accounting policies (continued)

Financial instruments (continued)

(f) Impairment (continued)

(ii) Write-offs

Loans are written off when the Credit Union has no reasonable expectations of recovering the financial asset. This is 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. A write-off constitutes a derecognition event. The Credit Union may apply enforcement activities to financial assets written off. Recoveries resulting from the Credit Union's enforcement activities will result in impairment gains.

(g) Modification and derecognition of financial assets

(i) Presentation of allowance for ECL in the statement of financial position

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

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets; where a financial instrument includes both a drawn and an undrawn component, such as a line of credit, 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.

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Credit Union assesses whether this modification results in derecognition. In accordance with the Credit Union's policy a modification results in derecognition when it gives rise to substantially different terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Credit Union determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

The Credit Union derecognizes a financial asset only when the contractual rights to the asset's cash flows expire, or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Credit Union recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Credit Union retains substantially all the risks and rewards of ownership of a transferred financial asset, the Credit Union continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

3. Material accounting policies (continued)

(g) Modification and derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortized cost other than in its entirety (e.g. when the Credit Union retains an option to repurchase part of a transferred asset), the Credit Union allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized is recognized in income.

(h) Financial liabilities

The Credit Union is required to classify all financial liabilities as either financial liabilities 'at FVTPL' or 'other financial liabilities'. All of the Credit Union's financial liabilities are classified as other financial liabilities.

(i) Other financial liabilities

Other financial liabilities, including deposits from members, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

(j) Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and Atlantic Central and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

Loans to members

Loans to members include personal loans, lines of credit, mortgages and commercial loans, and are recognized when the cash is advanced to the borrower. All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. When components of property, plant and equipment have different useful lives, they are accounted for as separate assets. Assets under construction are not amortized until they are available for use.

Depreciation is recognized in profit or loss on a straight-line basis over the respective assets' estimated useful lives.

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

3. Material accounting policies (continued)

Leases

All leases are short-term leases as of December 31, 2023. Lease payments are recognized as an expense on a straight-line basis over the lease term as office expense in the statement of comprehensive income.

Deposits from members

Deposits from members are disclosed in Note 11 and represent the Credit Union's main source of funding. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Provisions

Provisions are recognized when the Credit Union has a present obligation (legal or constructive), as a result of a past event, it is probable that the Credit Union will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Short-term employee benefits

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

Membership shares

The Credit Union's membership shares are presented in the Statement of Financial Position as financial liabilities in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. All membership shares of the Credit Union are classified as liabilities. Payments of dividends and patronage rebates on membership shares presented as a financial liability are recognized as a distribution of profit or loss. Dividends and patronage rebates are recorded when declared by the Board of Directors.

Revenue recognition

Interest income is accrued monthly by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognized when the right to receive payment is established. Dividends are included in investment income in the Statement of Comprehensive Income and Retained Earnings.

Other, investment income and commission income include account service fees, investment management fee, and insurance fees which are recognized over the period the services are performed.

3. Material accounting policies (continued)

Income taxes

Income tax expense comprises current and deferred tax.

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

Deferred income tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the Statement of Comprehensive Income.

Foreign currency translation

The financial statements are presented in Canadian dollars ($).

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the Statement of Financial Position date.

Translation gains and losses are recognized immediately in profit or loss and are included in the “other income” line item in the Statement of Comprehensive Income.

Current and future changes in accounting policies

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2023, as specified.

- IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
- IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies (Amendments to IAS 1)
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (Amendments to IAS 8)

(CDN dollars)

3. Material accounting policies (continued)

Current and future changes in accounting policies

(1) IAS 1 – presentation of financial statements– disclosure of accounting policies (amendments to IAS 1)

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The application of these amendments did not have a material impact on the Credit Union's financial statements.

(2) IAS 8 – accounting policies, changes in accounting estimates and errors – definition of accounting estimates (amendments to IAS 8)

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The application of these amendments did not have a material impact on the Credit Union's financial statements.

(3) IAS 1 – presentation of financial statements – classification of liabilities as current or non-current (amendments to IAS 1)

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. The amendments are applied retrospectively upon adoption. These amendments are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted. The application of these amendments is not expected to have a material impact on the Credit Union's Financial statements.

4. Financial revenue – members' loans and mortgages

	2023	2022
	$	$
Personal loans	**3,218,994**	2,361,203
Residential mortgages	**2,012,636**	1,704,351
	5,231,630	4,065,554

(CDN dollars)

5. Interest on members' deposits

	2023 $	2022 $
Term deposits	**1,089,859**	680,562
Registered retirement saving plans	**622,898**	449,649
Tax free savings accounts	**450,382**	240,882
Registered retirement funds	**362,674**	224,965
Savings accounts	**290,566**	227,924
	2,816,379	1,823,982

6. Cash and cash equivalents

	2023 $	2022 $
Cash on hand	**481,816**	368,454
Cash on deposit with Atlantic Central	**1,988,005**	1,803,940
	2,469,821	2,172,394

As at December 31, 2023 the Credit Union has available lines of credit with Atlantic Central in the amount of $2,433,000 ($2,483,000 in 2022) at prime rate (prime less 0.5% in 2022) and the balance drawn was nil (nil in 2022). This line of credit is secured by a general security agreement held with Atlantic Central.

7. Investments

The following table provides information on the investments held by the Credit Union.

	2023 $	2022 $
Mandatory liquidity reserve deposits	**5,428,010**	5,486,427
Other deposits	**—**	2,500,000
Equity investments		
Atlantic Central shares	**1,021,530**	1,094,900
Concentra shares	**500,000**	500,000
Other investments	**485,860**	485,860
	7,435,400	10,067,187
Accrued interest	**2,851**	12,612
	7,438,251	10,079,799

Atlantic Central – liquidity reserve deposit

As a condition of maintaining membership in good standing with Atlantic Central, the Credit Union is required to maintain on deposit with Atlantic Central an amount equal to 6% of the total liabilities as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Atlantic Central. As at December 31, 2023, the Credit Union held liquidity deposits of $6,911,583 ($6,386,103 in 2022).

(CDN dollars)

8. Loans and mortgages receivable

Mortgages are repayable in monthly blended principal and interest instalments over a maximum term of five years. Mortgages are secured by residential properties.

Personal loans are repayable to the Credit Union in monthly blended principal and interest instalments over a period acceptable by Provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

Credit quality of loans

Security held on a portfolio basis is as follows:

	2023 **$**	2022 $
Mortgages secured by property	**47,165,680**	41,874,049
Secured loans and lines of credit	**23,969,870**	24,329,371
Unsecured loans and lines of credit	**13,081,883**	13,791,414
	84,217,433	79,994,834

Mortgages under administration

Mortgages under administration are not the property of the Credit Union and are not reflected in the Statement of Financial Position. At December 31, 2023, the Credit Union had mortgages under administration with League Savings and Mortgage Company of $19,117,779 ($22,225,530 in 2022).

9. Allowance for impaired loans and mortgages

The activity in the allowance for impaired loans and mortgages is summarized as follows:

	Loans and lines of credit **$**	**Mortgages** **$**	**2023 Net book value** **$**	2022 Net book value $
Balance, beginning of the year	**491,989**	**10,110**	**502,099**	693,715
Loans written-off as uncollectible	**(59,927)**	**—**	**(59,927)**	(228,343)
Changes in model inputs	**(200)**	**200**	**—**	(35)
Impairment losses reversed	**—**	**—**	**—**	—
Provision for impaired loans	**110,498**	**—**	**110,498**	36,762
Balance, end of year	**542,360**	**10,310**	**552,670**	502,099

(CDN dollars)

9. Allowance for impaired loans and mortgages (continued)

The following tables below analyze the movement of the IFRS 9 loss allowance during the fiscal 2023 year:

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL not credit impaired $	Stage 3 Lifetime ECL credit impaired $	Total $
Loss allowance, personal				
Loss allowance as at January 1, 2023	**203,874**	**6,853**	**281,262**	**491,989**
Transfer to stage 1	**60,791**	**(5,607)**	**(55,184)**	**—**
Transfer to stage 2	**—**	**—**	**—**	**—**
Transfer to stage 3	**—**	**(1,245)**	**226,665**	**225,420**
Financial assets that have been		**—**	**—**	**—**
derecognized	**(125,466)**	**—**	**(49,383)**	**(174,849)**
Changes in model inputs	**(14,414)**	**15,638**	**(1,424)**	**(200)**
Loss allowance as at December 31, 2023	**124,785**	**15,639**	**401,936**	**542,360**

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL not credit impaired $	Stage 3 Lifetime ECL credit impaired $	Total $
Loss allowance, mortgages				
Loss allowance as at January 1, 2023	**10,110**	**—**	**—**	**10,110**
Transfer to stage 1	**—**	**—**	**—**	**—**
Transfer to stage 2	**—**	**—**	**—**	**—**
Transfer to stage 3	**—**	**—**	**—**	**—**
Financial assets that have been derecognized	**—**	**—**	**—**	**—**
Changes in model inputs	**201**	**—**	**—**	**201**
Loss allowance as at December 31, 2023	**10,311**	**—**	**—**	**10,311**

Credit quality of member loans is summarized in the below tables, under IFRS 9 for the years ended December 31, 2023 and December 31, 2022. The gross carrying amount of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

(CDN dollars)

9. Allowance for impaired loans and mortgages (continued)

	Stage 1 $	Stage 2 $	Stage 3 $	Year ended 2023 ECL Staging Total $
Loans to members, personal				
Credit grading				
Standard monitoring	**36,514,641**	**—**	**—**	**36,514,641**
Under 30 days past due	**—**	**—**	**—**	**—**
Greater that 30 days past due, but not in default	**—**	**73,311**	**—**	**73,311**
Increase in credit risk	**—**	**—**	**—**	**—**
Default	**—**	**—**	**769,728**	**769,728**
Total gross carrying amount	**36,514,641**	**73,311**	**769,728**	**37,357,680**
Loss allowance	**(124,785)**	**(15,639)**	**(401,936)**	**(542,360)**
Carrying amount	**36,389,856**	**57,672**	**367,792**	**36,815,320**

	Stage 1 $	Stage 2 $	Stage 3 $	Year ended 2023 ECL Staging Total $
Loans to members, mortgages				
Credit grading				
Standard monitoring	**46,941,160**	**—**	**—**	**46,941,160**
Under 30 days past due	**—**	**—**	**—**	**—**
Greater that 30 days past due, but not in default	**—**	**221,362**	**—**	**221,362**
Increase in credit risk	**—**	**—**	**—**	**—**
Default	**—**	**—**	**547,578**	**547,578**
Total gross carrying amount	**46,941,160**	**221,362**	**547,578**	**47,710,100**
Loss allowance	**(10,311)**	**—**	**—**	**(10,311)**
Carrying amount	**46,930,849**	**221,362**	**547,578**	**47,699,789**

(CDN dollars)

9. Allowance for impaired loans and mortgages (continued)

	Stage 1 $	Stage 2 $	Stage 3 $	Year ended 2022 ECL Staging Total $
Loans to members, personal				
Credit grading				
Standard monitoring	38,443,653	—	—	38,443,653
Under 30 days past due	—	—	—	—
Greater that 30 days past due, but not in default	—	168,712	—	168,712
Increase in credit risk	—	—	—	—
Default	—	—	499,401	499,401
Total gross carrying amount	38,443,653	168,712	499,401	39,111,766
Loss allowance	(203,875)	(6,853)	(281,261)	(491,989)
Carrying amount	38,239,778	161,859	218,140	38,619,777

	Stage 1 $	Stage 2 $	Stage 3 $	Year ended 2022 ECL Staging Total $
Loans to members, mortgages				
Credit grading				
Standard monitoring	40,559,188	—	—	40,559,188
Under 30 days past due	—	—	—	—
Greater that 30 days past due, but not in default	—	240,751	—	240,751
Increase in credit risk	—	—	—	—
Default	—	—	1,027,310	1,027,310
Total gross carrying amount	40,559,188	240,751	1,027,310	41,827,249
Loss allowance	(10,110)	—	—	(10,110)
Carrying amount	40,549,078	240,751	1,027,310	41,817,139

(CDN dollars)

10. Property, plant and equipment

	Land $	Buildings $	Roof $	Paved areas and signage $	Furniture and computer equipment $	Automated banking machines $	2023 Total $
Rate		50 years	25 years	15 years	3-5 years	10 years	
Cost							
Balance, beginning of year	848,301	4,158,607	112,980	194,447	404,630	55,885	5,774,850
Additions	—	—	—	—	8,667	—	8,667
Balance, end of year	848,301	4,158,607	112,980	194,447	413,297	55,885	5,783,517
Accumulated depreciation							
Balance, beginning of year	—	696,455	37,847	110,583	292,297	46,804	1,183,986
Depreciation expense	—	83,172	4,519	12,668	26,772	5,589	132,720
Balance, end of year	—	779,627	42,366	123,251	319,069	52,393	1,316,706
Net book value	848,301	3,378,980	70,614	71,196	94,228	3,492	4,466,811

(CDN dollars)

10. Property, plant and equipment (continued)

	Land $	Buildings $	Roof $	Paved areas and signage $	Furniture and computer equipment $	Automated banking machines $	2022 Total $
Rate		50 years	25 years	15 years	3-5 years	10 years	
Cost							
Balance, beginning of year	848,301	4,158,607	112,980	194,447	398,562	55,885	5,768,782
Additions	—	—	—	—	6,068	—	6,068
Balance, end of year	848,301	4,158,607	112,980	194,447	404,630	55,885	5,774,850
Accumulated depreciation							
Balance, beginning of year	—	613,283	33,328	97,915	264,101	41,215	1,049,842
Depreciation expense	—	83,172	4,519	12,668	28,196	5,589	134,144
Balance, end of year	—	696,455	37,847	110,583	292,297	46,804	1,183,986
Net book value	848,301	3,462,152	75,133	83,864	112,333	9,081	4,590,864

(CDN dollars)

11. Members' deposits

	2023	2022
	$	$
Term deposits, including accrued interest	**28,763,325**	26,213,919
RRSPs, including accrued interest	**19,615,222**	19,151,410
Tax free savings accounts, including accrued interest	**13,269,543**	11,770,884
Demand deposits	**11,816,448**	15,803,665
RRIFs, including accrued interest	**10,838,549**	9,589,203
Chequing accounts	**8,291,329**	8,201,733
Membership shares	**1,948,875**	1,952,260
	94,543,291	92,683,074

Term deposits

Term deposits for periods of one to five years generally may not be withdrawn prior to maturity.

Registered retirement plans

The Credit Union has engaged a third party to act as the trustee for the registered retirement plans offered to members. Under an agreement with the third party, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds less tax withheld is made to the members, or the parties designated by them, by the Credit Union on behalf of the trustee.

Membership shares consist of 20 shares per adult member and 1 share per youth/student member at a par value of five dollars ($5.00) per share. The holders of member equity shares have all of the rights and privileges and are subject to the restrictions of a member as provided for in the Credit Union Act and Regulations and in the By-laws of the Credit Union. Currently, there are 2,462 (2,402 in 2022) fully paid equity share accounts with an aggregate dollar value of $244,640 ($236,045 in 2022).

Incentive shares may be issued by the Credit Union to a maximum of 2% of assets as approved by the Regulator in accordance with the Credit Union Act and Regulations and the By-laws of the Credit Union. Currently there are 613 (627 in 2022) incentive shares outstanding with an aggregate dollar value of $1,704,235 ($1,716,215 in 2022).

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation, however, they qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

Dividends and patronage rebates

Dividends and patronage refunds payable of $450,000 will be presented for ratification at the annual general meeting of members to be held on March 26, 2024. Dividends and patronage refunds of $500,000 applicable to 2022 were paid out to members in 2023. Any difference between the amount approved and the amount ultimately paid is charged to earnings in the year of payment.

(CDN dollars)

12. General business

	2023 $	2022 $
Data processing	**321,477**	250,063
Depreciation	**132,720**	134,144
Business tax	**103,743**	106,881
Other	**92,575**	103,696
Marketing	**70,067**	67,790
Bank charges	**61,573**	52,885
Professional fees	**58,213**	40,792
Training and travel	**42,825**	24,562
Stationery and office supplies	**35,525**	30,480
Telephone	**27,962**	22,765
Board remuneration	**24,000**	21,300
Heat and light	**23,959**	20,896
Snow clearing	**23,260**	20,400
Meetings	**17,674**	9,343
RRSP administration	**12,145**	10,619
Credit bureau fees	**5,242**	4,945
	1,052,960	921,561

13. Capital adequacy

The capital management policy is approved by the Board of Directors and outlines the Credit Union’s overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Act requires credit unions to maintain a minimum capital adequacy reserve (consists of share capital and retained earnings) of 5% of the Credit Union’s total assets with a maximum of 2% in shares. Alternatively, a risk weighted approach may be used. The Credit Union follows the percentage of total assets method. The Credit Union is in compliance with its policies and those of the Act regarding regulatory capital as at December 31, 2023 as outlined in the following table.

	2023 $	2022 $
Retained earnings	**3,954,269**	3,581,741
Members' shares	**1,948,875**	1,952,260
Capital base	**5,903,144**	5,534,001
Capital adequacy		
Actual	**5.93%**	5.69%
Regulatory requiremnt	**5.00%**	5.00%

(CDN dollars)

14. Income taxes

The provision for income taxes reported for the year ended December 31 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	2023	2022
	$	$
Earnings before income taxes	**873,407**	1,027,478
Income tax expense based on statutory rate of 12%	**104,809**	123,297
Effect of permanent differences	**60**	60
Change in temporary differences and patronage dividend	**(64,073)**	(76,979)
Current income tax expense	**40,796**	46,378
Dererred income tax expense	**10,083**	16,979
Total income tax expense	**50,879**	63,357

Temporary differences, which give rise to the deferred income tax liability, are as follows:

	2023	2022
	$	$
Deferred income tax liabilities		
Property, plant & equipment and other	**66,589**	56,506

15. Related party transactions

Transactions during the year between the Credit Union and key management personnel, directors, officers, and their related parties are presented in the following table. Related parties of these individuals are defined as close members of the family who may be expected to influence, or be influenced by, that person in their dealings with the Credit Union and include spouses and dependent children.

		2023		2022
	Maximum balance	**Closing balance**	Maximum balance	Closing balance
	$	**$**	$	$
Loans to members	**1,460,792**	**1,356,760**	1,582,681	1,349,985
Member deposits	**—**	**1,339,509**	—	836,513

There was no allowance for impaired loans required in respect of these loans as at December 31, 2023 and 2022.

Key management personnel received salaries and other short-term employee benefits during the year of $303,359 ($289,813 in 2022).

15. Related party transactions (continued)

Directors received the following amounts for serving the Credit Union:

	2023	2022
	$	$
Director's remuneration	**24,000**	21,300

16. Fair value of financial instruments

Fair value

The Credit Union's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets that are not considered financial instruments, such as prepaids and property, plant and equipment.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The fair values of cash and cash equivalents, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.

The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

16. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

The fair value of investments is based on quoted market values where available (see Note 3).

Shares in Atlantic Central, League Data, Concentra and League Savings and Mortgage are measured at cost less any identified impairment losses at the end of each reporting period. These investments are classified as Level 2 as they do not have a quoted price in an active market and their fair value cannot be reliably measured.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ended December 31, 2023 and 2022.

Additionally, there are no financial instruments classified in Level 3.

17. Nature and extent of risks arising from financial instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

Credit risk

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its contractual obligations.

The Board of Directors of the Credit Union oversees the risk management process. Management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

The Credit Union mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

Significant increase in credit risk

As explained in Note 3 the Credit Union monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Credit Union will measure the loss allowance based on lifetime rather than 12-month ECL.

17. Nature and extent of risks arising from financial instruments (continued)

Internal credit risk ratings

The Credit Union develops and maintains the Credit Union's credit risk grading to categorize exposures according to their degree of risk of default. The Credit Union's credit risk grading framework comprises four categories, depending on the type of loan product. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Credit Union's exposures:

- Payment record, including aging analysis;
- Bankruptcies and consumer proposals.

Incorporation of forward-looking information

The Credit Union uses forward-looking information such as unemployment rates, that is available without undue cost or effort in its measurement of ECL. The Credit Union used employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Credit Union has identified and documented key drivers of credit risk and credit loss for each portfolio of financial instruments and, using statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Credit Union has not made changes in the estimate techniques or significant assumption made during the reporting period.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational and regulatory requirements, and provide contingency funding for significant deposit withdrawals.

The Board is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

17. Nature and extent of risks arising from financial instruments (continued)

Liquidity risk (continued)

The Act requires credit unions to maintain investments equal to a minimum of 6% of liabilities for adequate liquidity. Assets held by the Credit Union for such purposes are investments and demand deposits held with Atlantic Central in the amount of $6,911,583 as at December 31, 2023 ($6,386,103 in 2022).

Contractual maturities of financial liabilities are shown under interest rate risk.

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Management is responsible for managing market risk in accordance with the Credit Union's Asset and Liability Management and Investment Policy set by the Board. Management reports quarterly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are reported to the Board.

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets or are priced on a different basis. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board and regulations.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates. The balances disclosed in the table exclude accrued interest.

	2023 ($000s)						
	on Demand $	Less than 3 months $	3 months to one year $	One to five years $	Non-rate sensitive $	Total $	Effective interest rate $
Investments	**5,428**	**—**	**—**	**1,881**	**126**	**7,435**	**3.00%**
Loans and advances to members	**33,077**	**2,530**	**2,640**	**46,227**	**—**	**84,474**	**6.42%**
Deposits from members	**15,521**	**9,110**	**4,002**	**54,652**	**10,184**	**93,469**	**3.55%**

17. Nature and extent of risks arising from financial instruments (continued)

Interest rate risk (continued)

	2022 ($000s)						
	on Demand	Less than 3 months	3 months to one year	One to five years	Non-rate sensitive	Total	Effective interest rate
	$	$	$	$	$	$	$
Investments	5,486	—	2,500	1,955	126	10,067	2.97%
Loans and advances to members	27,568	5,316	1,502	45,929	—	80,315	6.14%
Deposits from members	22,936	8,101	3,760	48,904	13,611	97,312	2.37%

Foreign currency exchange risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. The Credit Union does not hold foreign investments beyond cash required to meet daily operational requirements.