momentum™
CREDIT UNION
now you're getting somewhere

Annual Report

2022

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Count on us for simple solutions and service.

Values

We believe that innovation is the best tool to be ahead in the future.

We believe our vision for the future should be top of mind with every interaction.

We believe in accountability to our members, our colleagues and to ourselves.

We believe in the strength of diversity - diversity of opinion, approach and perspectives.

We believe our people have the ability to do great things.

We believe that we will never lose sight of our co-operative principles.

We believe that every member should feel like they belong to something bigger, membership is only the beginning…

Report of the Chair

As a member-owned financial co-operative, Momentum is always searching for new and better ways to serve and support our members. We've been through another challenging year. But despite any challenges, we continue to offer the trusted service and financial supports our members expect from us.

Our Annual General Meeting is an important way we connect to share information, recognize our successes, and provide an opportunity for member feedback. Our Board of Directors work hard all year to ensure our Credit Union is steering in the right direction with careful consideration to the input we receive from our members. We have received, and acted upon, advice from our members to improve the ability of our members to communicate with us, to upgrade the banking system security and to continue to build our surveillance of all the transactions that go through our system to protect the wealth and information of our members and that of the credit union.

We are worker focused. Paying a living wage and providing a good quality benefit package to our employees is just as important as being there for our members. Our staff and management team are second to none as is very apparent from the feedback we receive from our members.

The success of our Credit Union gives us the opportunity to reinvest back into our communities. This aligns with our mission to improve the lives of everyone around us and we intend to continue our support with a number of new initiatives in the coming year.

We made some improvements this year. Our head office has been moved to the branch at 892 Upper James St. resulting in a substantial savings, and our Oakville branch has been sold and is being re-located to a more user-friendly location at 511 Maple Grove Dr at Cornwall Rd in the Sobey's plaza in Oakville. In so doing, we have assured the vibrancy of the branch for years to come.

We have had some financial success over the past year and have begun to fortify our balance sheet. The work is not yet done but we have made a good start. But challenges remain. It is becoming increasingly difficult to operate as a small credit union. For example, there are challenges presented by the need to invest in technology to both safeguard and have the banking system be responsive to the ever-evolving needs of our members.

The future looks bright. I would like to thank our members for your support and for allowing us the opportunity to be a part of your financial journey. The trust you place in the Board of Directors to oversee the Credit Union today and help guide it for future success is something we take very seriously. It's been a pleasure to serve as your Board Chair and to be a part of the many achievements and growing strength of Momentum Credit Union.

Thank you,

Dave Thomas
Chair of the Board

Report of the Audit & Risk Committee

As delegated by the Board of Directors and the Act, the ARC has primary responsibility for review of audited financial statements, internal controls, accounting policies and reporting procedures. The ARC has oversight of the Enterprise Risk Management program and has primary contact with both the Internal and External auditors.

The ARC recommends to the Board of Directors that MNP LLP be appointed as the external Auditors for 2023. Their remuneration is to be set by the Board of Directors.

The ARC is not aware of any matters required to be disclosed at law. The ARC receives full cooperation from the management of the Credit Union when conducting its business. There were no significant recommendations made by the ARC, the Internal Auditor, the External Auditor or the Financial Services Regulatory Authority of Ontario (FSRA) that have not been implemented or are not in the process of being implemented by management.

Respectfully submitted,

Shaun Power
Chair of the Audit & Risk Committee

Board of Directors
Meeting Attendance

Director	Regular
Nadia Anton-Collins	**15/15**
Gail Luyben-Powers	**14/15**
Shaun Power	**14/15**
Pasquale Pugliese	**15/15**
Dave Thomas	**14/15**
Paul Vayda	**15/15**

YEARS OF SERVICE

Please join Momentum Credit Union in recognizing and thanking these employees for their important contributions over their milestone years of service.

10 Years

Karen Thibeault

Kim Galway

IN THE COMMUNITY

Momentum Credit Union was proud to partner with and support a number of non-profit organizations throughout 2022. Through corporate donations and in-branch fundraising, we were able to give back to causes that make a difference in our local communities. Thank you to our staff and members for your continued support of our efforts to support those in need.

Management's Responsibility for Financial Statements

To the Members of Momentum Credit Union Limited:

The accompanying financial statements of Momentum Credit Union Limited (the "Credit Union") are the responsibility of management and have been approved by the Board of Directors.

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board of Directors fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board of Directors is also responsible for recommending the appointment of the Credit Union's external auditor's.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditor's have full and free access to, and meet periodically and separately with, both the Board of Directors and management to discuss their audit findings.

March 16, 2023

William Jones,
Chief Executive Officer

Greg Weber
Chief Financial Officer

Report of the Independent Auditor

To the Members of Momentum Credit Union Limited:

Opinion

We have audited the financial statements of Momentum Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2022, and the statement of income and comprehensive income, changes in member's equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2022, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast 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 auditors' 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 auditors' 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.

Waterloo, Ontario
April 16, 2023

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Statement of Financial Position

As at December 31	2022	2021
Assets		
Cash and interest-bearing deposits	6,173,365	23,144,324
Investments (Note 5)	32,505,581	14,626,685
Derivatives (Note 6)	8,383	15,768
Loans to members (Note 7)	124,527,101	152,926,036
Accounts receivable	54,860	38,309
Prepaid expenses	141,528	62,100
Lease receivable	152,550	-
Property, equipment and right-of-use asset (Note 9)	2,559,313	2,933,016
Intangible assets (Note 10)	161,289	219,989
Deferred income taxes (Note 19)	157,496	247,000
Defined benefit plan (Note 11)	198,500	173,300
Total Assets	**166,639,966**	**194,386,527**
Liabilities		
Members' deposits (Note 13)	152,788,752	181,418,163
Accounts payable and accrued liabilities (Note 25)	994,154	1,126,220
Lease liability (Note 12)	184,649	268,279
Derivatives (Note 6)	8,383	15,768
Income taxes payable (Note 19)	27,423	91,947
Obligation for post-retirement benefits (Note 11)	1,035,301	1,313,000
Shares (Note 14)	338,316	347,763
Total Liabilities	**155,376,978**	**184,581,140**
Members' Equity		
Shares (Note 14)	2,719,460	2,784,328
Retained earnings	6,726,233	5,579,845
Accumulated other comprehensive loss	(248,502)	(624,583)
Contributed surplus	2,065,797	2,065,797
Total Members' Equity	**11,262,988**	**9,805,387**
Total Liabilities and Members' Equity	**166,639,966**	**194,386,527**

Statement of Income and Comprehensive Income

For the year ended December 31	2022	2021
Interest revenue (Note 16)	4,910,246	5,467,544
Interest expense (Note 17)	1,960,366	2,493,386
Interest margin	2,949,880	2,974,158
Other income (Note 18)	2,158,673	1,496,795
Income before operating expenses	**5,108,553**	**4,470,953**
Operating expenses		
Employee salaries and benefits (Note 25)	1,490,836	1,878,666
Data processing	467,868	801,676
Administration	1,137,638	1,135,107
Insurance	260,940	323,945
Collections and bad debts (recovery)	(51,776)	(566,984)
Occupancy	230,669	192,281
Staff and director expenses (Note 21)	81,488	84,616
Depreciation and amortization	164,113	236,234
	3,781,776	**4,085,541**
Income before income taxes	**1,326,777**	**385,412**
Income taxes – current (Note 19)	(41,581)	(139,138)
Income taxes – deferred (Note 19)	(138,808)	(11,000)
Net income for the year	**1,146,388**	**235,274**
Other comprehensive income, net of income taxes		
Actuarial gain on defined benefit plan and post-retirement benefits, net of income taxes	320,204	232,600
Unrealized gain (loss) on investments measured at fair value through other comprehensive income	55,877	(55,877)
Other comprehensive income for the year	376,081	176,723
Comprehensive income for the year	**1,522,469**	**411,997**

Statement of Changes in Members' Equity

For the year ended December 31

	Accumulated other comprehensive income	Shares	Contributed surplus	Retained earnings	Total
Balance at Jan. 1, 2021	**(801,306)**	**2,821,337**	**2,065,797**	**5,344,571**	**9,430,399**
Net income	-	-	-	235,274	235,274
Redemptions of shares, net	-	(37,009)	-	-	(37,009)
Actuarial gain on defined benefit plan and post-retirement benefits, net of income taxes	232,600	-	-	-	232,600
Unrealized loss on investments measured at fair value through other comprehensive income	(55,877)	-	-	-	(55,877)
Balance at Dec. 31, 2021	**(624,583)**	**2,784,328**	**2,065,797**	**5,579,845**	**9,805,387**
Net income	-	-	-	1,146,388	1,146,388
Redemptions of shares, net	-	(64,868)	-	-	(64,868)
Actuarial gain on defined benefit plan and post-retirement benefits, netof income taxes	320,204	-	-	-	320,204
Unrealized gain on investments measured at fair value through other comprehensive income	55,877	-	-	-	55,877
Balance at Dec. 31, 2022	**(248,502)**	**2,719,460**	**2,065,797**	**6,726,233**	**11,262,988**

Statement of Cash Flows

For the year ended December 31	2022	2021
Cash flows from operating activities		
Net income	1,146,388	235,274
Adjustments for:		
Interest revenue	(4,910,246)	(5,467,544)
Interest expense	1,960,366	2,493,386
Interest expense on lease liability	9,039	12,235
Interest received on member loans	4,414,014	5,538,372
Interest received on investments	499,886	282,986
Interest paid on member deposits	(2,189,390)	(2,089,962)
Gain on sale of assets	(1,535,869)	(570,798)
Gain on sale of investments	-	(94,805)
Loss on derecognition of right-of-use asset	16,694	-
Depreciation and amortization	164,113	236,234
Deferred Income taxes	89,504	11,000
Net change in non-cash working capital (Note 20)	(210,532)	1,037,461
Changes in members' activities:		
Net change in loans to members	28,395,280	9,444,783
Net change in members' deposits	(28,400,387)	(20,977,832)
	(551,140)	**(9,909,210)**
Cash flows used by financing activities		
Shares	(74,315)	(42,925)
Payments on lease liability	(92,669)	(90,852)
	(166,984)	**(133,777)**
Cash flows used by investing activities		
Purchase of property, equipment and intangibles	(383,149)	(44,133)
Proceeds on assets sold	1,953,333	1,375,914
Investments	(17,823,019)	4,543,897
	(16,252,835)	**5,875,678**
Net decrease in cash and interest-bearing deposits	(16,970,959)	(4,167,309)
Opening cash and interest-bearing deposits, beginning of year	23,144,324	27,311,633
Closing cash and interest-bearing deposits, end of year	**6,173,365**	**23,144,324**

Notes to Financial Statements

For the year ended December 31, 2022

1. NATURE OF OPERATIONS

Reporting Entity
Momentum Credit Union Limited (the "Credit Union") is a company incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario. The Act was subsequently replaced by the Credit Union and Caisses Populaires Act, 2020, effective March 1, 2022. The Credit Union offers retail banking services to its members. The head office is located at 892 Upper James, Hamilton, Ontario.

These financial statements have been authorized for issue by the Board of Directors on March 15, 2023.

2. BASIS OF PRESENTATION

Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). The financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2022.

Basis of measurement
These financial statements have been prepared on a going concern basis under a historical cost convention, except for derivatives and equity investments that have been measured at fair value.

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

Use of estimates and judgments
The preparation of financial statements requires management to make estimates and judgements that affect the application of the Credit Union's accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgement. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

These financial statements have considered the impact and significant uncertainty of world events including the COVID-19 pandemic, the consequences of Russia's war on Ukraine, and the impact of rising interest rates due to efforts to control inflation. These factors could impact the fair value of certain financial instruments and increase credit risk, resulting in an increase to expected credit losses calculated in accordance with IFRS 9.

3. **SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS** (continued)

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Fair value of financial instruments
The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Management bases its assumptions on observable data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Classification of financial assets
Classification of financial assets requires management to make judgements regarding whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers supports the solely payments of principal and interest criteria because they represent reasonable additional compensation for early termination of the contract.

Significant judgment is required in determining the Credit Union's business model over which it manages debt securities. The business model assesses 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. For debt securities, during the year ended December 31, 2022, the Credit Union had a change in business model from both selling financial assets and holding to collect contractual cash flows, to a business model to collect contractual cash flows and therefore have been subsequently measured the debt securities at amortized cost.

Allowance for expected credit losses ("ECL")
The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Credit Union's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The key inputs in the measurement of ECL allowances are as follows;

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;
- The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and
- The exposure at default ("EAD") is an estimate of the exposure at a future default date

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Allowance for expected credit losses ("ECL") (continued)

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Credit Union's criteria for assessing if there has been a significant increase in credit risk and therefore allowances for financial assets should be measured on a lifetime ECL basis
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

In considering the assumptions used to measure ECLs this year, the Credit Union contemplated the significant uncertainty derived from world events including the COVID-19 pandemic, the consequences of Russia's war on Ukraine, and the impact of rising interest rates due to efforts to control inflation. Rising interest rates can reduce a member's ability to repay their loan obligations and can put downward pressure on asset valuations, impacting security values. While management makes its best estimates and assumptions, actual results could differ from these estimates.

It has been the Credit Union's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Estimating the incremental borrowing rate

The Credit Union cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Credit Union would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Credit Union 'would have to pay', which requires estimation when no observable rates are available. The Credit Union estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific risk adjustments.

Extension options for leases

When the Credit Union has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. The Credit Union has the option to extend the lease for three additional five-year terms with the same terms and conditions except for the gross rent payable, which will be determined at time of extension. Therefore, management has not included the extensions have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised and the lease payments cannot be reasonably estimated.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverabl

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Obligation for post-retirement benefits

The Credit Union sponsors defined benefit plans providing pension and other post-employment benefits to covered employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

Income taxes

The Credit Union periodically assess its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Deferred income taxes

Significant estimates are required in determining the Credit Union's income tax provision. Some estimates are based on interpretations of existing tax laws or regulations. Various internal and external factors may have favourable or unfavourable effects on the Credit Union's future effective tax rate. These include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, results of tax audits by tax authorities, changes in estimates of prior years' items and changes in overall levels of profit before income taxes.

Provisions

The Credit Union has ongoing claims and grievances related to employment matters. The Credit Union estimates a provision on the basis of the nature of the claim, past claims and Ontario labour practices. The estimate of expenditure required to settle the obligation includes costs to the counterparties and incremental legal costs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and interest-bearing deposits

Cash and interest-bearing deposits include cash on hand and operating deposits with financial institutions. Cash and interest-bearing deposits are classified as measured at fair value through profit or loss.

Equity instruments

Equity instruments are classified at fair value through profit or loss.

High quality liquid assets and other investments

High quality liquid assets and other investments include fixed income and money market fund investments. During the year ended December 31, 2022, these have been classified at amortized cost as a result of a change in business model to hold the assets to maturity. During the year ended December 31, 2021, these were previously classified at fair value through other comprehensive income.

Notes to Financial Statements

For the year ended December 31, 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives
The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in fair value and interest rates. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposures, the Credit Union determines, for each derivative, whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a cash flow hedge of a specifically identified group of assets or liabilities. The Credit Union formally assesses and documents whether these derivatives are effective in offsetting changes in cash flows of hedged assets or liabilities.

These derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Gains and losses resulting from changes in fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income. The ineffective portion is recognized immediately in income as other income.

Loans to members
Loans to members are financial assets with contractual cash flows that meet the solely payments of principal and interest (“SPPI”) test and are managed on a hold to collect basis have been classified as amortized cost. Loans to members are initially measured at fair value, net of loan origination fees. Loans are subsequently measured at amortized cost using the effective interest rate method, less any ECL. An ECL is deducted from the gross amount of the loans on the statement of financial position.

Property, equipment and right-of-use asset
Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in *Leases*.

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

Building	40	years straight-line
Right-of-use assets		Lesser of the lease term and useful life
Furniture and fixtures	20%	declining balance
Computer equipment	5	years straight-line
ATM machine	10	years straight-line

The useful lives of items of property, equipment and right-of-use asset are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property, equipment and right-of-use asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in net income.

Notes to Financial Statements

For the year ended December 31, 2022

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Intangible assets
Intangible assets consist of computer software, rights for the use of software, and costs incurred to acquire those rights. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Amortization is provided using the straight-line basis over 10 years.

Income taxes
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

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

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

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

The Credit Union applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Credit Union recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Credit Union recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lesser of the lease term and its useful life.

Notes to Financial Statements

For the year ended December 31, 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The right-of-use assets are presented within Property, equipment and right-of-use assets and are subject to impairment in line with the Credit Union's policy as described in *Impairment of non-financial assets*.

Lease liabilities

At the commencement date of the lease, the Credit Union recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of an extension option reasonably certain to be exercised by the Credit Union and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. The lease term includes extension and termination options if reasonably certain to be exercised.

Accounts payable and accrued liabilities

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently are carried at amortized cost using the effective interest rate method.

Members' deposits

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

Members' shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Obligation for post-retirement benefits

The Credit Union has a defined benefit plan. The liability is recognized as the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, adjusted for any actuarial gains or losses and past service costs. Actuarial gains and losses have been recognized in other comprehensive loss in the period in which they occur. Past service costs are recognized immediately in net income. Contributions are recognized as employee benefit expense when they are due. Excess (shortfall) of contribution payments over the contribution due for service, is recorded as an asset (liability).

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in other income.

Notes to Financial Statements

For the year ended December 31, 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transactions costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in net income when incurred.

Classification and subsequent measurement

After initial recognition, financial assets are subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in net income. Financial assets measured at amortized cost are comprised of high quality liquid assets and other investments, loans to members and accounts receivable.
- Fair value through other comprehensive income ("FVOCI") – Assets that are held for collection of contractual cash flows and selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive is reclassified to net income. As at December 31, 2021, the Credit Union measured high quality liquid assets and other investments at FVOCI. As at December 31, 2022, the Credit Union does not hold any financial assets measured at FVOCI.
- Mandatorily at fair value through profit or loss – Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and interest-bearing deposits, equity instruments and derivatives.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares in Central 1, Concentra and CU CUMIS Wealth Holdings LP Inc.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business model assessment
The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, and significance and frequency of sales in prior periods.

Contractual cash flow assessment
The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claims to cash flows, and any features that modify consideration for the time value of money.

Reclassifications
The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest rate are not restated.

Impairment
The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For loans to members, the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition, which is defined as 30 plus days overdue from its contractual payment terms. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for its accounts receivable that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing covenants, 90 or more days delinquent, and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses, with interest revenue calculated based on the net carrying value of the asset, rather than the gross amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss allowances for expected credit losses are presented in the statements of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision; and
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets
The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:
- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in net income.

Modification of financial assets
The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Modification of financial assets *(continued)*

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement
The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At the initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Recognition and initial measurement
Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement
Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in net income.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits, accounts payable and accrued liabilities, and term loans and member shares.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

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

Revenue recognition
The following describes the Credit Union's principal activities from which it generates revenue.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income

Interest income and expense are recognized in net income using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The amortized cost of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost less the ECL of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Other income

The Credit Union generates revenue from other revenue streams including service charges, ATM surcharges, prepayment penalties, mutual fund commissions, and insurance commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgement, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

The Credit Union will recognize government grants when there is reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. The Credit Union recognizes government grants as a reduction to the related expense that the grant is intended to offset.

The Credit Union received government grants during the year ended December 31, 2022 in the amount of $48,637 (2021 - $119,684) related to the Canada Emergency Wage Subsidy ("CEWS") and $6,989 (2021 - $11,519) related to the Canada Emergency Rent Subsidy ("CERS"). The Credit Union's CEWS and CERS eligibility is determined based on a revenue decline test prescribed by the Canada Revenue Agency ("CRA"). Amounts have been included as an offset to employee salaries and benefits and occupancy costs respectively.

Provisions

The Credit Union recognizes provisions when it has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

5. INVESTMENTS

	2022 $	2021 $
High quality liquid assets and other investments		
High quality liquid assets	12,737,609	12,967,628
Other investments	17,806,919	-
Accrued interest	369,710	58,647
	30,914,238	13,026,275
Equity instruments		
Central 1 Credit Union – Class A	56,741	65,808
Central 1 Credit Union – Class E	534,600	534,600
Concentra Financial – Class D	1,000,000	1,000,000
CU CUMIS Wealth Holdings LP Inc.	2	2
	1,591,343	1,600,410
	32,505,581	14,626,685

The Credit Union's policy is to maintain High Quality Liquid Assets ("HQLA") at a minimum of 6% of total assets under normal circumstances. As of December 31, 2022, the Credit Union has met this requirement.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of Central 1's Board of Directors.

5. INVESTMENTS (continued)

Central 1 Class A shares are subject to an annual rebalancing mechanism and are redeemable at the option of Central 1. There is no separately quoted market value for these shares, however fair value is determined to be equivalent to the par value.

Central 1 Class E shares are redeemable at $100 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

Concentra Financial Class D shares are redeemable at $25 per share. There is no separately quoted market value for these shares. The fair value is determined to equal the redemption value.

On January 1, 2021 the segregation of the mandatory liquidity pool maintained by Central 1 Credit Union was finalized. The deposits held in the mandatory liquidity pool by the Credit Union of $12,891,360 were forgiven in exchange for a portfolio of high quality liquid assets invested through the Credit Union's trust account. Subsequent to the segregation, Central 1 Class F shares of $589,193 were redeemed at par in cash to the Credit Union. The segregation of the mandatory liquidity pool resulted in a $94,805 gain on the statement of income and comprehensive income during the year ended December 31, 2021.

6. DERIVATIVES

The Credit Union has outstanding $97,883 (2021 - $129,725) in index linked term deposits to its members. The index linked term deposits are three-year and five-year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of $8,383 (2021 - $15,768).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each index linked term deposit on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2022, the Credit Union had entered into such contracts on index linked term deposits for a total of $97,883. The agreements are secured by a general security agreement covering all assets of the Credit Union.

	2022 $	2021 $
Derivative assets		
Index linked derivative receivable from Central 1	8,383	15,768
Derivative liabilities		
Index linked derivatives payable on member deposits	8,383	15,768

These derivatives have a fair value that varies based on the particular contract and changes in the underlying index. The purpose of the derivative asset is to mitigate exposure of the corresponding derivative owing to members on its index-linked deposits.

7. LOANS TO MEMBERS

2022	Personal Loans	Residential Mortgages	Commercial Loans	Total
Principal balance	2,523,272	115,933,444	6,719,450	125,176,166
Accrued interest	26,382	217,586	19,033	263,001
Gross carrying amount	2,549,654	116,151,030	6,739,483	125,439,167
Allowance for impaired loans (Note 9)	(254,775)	(279,480)	(377,811)	(912,066)
Net carrying amount	2,294,879	115,871,550	6,360,672	124,527,101

2021	Personal Loans	Residential Mortgages	Commercial Loans	Total
Principal balance	3,479,090	138,570,301	11,762,151	153,811,542
Accrued interest	20,809	239,443	22,655	282,907
Gross carrying amount	3,499,899	138,809,744	11,784,806	154,094,449
Allowance for impaired loans (Note 9)	(234,272)	(857,829)	(76,312)	(1,168,413)
Net carrying amount	3,265,627	137,951,915	11,708,494	152,926,036

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Certain personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignment only. Personal loans have fixed or variable interest rates and a maximum term of 5 years with an average rate of 10.25% as at December 31, 2022 (2021 – 7.81%).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest. Residential mortgages have fixed or variable interest rates with an average rate of 3.34% as at December 31, 2022 (2021 – 2.97%).

Commercial loans consist of syndicated loans of $1,238,204 (2021 - $3,975,337), rental properties of $2,599,340 (2021 - $4,039,166), commercial lines of credit and mortgages to individuals, partnerships and corporations and have various repayment terms. They are secured by various types of collateral including mortgages on real property, general security agreements, and personal guarantees. These loans have fixed or variable interest rates with an average rate of 4.48% as at December 31, 2022 (2021 - 4.14%).

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

As at December 31, 2022, there are 8 loans (2021 - 12 loans) that exceed 10% of members' equity. The combined total of these loans is $9,512,487 (2021 - $15,208,675) as outlined on the following page.

Notes to Financial Statements

For the year ended December 31, 2022

7. LOANS TO MEMBERS (continued)

	2022 $	2021 $
Syndicated commercial loans	-	2,542,034
Residential mortgages	8,320,112	11,645,008
Commercial loans	1,192,375	1,021,633
	9,512,487	15,208,675

All member loans are with members located in Ontario.

8. ALLOWANCE FOR IMPAIRED LOANS

The allowance for impaired loans is broken down as follows:

2022	Personal Loans	Residential Mortgages	Commercial Loans	Total
Stage 1	103,735	218,566	12,336	334,637
Stage 2	8,610	19,669	22,719	50,998
Stage 3	142,430	41,245	342,756	526,431
	254,775	279,480	377,811	912,066

2021	Personal Loans	Residential Mortgages	Commercial Loans	Total
Stage 1	6,709	822,455	49,846	879,010
Stage 2	580	26,606	26,466	53,652
Stage 3	226,983	8,768	-	235,751
	234,272	857,829	76,312	1,168,413

Of the $1,384,061 (2021 - $598,776) of impaired loans, the Credit Union has security with an estimated aggregate value of $2,211,000 (2021 - $382,000).

Notes to Financial Statements

For the year ended December 31, 2022

8. ALLOWANCE FOR IMPAIRED LOANS (continued)

Loans past due but not impaired is broken down as follows:

	2022			
	1-29 days	30-59 days	60-89 days	Total
Residential mortgages	2,280,299	3,068,824	1,749,866	7,098,989
Personal loans	21,683	62,960	35,977	120,620
Commercial loans	437,995	2,003,482	199,774	2,641,251
	2,739,977	5,135,266	1,985,617	9,860,860

	2021			
	1-29 days	30-59 days	60-89 days	Total
Residential mortgages	5,236,210	2,290,761	-	7,526.971
Personal loans	34,798	59,233	77,606	171,637
Commercial loans	1,266,298	510,075	1,021,633	2,798,006
	6,537,306	2,860,069	1,099,239	10,496,614

A loan is considered past due when a counterparty has not made a payment on the contractual date. The table above presents the carrying value of loans at year end that are past due but not classified as impaired because they either i) less than 90 days past due, and ii) no events have occurred that have a detrimental impact on the estimated future cash flows of the loan since its initial recognition.

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) personal property, insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

Movement in individual specific provision and collective provision for impairment:

	Stage 3	Stage 2	Stage 1	Total
Balance at January 1, 2022	235,751	53,652	879,010	1,168,413
Provision charged to net income	555,097	(2,654)	(544,373)	8,070
	790,848	50,998	334,637	1,176,483
Loans written off	(264,417)	-	-	(264,417)
Balance at December 31, 2022	526,431	50,998	334,637	912,066

8. ALLOWANCE FOR IMPAIRED LOANS (continued)

	Stage 3	Stage 2	Stage 1	Total
Balance at January 1, 2021	894,160	222,804	568,522	1,685,486
Provision charged to net income	(658,409)	(169,152)	310,488	(517,073)
	235,751	53,652	879,010	1,168,413
Loans written off	-	-	-	-
Balance at December 31, 2021	235,751	53,652	879,010	1,168,413

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

All loans have a probability of default. The Credit Union uses historical loss ratios of loans with similar characteristics to estimate the probability and severity of loss on origination of new loans issued. At each reporting date, the Credit Union considers evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. During the year ended December 31, 2022, expected credit losses decreased as compared to the previous year due to a decrease in the loan portfolio and a reduction in the assessed credit risk within the Credit Union’s residential mortgages.

For loans that have not increased in credit risk since origination, the Credit Union allows for 12 month expected credit losses (Stage 1 provision). For loans that have experienced significant increase in credit risk since origination, the Credit Union allows for lifetime expected credit losses (Stage 2 provision). Loans are considered to have significantly increased credit risk when payments are 30 days past due. Loans that are 90 days past due are specifically identified as impaired (Stage 3) and are evaluated individually for collateral and expected loss provision.

Notes to Financial Statements

For the year ended December 31, 2022

9. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land	Building	Right-of-use assets	Furniture & fixtures	Computer equipment	ATM	Total
Cost							
Balance at December 31, 2020	1,025,324	2,009,344	495,368	269,681	168,716	2,384	3,970,817
Additions	-	492	-	-	35,708	-	36,200
Balance at December 31, 2021	1,025,324	2,009,836	495,368	269,681	204,424	2,384	4,007,017
Additions	-	271,831	-	27,603	6,085	77,630	383,149
Disposals	(25,324)	(662,770)	(495,368)	(95,838)	-	-	(1,279,300)
Balance at December 31, 2022	1,000,000	1,618,897	-	201,446	210,509	80,014	3,110,866
Depreciation							
Balance at December 31, 2020	-	511,559	165,122	147,444	69,731	1,817	895,673
Depreciation	-	58,309	82,561	4,704	32,555	199	178,328
Balance at December 31, 2021	-	569,868	247,683	152,148	102,286	2,016	1,074,001
Depreciation	-	72,884	13,710	13,242	2,989	2,588	105,413
Disposals	-	(270,630)	(261,393)	(95,838)	-	-	(627,861)
Balance at December 31, 2022	-	372,122	-	69,552	105,275	4,604	551,553
Net book value							
As at December 31, 2021	1,025,324	1,439,968	247,685	117,533	102,138	368	2,933,016
As at December 31, 2022	1,000,000	1,246,775	-	131,894	105,234	75,410	2,559,313

Depreciation for right-of-use assets was represented within depreciation within the statement of income and comprehensive income for the year ended December 31, 2022 and 2021. During the year ended December 31, 2022, the Credit Union entered into a sublease with a third party for the remaining duration of the lease, resulting in the remaining right-of-use carrying value of $233,975 being derecognized, with the recognition of a lease receivable for $217,281 and a corresponding loss recognized within other income on the statement of income and comprehensive loss in the amount of $16,694.

9. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

During the year ended December 31, 2022, the Credit Union sold the property at Industry Street, Oakville, ON for net proceeds of $1,953,333, resulting in a gain on sale of assets of $1,535,869 which is included in other income on the statement of income and comprehensive income.

During the year ended December 31, 2021, the assets previously held for sale during the year ended December 31, 2020, relating to the King Street, Hamilton, ON, Chrysler Drive, Brampton, ON, and Main Street, Hamilton, ON branches were sold for aggregate net proceeds of $1,375,914, resulting in a gain on sale of assets of $570,798 which is included in other income on the statement of income and comprehensive income.

10. INTANGIBLES

	Software $
Cost	
As at December 31, 2020	579,062
Additions	7,933
As at December 31, 2021	586,995
Additions	-
As at December 31, 2022	586,995
Amortization	
As at December 31, 2020	309,100
Depreciation	57,906
As at December 31, 2021	367,006
Depreciation	58,700
As at December 31, 2022	425,706
Net book value	
As at December 31, 2021	219,989
As at December 31, 2022	161,289

11. DEFINED BENEFIT PLAN AND OBLIGATION FOR POST-RETIREMENT BENEFITS

The Credit Union sponsors a registered pension plan that has a defined benefit component and a defined contribution component. The defined benefit component is non-contributory and was closed to new participants on January 1, 2009. The plan was closed to existing participants on March 31, 2014. The Credit Union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

11. DEFINED BENEFIT PLAN AND OBLIGATION FOR POST-RETIREMENT BENEFITS (continued)

The Credit Union also pays certain medical and dental benefits on behalf of its eligible retired employees. Certain active employees prior to 2009 who retire from full-time employment after the attainment of age 55 years and completion of ten years of continuous service, will qualify for post-retirement medical and dental benefits under current provisions. Employees after 2009 who retire from full-time employment after the attainment of age 55 years and completion of 20 years of continuous service, will qualify for reimbursement of approved expenses to a maximum of $1,500 per year. The Credit Union recognizes these post-employment costs in the period in which employees' service was rendered. There are no assets in this plan and therefore this plan is unfunded.

The changes in these defined benefit plans during the year are as follows:

Reconciliation of funded status As of December 31,	**Pension plans 2022**	**2021**	**Post retirement benefits 2022**	**2021**	**Total 2022**	**Total 2021**
Fair value of plan assets	2,234,600	2,719,900	-	-	2,234,600	2,719,900
Present value of plan obligations	(2,036,100)	(2,546,600)	(1,035,301)	(1,313,000)	(3,071,401)	(3,859,600)
Net plan (surplus) obligations	198,500	173,300	(1,035,301)	(1,313,000)	(836,801)	(1,139,700)

Movement in the present value of defined benefit obligations:

Actuarial Plan Obligation As of December 31,	**Pension plans 2022**	**2021**	**Post retirement benefits 2022**	**2021**	**Total 2022**	**Total 2021**
Opening defined benefit obligation	2,546,600	2,779,200	1,313,000	1,472,400	3,859,600	4,251,600
Current service cost	-	-	10,300	8,100	10,300	8,100
Interest cost	72,500	62,100	37,901	33,400	110,401	95,500
Actuarial gain	(401,800)	(134,500)	(250,800)	(142,000)	(652,600)	(276,500)
Benefits paid	(181,200)	(160,200)	(75,100)	(58,900)	(256,300)	(219,100)
Closing defined benefit obligation	2,036,100	2,546,600	1,035,301	1,313,000	3,071,401	3,859,600

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For the year ended December 31, 2022

11. DEFINED BENEFIT PLAN AND OBLIGATION FOR POST-RETIREMENT BENEFITS (continued)

Movement in the fair value of plan assets:

Fair value of plan assets As of December 31,	**Pension plans 2022**	**2021**	**Post retirement benefits 2022**	**2021**	**Total 2022**	**Total 2021**
Opening fair value of plan assets	2,719,900	2,860,100	-	-	2,719,900	2,860,100
Expected return	77,600	63,900	-	-	77,600	63,900
Actuarial gains (losses)	(381,700)	(43,900)	-	-	(381,700)	(43,900)
Contributions by employer	-		75,100	58,900	75,100	58,900
Benefits paid	(181,200)	(160,200)	(75,100)	(58,900)	(256,300)	(211,500)
Closing fair value of plan assets	2,234,600	2,719,900	-	-	2,234,600	2,719,900

Assets of the defined benefit pension plan are held by CUMIS and invested in pooled mutual funds. Investment funds are diversified across Canadian equities (18.70%), foreign equities (34.10%), debt securities (37.40%), real estate (1.5%) and cash and cash equivalents (8.30%).

Expenses recognized in net income As of December 31,	**Pension plans 2022**	**2021**	**Post retirement benefits 2022**	**2021**	**Total 2022**	**Total 2021**
Current service cost	-	-	10,300	8,100	10,300	8,100
Interest cost	72,500	62,100	37,901	33,400	110,401	95,500
Net plan obligations	72,500	62,100	48,201	41,500	120,701	103,600

These plans expose the Credit Union to actuarial risks, such as longevity risk, interest rate risk, a market (investment) risk.

Contributions

In 2022, the Credit Union expects to contribute $Nil to the Defined Benefit Plan in accordance with normal funding policy. Additionally, the Credit Union does not anticipate having to make material special contributions to its pension plans in 2022.

11. DEFINED BENEFIT PLAN AND OBLIGATION FOR POST-RETIREMENT BENEFITS (continued)

Actuarial Assumptions

The weighted average actuarial assumptions were as follows:

	Pension plans		Post retirement benefits	
	2022	**2021**	**2022**	**2021**
Discount rate	5.05%	2.95%	5.05%	2.95%
Rate of increase in salaries	0.00%	0.00%	0.00%	0.00%
Rate of medical cost escalation	0.00%	0.00%	5.00%	5.00%
Rate of dental cost escalation	0.00%	0.00%	5.00%	5.00%
Expected rate of return on assets	5.05%	2.95%	0.00%	0.00%

Sensitivity Analysis

A 1% increase or decrease in the discount rate would cause the pension benefit obligation to decrease or increase approximately $152,900 and $175,900 respectively. A 1% increase or decrease in the discount rate would have resulted in a decrease and increase to the benefit obligation for post-retirement benefits of approximately $91,200 and $107,900 respectively. Changes in the salary rate growth will not impact the pension benefit obligation as the pension has been closed.

Medical Cost Trend

The medical cost trend is based on the Credit Union's actuarial medical claims experience and future projections of medical costs. The average medical cost trend rate used was 5% in 2022. The dental cost is expected to stay static at 5%. A 1% increase or decrease in the trend rate would have resulted in an increase or decrease in the benefit obligation for post retirement benefits of approximately $91,000 and $79,500 respectively at December 31, 2022.

Notes to Financial Statements

For the year ended December 31, 2022

12. LEASE LIABILITY

The Credit Union has a lease for a branch location. The rental contract is for seven years and includes extension options. Contracts contain only lease and non-lease components. The Credit Union allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreement does not impose any covenants other than the security interests in the lease asset that are held by the lessor. Leased asset may not be used as a security for borrowing purposes. During the year ended December 31, 2022, the Credit Union subleased the location to a third party for the remaining duration of the term.

			2022	December 31, 2021
	Future minimum lease payments $	Interest $	Present value of minimum lease payments $	Present value of minimum lease payments $
Less than one year	94,522	5,641	88,881	83,630
Between one and three years	97,800	2,032	95,768	184,649
	192,322	7,673	184,649	268,279

Additions to the lease liability during the 2022 financial year were $nil. Interest expense of $9,039 for the lease liability was represented within occupancy costs within the statement of income and comprehensive income for the year. During the year the Credit Union made lease payments totaling $92,669.

13. MEMBERS' DEPOSITS

	2022 $	2021 $
Chequing accounts	23,796,913	51,439,529
Savings accounts	50,246,538	24,859,375
Term deposits	29,165,316	45,649,849
Tax-free savings accounts	12,721,444	14,779,544
Registered retirement savings plans	20,766,441	24,184,026
Registered retirement income funds	15,227,326	19,412,043
Accrued interest	864,774	1,093,797
	152,788,752	181,418,163

Chequing and savings accounts are due on demand.

13. MEMBERS' DEPOSITS (continued)

Term deposits have fixed rates of interest for terms up to five years, or pay a return based on market indexes. Interest can be paid monthly, annually, or upon maturity. At December 31, 2022, the average interest rate on term deposits was 2.64% (2021 – 2.08%).

Registered retirement savings plans and tax-free savings accounts can be fixed or variable rate, or pay a return based on market indexes. Fixed rate deposits have similar terms and rates as the term deposits described above.

Registered retirement income fund accounts can be fixed or variable rate with terms similar to those of registered retirement savings plan accounts described above. Members may make withdrawals from RRIFs on a monthly or annual basis according to individual needs and statutory requirements.

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

The total value of individual or related groups of members deposits which exceed 1% of member deposits is $3,189,679 in 2022 (2021 - $10,811,879). All member deposits are with members located in Ontario.

14. SHARES

	2022 Liability	**2022 Equity**	**2021 Liability**	**2021 Equity**
Class A shares	97,336	876,025	101,874	916,870
Class B shares	204,827	1,843,435	207,496	1,867,458
Membership shares, voting	36,153	-	38,393	-
	338,316	2,719,460	347,763	2,784,328

Class A shares are non-cumulative, non-voting and non-participating and rank in priority to Class B shares and membership shares. Class A shares are redeemable in any fiscal year after the first five years subsequent to issuance, to the extent of 10% of the total Class A shares outstanding at the end of the previous fiscal year, or at any time after the death of the shareholder, subject to approval from the Board of Directors.

Class B shares are non-cumulative, non-voting shares ranking in priority to membership shares. Class B shares are redeemable at the issue price after the first five years subsequent to issuance. Redemption in any fiscal year may not exceed 10% of the Class B shares outstanding at the end of the previous fiscal year, subject to approval from the Board of Directors.

Members are required to own one membership share with a par value of $5 per share. Amounts paid for shares may be withdrawn upon termination of membership or after the death of the shareholder. As at December 31, 2022 the Credit Union had 7,898 members. During the year ended December 31, 2022, the Credit Union issued $350 of membership shares and redeemed $2,590 of membership shares.

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For the year ended December 31, 2022

15. CAPITAL MANAGEMENT

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The Credit Union considers its capital to comprise cash, membership shares, retained earnings, interest-bearing deposits, investment shares, contributed surplus, accumulated other comprehensive loss and stage 1 and 2 expected credit losses.

For fiscal year ending December 31, 2021, the Credit Union and Caisses Populaires Act, 1994 (CUCPA 1994) required credit unions to maintain a minimum ratio of total regulatory capital to risk-weighted assets of 8% and a minimum leverage ratio of regulatory capital to total assets of 4%. The risk weighting of assets is specified in the Regulations to the CUCPA 1994. On March 1, 2022, the new Credit Union and Caisses Populaires Act, 2020 (CUCPA 2020) came into effect, accompanied by updated Regulations and FSRA Rules. The CUCPA 2020 and Regulations require credit unions to maintain a leverage ratio of at least 3% and a total capital ratio of at least 8%. The FSRA Rules require additional ratios, outlined in the table below.

	Regulatory Minimum
CUCPA 2020, Regulations and Rules	
Tier 1 capital ratio	6.5%
Retained earnings to risk weighted capital ratio	3.0%
Capital conservation buffer ratio	2.5%
Total capital ratio	8.0%
Total supervisory capital ratio	10.5%
Leverage ratio	3.0%
CUCPA 1994 and Regulations	
Total regulatory capital to total assets	4.0%
Total regulatory capital to risk weighted assets	8.0%

Regulatory capital	**2022**	**2021**
	$	**$**
Tier 1 capital		
Membership shares	36,153	38,393
Non-redeemable portion of Class A and B shares	2,719,460	2,784,328
Retained earnings	6,726,233	5,579,845
Contributed surplus	2,065,797	2,065,797
Less: defined benefit plan	(198,500)	(173,300)
Less: software exceeding 1% of Tier 1 capital	(45,813)	-
	11,303,330	10,295,063
Tier 2 capital		
Redeemable portion of Class A and B shares	302,163	309,370
Actuarial losses in accumulated other comprehensive loss	(248,502)	(568,706)
Stage 1 and 2 expected credit losses	385,635	903,346
	439,296	644,010
	11,742,626	10,939,073

15. CAPITAL MANAGEMENT (continued)

	2022	2021
CUCPA 2020, Regulations and Rules		
Tier 1 capital ratio	17.75%	N/A
Retained earnings to risk weighted capital ratio	14.12%	N/A
Capital conservation buffer ratio	10.86%	N/A
Total capital ratio	18.86%	N/A
Total supervisory capital ratio	18.86%	N/A
Leverage ratio	7.05%	N/A
CUCPA 1994 and Regulations		
Leverage ratio	N/A	5.63%
Risk weighted assets ratio	N/A	15.14%

At December 31, 2022, the Credit Union is in compliance with the minimum statutory requirements for regulatory capital.

The Act also requires that the Credit Union maintain prudent levels of liquidity sufficient to meet its cash flow needs. Assets held for liquidity purposes include:

	2022 $	2021 $
High quality liquid assets	12,737,609	12,967,628
Other investments	17,806,919	-
Accrued interest	369,710	58,647
Cash and interest-bearing deposits	6,173,365	23,144,324
	37,087,603	36,170,599
% of member deposits and borrowings	24.27%	19.94%

16. INTEREST REVENUE

	2022 $	2021 $
Personal loans	245,208	295,200
Mortgages	3,776,455	4,271,233
Commercial and syndicated loans	388,697	618,125
Investments	499,886	282,986
	4,910,246	5,467,544

17. INTEREST EXPENSE

	2022 $	2021 $
Chequing and savings accounts	170,036	161,250
Term deposits	911,383	1,313,783
Tax-free savings accounts	185,573	217,838
Registered retirement savings plans	383,888	441,381
Registered retirement income funds	309,486	359,134
	1,960,366	2,493,386

18. OTHER INCOME

	2022 $	2021 $
Gain on sale of assets (Note 9)	1,535,869	570,798
Loss on derecognition of right-of-use asset	(16,694)	-
Mortgage penalties	250,150	448,287
Account and transaction fees	358,575	363,971
Commissions and fees	9,155	67,016
Administration charges	23,236	94,247
Foreign exchange (loss) gain	(1,618)	17,919
	2,158,673	1,496,795

19. INCOME TAX

The total provision for income taxes is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	2022	2021
Combined federal and provincial statutory income tax rates	26.5%	26.5%
Small business deduction and rate reduction for credit unions	(12.3%)	(12.3%)
Other	(0.6%)	8.6%
	13.60%	22.8%

19. INCOME TAX (continued)

The tax effects of temporary differences which give rise to the deferred tax asset is from differences between amounts deducted for accounting and income tax purposes. The net deferred income tax assets is comprised of the following:

	2022	2021
Allowance for impaired loans	(60,799)	(119,655)
Property and equipment	91,375	98,972
Non-capital losses & tax credits	(14,992)	(14,056)
Defined benefit plans	(102,090)	(153,860)
Other	(70,990)	(58,401)
	(157,496)	(247,000)

20. NET CHANGE IN NON-CASH WORKING CAPITAL

Net change in non-cash working capital consists of:

	2022 $	2021 $
Accounts receivable	(16,551)	263,923
Prepaid expenses	(79,428)	37,959
Income taxes payable	(64,524)	91,947
Accounts payable	(132,066)	662,832
Other changes in non-cash working capital	82,037	(19,200)
	(210,532)	1,037,461

21. 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, directing and controlling the activities of the Credit Union, including directors and senior management.

Compensation	**2022** **$**	**2021** **$**
Salaries and other short-term employee benefits	249,921	242,331
Total pension and other post-employment benefits	18,448	28,823
	268,369	271,154

Loans to key management personnel and directors	**2022** **$**	**2021** **$**
Aggregate value of loans and lines of credit approved	900,000	2,100,000
Total value of mortgage loans outstanding at year-end	2,249,452	2,324,650
Interest received on loans advanced	41,783	19,644
Total value of lines of credit outstanding at year-end	842,068	1,006,928
Interest received on lines of credit advanced	9,620	11,600
Unused value of lines of credit	995,244	778,083

The Credit Union's policy for lending to key management personnel is that the loans are approved on the same conditions which apply to members, with discounted interest rates being offered up to defined thresholds.

Deposits from key management personnel and directors	**2022** **$**	**2021** **$**
Aggregate value of term and savings deposits	575,076	149,000
Total interest paid on term and savings deposits	4,030	2,234

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

Included in staff and director expenses are honoraria totaling $91,500 (2021 - $50,250).

21. RELATED PARTY TRANSACTIONS (continued)

The Act requires the disclosure of remuneration paid to the five highest paid officers and/or employees whose total remuneration for the year exceeds $175,000.

	Base Salary	Variable Compensation	Value of Benefits
William Jones, CEO	158,421	-	16,758

22. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2022	2021
Assets at Fair Value Through Profit and Loss:		
Cash and interest-bearing deposits	6,173,365	23,144,324
Derivatives	8,383	15,768
Equity investments	1,591,343	1,600,410
	7,773,091	24,760,502
Assets at Fair Value Through Other Comprehensive Income:		
High quality liquid assets	-	12,967,628
Assets at Amortized Cost:		
High quality liquid assets	12,737,609	-
Other investments	17,806,919	-
Accrued interest	369,710	58,647
Loans to members	124,527,101	152,926,036
Accounts receivable	54,860	38,309
	155,496,199	153,022,292
Liabilities at Fair Value Through Profit or Loss:		
Derivatives	8,383	15,768
Liabilities at Amortized Cost:		
Members' deposits	152,788,752	181,418,163
Shares	338,316	347,763
Accounts payable	994,154	1,126,220
	154,121,222	182,892,146

Notes to Financial Statements

For the year ended December 31, 2022

22. FINANCIAL INSTRUMENTS (continued)

The amounts set out below represent the fair values of the Credit Union's financial instruments carried at amortized cost, where fair value differs from carrying cost. Accounts receivable, members shares and accounts payable carrying values are considered to approximate their fair values since these instruments reprice to market frequently and due to their short term nature.

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits repriced to market on a periodic basis.

Fair value of fixed rate investments, fixed rate loans, and fixed rate member deposits is determined by discounting the expected future cash flows of these investments, loans, and deposits at current market rates for products with similar terms and credit risks. Contractual cash flows are assumed to represent expected cash flows.

December 31, 2022	Fair Value	Book Value	Fair Value Over (Under) Book Value
Assets			
Loans to members	120,061,006	124,527,101	(4,466,095)
Investments	32,292,311	32,505,581	(213,270)
Liabilities			
Members' deposits	151,218,394	152,788,752	(1,570,358)

December 31, 2021	Fair Value	Book Value	Fair Value Over (Under) Book Value
Assets			
Loans to members	153,346,573	152,926,036	420,537
Investments	14,626,685	14,626,685	-
Liabilities			
Members' deposits	180,302,553	181,418,163	(1,115,610)

Financial Instruments Measured At Fair Value

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1

Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2

Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3

Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. FINANCIAL INSTRUMENTS (continued)

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

December 31, 2022 Financial Instruments Measured at Fair Value	Level 1	Level 2	Level 3	Total
Cash and interest-bearing deposits	6,173,365	-	-	6,173,365
Derivatives	-	-	8,383	8,383
Equity instruments	-	1,591,343	-	1,591,343
Total assets	6,173,365	1,591,343	8,383	7,773,091
Derivatives (liability)	-	-	8,383	8,383

December 31, 2021 Financial Instruments Measured at Fair Value	Level 1	Level 2	Level 3	Total
Cash and interest-bearing deposits	23,144,324	-	-	23,144,324
Derivatives	-	-	15,768	15,768
Equity instruments	-	1,600,410	-	1,600,410
High quality liquid assets	12,967,628	-	-	12,967,628
Total assets	36,111,952	1,600,410	15,768	37,728,130
Derivatives (liability)	-	-	15,768	15,768

Reconciliation of Level 3 financial instruments (asset)	2022	2021
Balance January 1	15,768	16,185
Losses included in the statement of income as investment income	(7,385)	(417)
Balance December 31	8,383	15,768

Reconciliation of Level 3 financial instruments (liability)	2022	2021
Balance January 1	15,768	16,185
Gains included in the statement of income as investment income	(7,385)	(417)
Balance December 31	8,383	15,768

23. RISK MANAGEMENT

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

Credit Risk

The Credit Union is exposed to the risk of loss related to loans to members. The Credit Union invests in loans as its primary source of revenue. Credit is granted through consideration of the member's character, credit history, capacity for debt, and value of collateral available to secure the loan. Mortgages are secured by real property. Term loans and lines of credit are secured by other assets equivalent to the approved balance on the loan.

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

A sizeable portfolio of the loan book is secured by residential property in Hamilton, Oakville, and Brampton, Ontario. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) coverage should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

During the year, the Credit Union’s exposure to credit risk has decreased as a result of the loans to members balance decreasing. There have been no significant changes from the previous year policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk consists of the risk that the Credit Union is unable to generate sufficient cash to meet commitments as they come due. The Credit Union maintains high quality liquid assets as described in Note 5. The Credit Union is also required by statute to maintain a prescribed amount of liquid assets to mitigate liquidity risk. Liquidity requirements based on expected maturity of member deposits, and the corresponding maturity of investments in loans, is described in the chart under Interest Rate Risk below. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency Risk

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

23. RISK MANAGEMENT (continued)

The Credit Union's foreign exchange risk is related to deposits and investments denominated in United States dollars. The Credit Union limits its holdings in foreign currency to a maximum net open position of $300,000 in that same currency in accordance with its investment policy. Foreign currency changes are continually monitored for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

Interest Rate Risk

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

The Credit Union is required to establish policies and procedures to limit its exposure to interest rate risk. These policies must ensure that the Credit Union's net income before income taxes are not impacted by an amount greater than 0.15% of the Credit Union's total assets based on interest rate fluctuations that may reasonably be expected to occur. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The Credit Union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets differs from that for the interest rate sensitive liabilities.

The Credit Union is exposed to interest rate price risk as a result of fixed rate financial instruments. The Credit Union is exposed to interest rate cash flow risk as a result of its variable rate financial instruments.

Fixed rate financial instruments maturity dates substantially coincide with interest adjustment dates.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1.0% could result in an increase to net income of $112,000 while a decrease in interest rate of 1.0% could result in a decrease to net income of $116,000.

The Credit Union’s effective interest rates rose on its portfolio of financial assets and liabilities as a result of a rising interest rate environment due to efforts to control inflation through government monetary policy. As fixed financial instruments renew, they are exposed to higher interest rates.

The tables on the following page identifies the maturity dates of interest rate sensitive financial instruments, excluding accrued interest and ECLs. See Note 12 for the maturity dates of lease liabilities.

23. RISK MANAGEMENT (continued)

2022

	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
Assets						
Cash	6,173,365	-	-	-	-	6,173,365
effective rate %	0.27	-	-	-	-	
Loans to members	18,785,451	10,665,240	13,355,501	82,369,974	-	125,176,166
effective rate %	6.22	3.64	3.93	2.84	-	
Investments	-	26,452	20,063,859	10,454,217	1,591,343	32,135,871
effective rate %	-	1.97	3.10	2.92	-	
Liabilities						
Members' deposits	85,615,122	8,360,016	25,819,230	32,129,610	-	151,923,978
effective rate %	0.27	1.71	2.70	2.85	-	

2021

	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Not rate sensitive	Total
Assets						
Cash	23,144,324	-	-	-	-	23,144,324
effective rate %	0.10	-	-	-	-	
Loans to members	20,847,564	6,456,791	25,242,701	101,264,486	-	153,811,542
effective rate %	4.41	3.51	3.52	2.80	-	
Investments	-	1,491,967	3,727,640	7,748,021	1,600,410	14,568,038
effective rate %	-	0.10	0.57	1.03	-	
Liabilities						
Members' deposits	88,554,074	14,428,402	46,757,685	30,584,205	-	180,324,366
effective rate %	0.22	2.05	2.00	2.24	-	

24. COMMITMENTS

Mortgages and Loans
Outstanding commitments for future advances on mortgages and loans are $441,546 (2021 - $248,566).

Credit Lines
Unused lines of credit available to members are $20,906,841 (2021 - $20,675,040).

Credit Letters
Outstanding letters of credit are $nil (2021 - $153,403).

25. PROVISIONS

The Credit Union has been named in a statement of claim and has received grievances related to employment matters. These matters are being vigorously defended. The anticipated expenditure required to settle the obligation is a significant estimate and includes compensation to the counterparties and incremental legal costs. The Credit Union has estimated the expenditure on the basis of the nature of the claim, past claims and Ontario labour practices. During the year ended December 31, 2022, a provision expense of $77,500 (2021 - $386,640) has been charged to employee salaries and benefits on the statement of income and comprehensive income. As at December 31, 2022, a closing provision of $361,640 (2021 - $424,140) is included in accounts payable and accrued liabilities on the statement of financial position.

25. PROVISIONS (continued)

	2022	2021
Balance as at January 1	424,140	-
Additions / remeasurements	(12,500)	424,140
Repayments	(50,000)	-
Balance as at December 31	361,640	424,140

26. CREDIT FACILITY

As at December 31, 2022, the Credit Union has access to a total credit facility with Central 1 of 8,300,000 (2021 - $8,300,000). The borrowing capacity is secured by a general security agreement. As at December 31, 2022, the Credit Union was utilizing $nil (2021 - $nil) of its credit facility.

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