Cambrian Credit Union Limited

Financial Statements
December 31, 2023

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To the Members of Cambrian Credit Union Limited:

Opinion

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

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

MNP LLP
True North Square - 242 Hargrave Street, Suite 1200, Winnipeg MB, R3C 0T8 1.877.500.0795 T: 204.775.4531 F: 204.783.8329

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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Winnipeg, Manitoba

MNP LLP

March 20, 2024

Chartered Professional Accountants

Cambrian Credit Union Limited

Statement of Financial Position

As at December 31

(in thousands of dollars)

	2023 $	2022 $
Assets		
Cash on hand	4,260	4,844
Investments and deposits (note 6)	969,696	940,899
Loans outstanding – net of allowance for loss (notes 7 and 8)	3,796,993	3,649,847
Other assets (note 9)	7,504	8,827
Deferred income tax asset (note 13)	1,347	1,141
Investment property	584	584
Property, equipment and intangible asset (note 10)	22,481	22,952
	4,802,865	4,629,094
Liabilities		
Savings and deposits (note 11)	4,366,118	4,210,200
Members' shares (note 14)	346	338
Accounts payable and accrued liabilities	18,604	13,554
Mortgage securitization liability (note 17)	46,312	48,565
Lease liability (note 12)	6,997	6,875
	4,438,377	4,279,532
Members' Equity		
Retained earnings	364,488	349,562
	4,802,865	4,629,094

Approved by the Board of Directors

"Judy Mathieson" Director *"Guy Whitehill"* Director

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

Cambrian Credit Union Limited

Statement of Income and Comprehensive Income

For the year ended December 31

(in thousands of dollars)

	2023 $	2022 $
Interest income		
Members' loans	135,434	108,344
Investments and deposits	61,875	31,079
	197,309	139,423
Interest expense		
Savings and deposits and other	138,509	79,688
Secured borrowing	1,014	657
	139,523	80,345
Net interest income	57,786	59,078
Provision for loan loss (note 8)	1,322	1,608
Other income	23,320	21,463
Net interest and other income after provision for loan loss	79,784	78,933
Operating expenses		
Salaries and employee benefits	27,509	24,549
Administration	12,249	10,743
Premises	5,617	5,597
Member security	3,736	3,625
Organizational	3,356	1,744
	52,467	46,258
Income before refunded service fees and income taxes	27,317	32,675
Refunded service fees (note 15)	(6,879)	(6,657)
Net income before income taxes	20,438	26,018
Provision for income taxes (note 13)	(5,512)	(6,718)
Net income and comprehensive income for the year	14,926	19,300

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

Cambrian Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31

(in thousands of dollars)

	Members' equity $
Retained earnings balance at January 1, 2023	349,562
Net income and comprehensive income	14,926
Retained earnings balance at December 31, 2023	364,488
Retained earnings balance at January 1, 2022	330,262
Net income and comprehensive income	19,300
Retained earnings balance at December 31, 2022	349,562

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

Cambrian Credit Union Limited

Statement of Cash Flows

For the year ended December 31

(in thousands of dollars)

	2023 $	2022 $
Operating activities		
Net income and comprehensive income for the year	14,926	19,300
Items not affecting cash		
Depreciation	4,237	4,216
Deferred income tax (recovery)	(206)	885
Provision for loan loss	1,322	1,608
	20,279	26,009
Net changes in non-cash working capital		
Loans outstanding – net of repayments	(148,468)	(124,710)
Savings and deposits – net of withdrawals	155,918	(24,369)
Net increase (decrease) in investments and deposits	(28,797)	119,917
Net increase in members' shares	8	5
Net increase (decrease) in accounts payable and accrued liabilities	5,050	(661)
Net decrease (increase) in other assets	1,323	(4,478)
	(14,966)	(34,296)
Cash provided by (used in) operating activities	5,313	(8,287)
Investing activities		
Property, equipment and intangible asset acquisitions	(3,766)	(3,638)
Lease acquisitions	1,056	472
Principal payments of lease liabilities	(934)	(885)
Cash used in investing activities	(3,644)	(4,051)
Financing activities		
Mortgage securitization	(2,253)	11,738
Cash provided by (used in) financing activities	(2,253)	11,738
Net decrease in cash during the year	(584)	(600)
Cash – beginning of year	4,844	5,444
Cash – end of year	4,260	4,844

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

1 General information

Cambrian Credit Union Limited (the Credit Union) is incorporated under the Credit Union Incorporation Act of Manitoba and its operations are subject to the Credit Unions and Caisses Populaires Act (Manitoba) (the Act). The Credit Union serves members, providing retail banking, commercial banking, small business banking and investment services. The Credit Union's registered office is 225 Broadway, Winnipeg, Manitoba, Canada.

These financial statements were approved for issue by the Board of Directors on March 20, 2024.

2 Basis of presentation

The Credit Union prepares its financial statements in accordance with generally accepted accounting principles in Canada (GAAP) as set out in the Chartered Professional Accountants of Canada (CPA Canada) Handbook, Part 1, which consists of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

The financial statements' values are presented in Canadian dollars, which is the functional and presentation currency of the Credit Union.

The Credit Union presents its statement of financial position on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the year-end date (current) and more than 12 months after the year-end date (non-current), presented in the notes. The Credit Union classifies its expenses by the nature of expenses.

The following are current balances: cash on hand, investments and deposits, loans outstanding due within one year, other assets, savings and deposits, due on demand or within one year, mortgage securitization liabilities due within one year, accounts payable and accrued liabilities, leases payable within one year and current income taxes recoverable.

The following are non-current balances: long-term portion of loans outstanding, property, equipment and intangible asset, investment property, long-term portion of mortgage securitization liability, long-term portion of accounts payable and accrued liabilities, long-term portion of lease payable, deferred taxes and non-current savings and deposits.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are the measurement of the expected credit loss allowance disclosed in note 5.

3 Summary of material accounting policies

Classification and measurement of financial instruments

All financial assets are measured either at amortized cost, FVOCI or FVTPL based on their contractual cash flow characteristics and the business model for managing the financial assets. All financial instruments are initially measured at fair value. They are recognized at the trade date, when the Credit Union becomes a party to the contractual provisions of the instrument, and are initially measured at fair value.

Transaction costs on financial instruments classified as FVTPL are expensed as incurred. For all other classifications of financial instruments, initial transaction costs are capitalized.

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset at amortized cost, the cash flow for the asset must be solely payment of principal and interest (SPPI) on the principal amount outstanding. Principal is defined as the fair value of the asset at initial recognition. Interest payments can include the time value of money as well as credit and liquidity risks and certain profit margin.

The Credit Union's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how the Credit Union manages its financial assets in order to generate cash flows, that is, they reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence available at the date of the assessment.

The Credit Union's business models are defined as follows:

- held to collect contractual cash flows;
- held to collect contractual cash flows and sell; and
- other business models: the objective is not consistent with any of the above-mentioned business models and represents business objectives where assets are managed on a fair value basis.

Financial assets are not reclassified following their recognition, unless the business model for management of those financial assets changes.

Financial assets measured at amortized cost

Financial assets are measured at amortized cost if they are held within the held to collect contractual cash flows business model and their contractual cash flows pass the SPPI test. The assets are initially recognized at fair value, which is the cash consideration to originate or purchase the asset, including any transaction costs, and is subsequently measured at amortized cost using the effective interest rate method. Financial assets measured at amortized cost are reported in the statement of financial position as cash on hand, shares in and term deposits held at Credit Union Central of Manitoba (Central), loans outstanding and other assets. Interest is included in the statement of income and comprehensive income as a part of interest income.

For loans outstanding, allowance for loss is presented as a deduction in the loan's carrying value and is recognized in the statement of income and comprehensive income as provision for loan loss.

Financial assets measured at fair value through other comprehensive income

Financial assets with the held to collect contractual cash flows and sell business model, where contractual cash flows meet the SPPI test, are measured at FVOCI. Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income (OCI).

Financial assets measured at fair value through profit or loss

The financial assets at FVTPL comprise two sub-categories: financial assets required to be measured at fair value as a result of the business model for managing those assets and financial assets designed by the Credit Union as FVTPL on initial recognition.

Equity instruments are measured at FVTPL. Fair value changes are recorded as part of other income in the statement of income and comprehensive income. Equity instruments include the Credit Union's investment in shares of Central.

Financial liabilities measured at amortized cost

Financial liabilities not classified as FVTPL fall into this category and include savings and deposits, mortgage securitization liability and accounts payable and accrued liabilities. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Modifications and recognition

A modification occurs when a loan's original terms, payment schedule, interest rate and limit are renegotiated or modified, which results in a change to the loan's contractual cash flows. A modification is calculated by taking the net present value of the new contractual cash flows, discounted at the original effective interest rate, less the current carrying value, with the difference recognized as a gain or loss. The asset will continue to be subject to the same assessments for significant increase in credit risk and stage migration prior to being modified.

Impairment of financial assets

The Credit Union records an allowance for loss for all financial assets that are measured at amortized cost or at FVOCI. Equity investments are not subject to impairment as they are measured at FVTPL. Impairment losses are measured based on the estimated amount and timing of future cash flows, and collateral values.

For loans carried at amortized cost, impairment losses are recognized as an allowance for loss on the statement of financial position, and as a provision for loan loss on the statement of income and comprehensive income. Losses are based on a three-stage impairment model outlined below.

For financial assets measured at FVOCI, the calculated allowance for loss does not reduce the carrying amount in the statement of financial position, which remains at fair value. Instead, the allowance is recognized in OCI as an accumulated impairment amount with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is reclassified to profit or loss when the asset is derecognized.

Measurement of allowance for loss

The Credit Union recognizes an allowance for loss based on an impairment model that comprises three different stages:

- Stage 1: for financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered credit-impaired financial assets at initial recognition, an allowance for loss amounting to 12-month expected credit losses is recognized.

- Stage 2: for financial instruments that have had a significant increase in credit risk since initial recognition but are not considered credit-impaired financial assets, an allowance for loss amounting to lifetime expected credit losses is recognized.

- Stage 3: for financial instruments considered credit impaired, an allowance for loss amounting to the lifetime expected credit losses continues to be recognized.

Stages 1 and 2 are considered to be performing loans and Stage 3 consists of impaired loans. Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are categorized based on the change in credit risk from origination (initial recognition) to the current reporting date.

Significant increase in credit risk

Movement between the stages relies on judgment to assess whether a loan's credit risk has significantly increased since the date the loan was initially recognized. For this assessment, an increase in credit risk is considered at the instruments level.

Assessing for significant increases in credit risk is performed quarterly based on the following factors. Should any of these factors indicate a significant increase in credit risk, the loan is moved to the appropriate stage:

- contractual cash flow obligations are more than 30 days past due; or

- an adverse change in the borrower's situation indicates that their ability to fulfill their contractual cash flow obligations has been reduced; or

- forward-looking information indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced.

Forward-looking information

Forward-looking information is incorporated into the measurement of allowance for loss. The Credit Union performs historical analysis and identifies the key economic variables impacting credit risk and expected credit losses for each loan type. Forecasts of these economic variables are based on data from economic experts and consideration of a variety of external, actual and forecast information that allows the Credit Union to formulate a base case view of the future direction of relevant economic variables as well as representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relevant probabilities of each outcome.

As with any economic forecasts, the projection and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Credit Union considers these forecasts to represent its best estimate of the possible outcomes and analyzes the non-linearities and asymmetries within the Credit Union’s different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Default

The Credit Union has defined credit instrument default as meeting at least one of the following criteria:

- 90 or more days past due, unless other factors rebut this presumption; and

- less than 90 days past due but the Credit Union has information indicating that the member is unlikely to pay their credit obligations in full. Examples include member bankruptcy and breach of covenant.

An instrument is considered to no longer be in default when it no longer meets any of the default criteria. The Credit Union’s definition of credit impaired loans is aligned with the definition of default.

Derecognition of financial instruments

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or substantially all the risks and rewards of the assets have been transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the financial asset, it will assess whether it has retained control over the asset. If the Credit Union determines that control has not been retained, it will derecognize the transferred asset.

Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

Writeoffs

The Credit Union writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: ceasing enforcement activity and where the Credit Union's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovery in full. The Credit Union may write off financial assets that are still subject to enforcement activity. The Credit Union still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Derivative financial instruments

The Credit Union uses derivative financial instruments such as swaps in its management of interest rate exposure. Derivative financial instruments are not used for trading or speculative purposes but rather as economic hedges, some of which qualify for hedge accounting. The Credit Union applies the hedge accounting requirements of International Accounting Standards (IAS) 39, Financial Instruments: Recognition and Measurement as permitted by IFRS 9, Financial Instruments (IFRS 9).

All derivatives are carried at fair value and are reported on the statement of financial position as other assets where they have a positive fair value and as liabilities where they have a negative fair value. Gains and losses arising from changes in the fair value of a derivative are recognized in the statement of income unless the derivative is a hedging instrument in a qualifying hedge.

The Credit Union's over-the-counter derivatives subject to International Swaps and Derivatives Association's (ISDA) master netting agreements do not meet the criteria for offsetting in the statement of financial position as they give a right to set off that is enforceable only in the event of difficulty, insolvency or bankruptcy.

Hedge accounting

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instrument, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value of the hedged asset or liability. Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation with the effectiveness range being defined at 0.80 to 1.25. Hedge ineffectiveness, if any, may be as a result of differences in maturities and prepayment frequency between hedging instruments and hedged items.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but it does result in recognizing changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognized in the statement of income. To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item for the risk being hedged, the net amount (hedge ineffectiveness) is recorded in other income in the statement of income. Ineffectiveness results to the extent that the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash of the hedged item.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the statement of income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustment for the impact of the designated risk are immediately recognized in other income in the statement of income.

Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on a straight-line basis annually over the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and fixtures	5 to 10 years
Security equipment	5 to 10 years
Leasehold improvements	10 to 30 years

Right-of-use assets are accounted for under IAS 16, Property, Plant and Equipment. Right-of-use assets have the same accounting policies as directly owned assets, meaning the right-of-use assets are depreciated over the lease term, as applicable.

Land is not subject to depreciation and is carried at cost. The residual value, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Investment property

Properties that are held for capital appreciation are classified as investment properties. Investment property consists of land and is measured at cost, including transaction costs.

Intangible assets

Intangible assets consist of certain acquired and internally developed computer systems. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably.

Intangible assets are amortized over their useful lives on a straight-line basis annually at a rate of 3 to 10 years. The method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

There are no indefinite life intangible assets.

Leases and right-of-use assets

The Credit Union leases various buildings. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognized as a right-of-use asset and corresponding lease liability at the date on which the leased asset is available for use by the Credit Union.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of a purchase or extension option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Variable lease payments that are not based on an index or rate, such as those that are based on usage, have been excluded from measurement under IFRS 16, Leases (IFRS 16) and will continue to be recorded as an operating expense. Several of the Credit Union's agreements include extension options. The Credit Union reviewed each option and included the extension option in the calculation of the lease liability when appropriate. If the Credit Union exercises an extension option in the future that was not assumed to be exercised on lease inception, the Credit Union will record a right-of-use asset and a lease liability at that time. The lease agreements do not impose any covenants and leased assets may not be used as security for borrowing purposes. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the statement of income and comprehensive income over the lease period to produce a constant rate of interest on the remaining balance of the liability for each period.

Impairment of non-financial assets

Impairment reviews are performed annually and when there are indicators that the recoverable amount of an asset may be less than the carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment losses are recognized in the statement of income and comprehensive income when there is an indication that an asset may be impaired. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered only to the extent that the original carrying value would have been at that time in the statement of income and comprehensive income.

An item of property and equipment is derecognized on disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and comprehensive income in the period the asset is derecognized.

Provisions

Provisions are recognized when the Credit Union has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense of any provision is recognized in the statement of income and comprehensive income. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Mortgage securitization liability

The Credit Union has entered into asset transfer agreements with third parties, which include the securitization of residential mortgages. These transfers do not qualify for derecognition principally because the Credit Union retains significant exposure to prepayment and other risks associated with the transferred mortgages. As such, these transactions are accounted for as financing activities and result in the recognition of a securitization liability at an amount equivalent to the securitization proceeds, inclusive of any premiums or discounts and net of eligible transaction costs. The securitization liabilities are subsequently measured at amortized cost using the effective interest method.

Members' shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

Common shares are accounted for in accordance with IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (IFRIC 2). Common shares that are available for redemption are classified as a liability. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income continues to be recognized using the original effective rate.

Other income

Fees and commissions are recognized when earned, the amounts are fixed or can be determined and the ability to collect is reasonably assured.

Income taxes

Tax expense for the period comprises current and deferred income taxes.

Current income tax expense is calculated on the basis of the Canadian tax laws enacted or substantively enacted at the statement of financial position date.

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences primarily comprise differences between the carrying amounts and the income tax bases of the Credit Union's loans outstanding, leases, property and equipment and investment property. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

Translation of foreign currencies

Foreign exchange gains and losses are recorded in other income.

4 Accounting standard issued but not yet effective

Accounting standards that have been issued but are not yet effective are listed below. The Credit Union has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

IAS 1 Presentation of Financial Statements (October 2022 Amendments)

In October 2022, the IASB issued amendments to IAS 1 which were incorporated into Part I of the CPA Canada Handbook – Accounting in December 2022. The amendments require an entity to disclose, in specified circumstances, information in the notes that enables financial statement users to understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting period. As part of the amendments, a provision was added to clarify that only covenants that an entity must comply with on or before the reporting date would affect a liability's classification as current or non-current, even if compliance with the covenant is only assessed after the entity's reporting date. Covenants which an entity must comply with after the reporting date would not affect classification of a liability as current or non-current at the reporting date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. An entity that applies these amendments early is also required to apply the January 2020 amendments at the same time, and vice versa.

5 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of change in an accounting estimate is recognized prospectively by including it in the statement of income and comprehensive income in the period of the change, if the change affects that period only; in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement of allowance for loss.

The Credit Union reviews its loan portfolio to assess the expected credit loss at least on a quarterly basis. The measurement of the expected credit loss for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

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

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of expected credit loss;

- establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated expected credit loss; and

- establishing groups of similar financial assets for the purposes of measuring expected credit loss.

The judgments, inputs, methodology and assumptions used for estimating the expected credit loss allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In the current year interest rate increases and the inflationary environment have affected the economic environment in which the Credit Union operates and could continue to impact the Credit Union's financial results. The current environment requires significant judgment and estimates in certain areas. The Credit Union is closely monitoring the changing conditions and their potential impacts.

6 Investments and deposits

			2023
	FVOCI $000s	**Amortized cost $000s**	**Total $000s**
Central			
Shares	68,693	-	68,693
Current account			
Canadian –5.00%	-	121,147	121,147
U.S. –5.25%	-	16,770	16,770
Deposits (due within 1 year) (5.15% –5.28%)	-	752,000	752,000
	68,693	889,917	958,610
Accrued interest receivable	-	11,086	11,086
	68,693	901,003	969,696

			2022
	FVOCI $000s	**Amortized cost $000s**	**Total $000s**
Central			
Shares	63,551	-	63,551
Current account			
Canadian – 4.25%	-	85,791	85,791
U.S. – 4.25%	-	5,756	5,756
Deposits (due within 1 year) (3.87% – 4.64%)	-	776,888	776,888
	63,551	868,435	931,986
Accrued interest receivable	-	8,913	8,913
	63,551	877,348	940,899

7 Loans outstanding

	2023 $000s	2022 $000s
Consumer		
Loans	117,875	111,888
Mortgages	2,203,957	2,137,711
Lines of credit	101,307	106,619
Commercial		
Loans	18,988	14,270
Mortgages	1,321,016	1,244,270
Lines of credit	39,162	40,714
Accrued interest receivable	5,598	4,282
	3,807,903	3,659,754
Allowance for loss (note 8)	(10,910)	(9,907)
	3,796,993	3,649,847

8 Allowance for loss

The following table contains an analysis of the credit risk exposure of financial instruments for which an expected credit loss allowance is recognized. The gross carrying amount of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

				2023
	Stage 1 $000s	Stage 2 $000s	Stage 3 $000s	Total $000s
Consumer				
Loans	115,399	2,433	228	118,060
Mortgages	2,182,952	21,171	1,958	2,206,081
Lines of credit	100,499	733	75	101,307
Commercial				
Loans	19,057	-	-	19,057
Mortgages	1,314,888	9,348	-	1,324,236
Lines of credit	37,269	1,893	-	39,162
Gross carrying amount	3,770,064	35,578	2,261	3,807,903
Allowance for loss	(6,537)	(4,113)	(260)	(10,910)
Carrying amount	3,763,527	31,465	2,001	3,796,993
Current				1,223,697
Non-current				2,573,296

				2022
	Stage 1 $000s	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Consumer				
Loans	110,449	1,390	187	112,026
Mortgages	2,123,932	13,390	1,960	2,139,282
Lines of credit	106,300	121	198	106,619
Commercial				
Loans	14,300	-	-	14,300
Mortgages	1,236,855	9,958	-	1,246,813
Lines of credit	40,464	250	-	40,714
Gross carrying amount	3,632,300	25,109	2,345	3,659,754
Allowance for loss	(6,342)	(3,408)	(157)	(9,907)
Carrying amount	3,625,958	21,701	2,188	3,649,847
Current				1,008,739
Non-current				2,641,108

The following tables explain the changes in the loss allowance between the beginning and the end of the year:

Consumer	**Stage 1 $000s**	**Stage 2 $000s**	**Stage 3 $000s**	**Total $000s**
Allowance for loss at December 31, 2022	3,102	992	157	4,251
Transfers	(1,319)	1,089	230	-
Financial assets originated	500	471	-	971
Financial assets derecognized	-	(332)	(14)	(346)
Writeoffs	-	(5)	(314)	(319)
Net remeasurement	840	(112)	201	929
Allowance for loss at December 31, 2023	3,123	2,103	260	5,486
Allowance for loss at December 31, 2021	2,537	824	567	3,928
Transfers	(1,021)	891	130	-
Financial assets originated	772	15	-	787
Financial assets derecognized	-	-	-	-
Writeoffs	-	(10)	(642)	(652)
Net remeasurement	814	(728)	102	188
Allowance for loss at December 31, 2022	3,102	992	157	4,251

Commercial	Stage 1 $000s	Stage 2 $000s	Stage 3 $000s	Total $000s
Allowance for loss at December 31, 2022	3,240	2,416	-	5,656
Transfers	(928)	928	-	-
Financial assets originated	847	-	-	847
Net remeasurement	255	(1,334)	-	(1,079)
Allowance for loss at December 31, 2023	3,414	2,010	-	5,424
Allowance for loss at December 31, 2021	2,862	2,161	-	5,023
Transfers	(1,415)	1,415	-	-
Financial assets originated	1,555	-	-	1,555
Net remeasurement	238	(1,160)	-	(922)
Allowance for loss at December 31, 2022	3,240	2,416	-	5,656

All loans were originated in stage 1 and have moved from one impairment model stage to another based on the improvement or deterioration in the credit risk and the level of expected credit losses.

During the years ended December 31, 2023 and December 31, 2022, the Credit Union did not acquire any assets in respect of delinquent loans.

The Credit Union did not hold title to any foreclosed assets at December 31, 2023 (2022 – none).

The fair value of the collateral held by the Credit Union as security for impaired loans as at December 31, 2023 was $1,999,000 (2022 – $2,500,000). The Credit Union estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment.

The Credit Union has performed a sensitivity analysis against several macroeconomic factors including housing prices, unemployment rates and interest rates and determined that there is no material correlation between these factors and an increase or decrease on the provision for expected credit losses.

9 Other assets

	2023 $000s	2022 $000s
Accounts receivable	2,243	2,037
Prepaid expenses	2,641	3,102
Derivative asset	2,620	3,688
	7,504	8,827

All balances are current. The carrying value reasonably approximates fair value at the statement of financial position date due to the relative short-term to maturity.

10 Property, equipment and intangible asset

	2023							
	Property and equipment						Intangible asset	Total
	Land $000s	Buildings $000s	Furniture and fixtures $000s	Security equipment $000s	Leasehold improvements $000s	Total $000s	Computer system $000s	$000s
Opening net book value	1,574	12,601	1,044	140	2,288	17,647	5,305	22,952
Additions	-	1,741	310	9	60	2,120	1,646	3,766
Depreciation	-	(1,301)	(326)	(32)	(322)	(1,981)	(2,256)	(4,237)
Closing net book value	1,574	13,041	1,028	117	2,026	17,786	4,695	22,481
Cost	1,574	24,554	7,420	1,094	7,070	41,712	30,404	72,116
Accumulated depreciation	-	(11,513)	(6,392)	(977)	(5,044)	(23,926)	(25,709)	(49,635)
Net book value	1,574	13,041	1,028	117	2,026	17,786	4,695	22,481

								2022
					Property and equipment		Intangible asset	Total
	Land $000s	Buildings $000s	Furniture and fixtures $000s	Security equipment $000s	Leasehold improvements $000s	Total $000s	Computer system $000s	$000s
Opening net book value	1,574	13,078	1,303	49	2,431	18,435	5,095	23,530
Additions	-	762	93	104	189	1,148	2,490	3,638
Depreciation	-	(1,239)	(352)	(13)	(332)	(1,936)	(2,280)	(4,216)
Closing net book value	1,574	12,601	1,044	140	2,288	17,647	5,305	22,952
Cost	1,574	22,813	7,110	1,085	7,010	39,592	28,758	68,350
Accumulated depreciation	-	(10,212)	(6,066)	(945)	(4,722)	(21,945)	(23,453)	(45,398)
Net book value	1,574	12,601	1,044	140	2,288	17,647	5,305	22,952

The Credit Union had property and equipment under leases with a cost of $11,567,000 (2022 – $10,299,000) and accumulated depreciation of $5,475,000 (2022 – $4,444,000) as at December 31 (note 12).

11 Savings and deposits

	2023 $000s	2022 $000s
Savings accounts	1,475,181	1,626,104
Chequing accounts	375,595	384,249
Term deposits	1,674,296	1,404,606
Registered deposits	790,218	766,791
Unclaimed accounts	270	262
	4,315,560	4,182,012
Accrued interest	50,558	28,188
	4,366,118	4,210,200
Current	2,983,988	3,135,386
Non-current	1,382,130	1,074,814

Savings and deposits amounting to $2,332,000,000 (2022 – $2,008,000,000) are at fixed interest rates and all other savings and deposits amounting to $1,983,000,000 (2022 – $2,174,012,000) are at variable rates.

12 Lease

Right-of-use asset

	2023 $000s	2022 $000s
Opening balance as at January 1	5,855	6,364
Additions	1,056	472
Depreciation	(819)	(981)
Ending balance as at December 31	6,092	5,855

Lease liabilities

	2023 $000s	2022 $000s
Opening balance as at January 1	6,875	7,288
Additions	1,056	472
Principal payments of lease liabilities	(934)	(885)
Ending balance as at December 31	6,997	6,875

Contractual maturities of lease liabilities the Credit Union is committed to future aggregate lease payments are as follows:

	2023 $000s	2022 $000s
Less than 1 year	1,255	1,126
Between 1 year and 5 years	4,890	4,463
More than 5 years	1,897	2,304
Total lease commitments	8,042	7,893
Total lease liability	8,042	7,893
Impact of discounting at weighted average incremental borrowing rate	(1,045)	(1,018)
Discounted lease liabilities at December 31	6,997	6,875

The Credit Union recognized $1,031,000 (2022 – $981,000) of depreciation expense on right-of-use assets and $205,000 (2022 – $217,000) of interest on lease liabilities during the year.

13 Income taxes

The significant components of the provision for income taxes included in the statement of income and comprehensive income comprise:

	2023 $000s	2022 $000s
Current income taxes		
Based on current year taxable income	5,718	5,833
Deferred income taxes		
Origination and reversal of temporary differences	(206)	885
Provision for income taxes	5,512	6,718

The Credit Union provides for income taxes at statutory rates as determined below:

	2023 %	2022 %
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
General rate reduction	(13.00)	(13.00)
Blended net federal tax rate	15.00	15.00
General Manitoba rate	12.00	12.00
Manitoba Credit Union rate	-	(1.30)
Blended net provincial tax rate	12.00	10.70
	27.00	25.70

The Province of Manitoba has eliminated the 1% profits tax subject to credit unions with taxable income over $400,000, effective January 1, 2019. Additionally, the province has introduced a five-year phase out of the special tax deduction that allows the Credit Union to pay a lower rate of tax on its income, also effective January 1, 2019. The Manitoba small business deduction available to credit unions is impacted by growth of members' deposits and members' shares balances. The November 8, 2018 legislation eliminates the Manitoba small business deduction available to credit unions over a period of five years beginning January 1, 2019. The proportion of small business deduction otherwise calculated is as follows for each of the calendar years:

	%
2018 and earlier	100
2019	80
2020	60
2021	40
2022	20
2023 and later	-

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 27.00% (2022 – 25.70%) are as follows:

	2023 $000s	2022 $000s
Net income for the year	20,438	26,018
Expected provision for income taxes at statutory rates	5,518	6,687
Non-deductible portion of expenses	47	44
Impact of change in tax rates	-	4
Adjustment recognized for tax of prior periods	(53)	(17)
Total provision for income taxes	5,512	6,718

Current income taxes payable of $33,000 (2022 – $23,000 payable) has been included in accounts payable and accrued liabilities on the statement of financial position.

Components of the deferred tax assets and liabilities are as follows:

	2023 $000s	2022 $000s
Deferred tax assets		
Allowance for loss	1,883	1,808
Lease liability	305	276
Accounts payable and accrued liabilities	754	728
	2,942	2,812
Deferred tax liabilities		
Capital cost allowance in excess of depreciation	(1,595)	(1,671)
Total deferred taxes	1,347	1,141

	2023 $000s	2022 $000s
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	2,942	2,812
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	(1,595)	(1,671)
Net deferred tax asset	1,347	1,141

The movement in the deferred tax assets and liabilities is recognized in the statement of income and comprehensive income for the year.

14 Members' shares

Authorized common share capital consists of an unlimited number of common shares with an issue price of $5 and an unlimited number of common shares issued under the refunded service program with an issue price of $0.01.

Each member must purchase one or more common share. As at December 31, 2023, the number of common shares was 69,621 (2022 – 67,881). Each member of the Credit Union has one vote, regardless of the number of shares that member holds.

Common shares are redeemable at the request of the member on closing their account. Common shares issued under the refunded service program can also be redeemed when the member reaches the age of 59. All common shares are therefore classified as liabilities.

	2023 $000s	2022 $000s
Common shares		
Beginning of year	338	333
Issued on application for membership	8	5
Issued based on Refunded Service Fee Program (note 15)	6,879	6,657
Redemption of common shares	(6,879)	(6,657)
Total members' shares – liability	346	338

15 Refunded service fees

In 2023, refunded service fees of $6,879,000 (2022 – $6,657,000) were paid under the refunded service fees program on qualifying service fees in the year to members meeting the requirement of the program. The refunded service fees will result in income tax recoveries in the current year of $1,857,000 (2022 – $1,638,000).

16 Capital disclosures

Capital Requirements

Pursuant to Standards of Sound Business Practice (SSBP) issued by the Deposit Guarantee Corporation of Manitoba (DGCM), the Credit Union must establish and maintain a level of capital that meets or exceeds the following:

- regulatory capital ratio: 5% of the book value of statement of financial position assets;
- retained earnings ratio: 3% of the book value of statement of financial position assets; and
- risk weighted capital ratio: 10.5% of the risk weighted value of assets as defined and calculated in the SSBP.

As at December 31 the Credit Union met all capital requirements as follows:

	2023 As a % of assets	2022 As a % of assets
Regulatory capital ratio	7.60%	7.56%
Retained earnings ratio	7.59%	7.55%
Risk weighted capital ratio	16.27%	16.78%

Liquidity reserve

Pursuant to the SSBP issued by DGCM, the Credit Union must establish and maintain liquidity reserves of at least 8% of total deposits in the Credit Union (including interest accrued on those deposits).

Liquidity reserves consist of cash on hand, amounts deposited by the Credit Union into Central and any other deposit or investment that DGCM or Registrar of Credit Unions consider eligible to satisfy the Credit Union's liquidity requirements.

As at December 31, the Credit Union met the liquidity reserve requirement as follows:

	2023	2022
Liquidity Reserve	20.48%	20.74%

Capital is managed in accordance with policies established by the Board of Directors and in relation to the capital requirements above. Management regards a strong capital base as an integral part of the Credit Union's strategy. All of the capital requirements are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

17 Mortgage securitization

The Credit Union has determined that an amount of $46,312,000 (2022 – $48,565,000) raised from securitization transactions should be accounted for as a secured borrowing as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transaction. The carrying amount, as at December 31, 2023, of the associated residential mortgages held as security, is $47,631,000 (2022 – $50,313,000). As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings. The Credit Union did not enter into any securitization transactions during the year where all of the risks and rewards of ownership were transferred.

	2023 $000s	2022 $000s
Current	13,593	1,401
Non-current	32,719	47,164
	46,312	48,565

18 Risk management

The Credit Union's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by management who reports to the Board of Directors. The Board of Directors provides written principles for risk tolerance and overall risk management. Management reports to the Board of Directors on the Credit Union's compliance with the risk management policies. In addition, the Credit Union maintains a Risk Management department, which is responsible for independent review of risk management and the Credit Union's control environment.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and variable rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk, which arise from this activity, are interest rate, credit, liquidity, foreign exchange and price risks.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods used in managing those risks.

Activity	**Risks**	**Method of managing risks**
Investments and deposits	Sensitivity to changes in interest rates, liquidity and credit risk	Monitoring of investment restrictions and counterparty risk
Loans outstanding	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Savings and deposits	Sensitivity to changes in interest rates and liquidity	Asset-liability matching and periodic use of derivatives

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. The financial margin reported in the statement of income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by management and reported to the Board of Directors, which is responsible for managing interest rate risk.

In managing interest rate risk, the Credit Union relies primarily on the use of asset-liability and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union's financial instruments. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged.

The Credit Union was party to the following interest rate swap agreements as of December 31, 2023:

	Effective date	Maturity	Notional amount $000s	Settlement	Fixed interest rate paid
Fair value hedges					
	November 23, 2021	November 23, 2026	44,323	Quarterly	1.98%
	May 13, 2022	May 13, 2026	24,599	Quarterly	3.16%
	September 20, 2022	September 20, 2026	23,867	Quarterly	3.78%

Sensitivity analysis is used to assess the change in value or cash flows of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a 12-month period. Sensitivity analysis is calculated on a periodic basis and is reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at December 31, 2023, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $644,000 over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $983,000 over the next 12 months.

Other types of interest rate risk may involve basis risk, the risk of loss from changes in the relationship of interest rates that may not have identical characteristics (for example the difference between prime rate and variable rate loans and variable rate deposits) and prepayment risk (the risk of loss of interest income arising from early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and reported to the Board of Directors.

The following schedules show the Credit Union's sensitivity to interest rate changes:

2023

	Financial statement amounts				Interest rate swap agreements		
Expected repricing or maturity dates	**Assets $000s**	**Interest rate %**	**Liabilities (including members' equity) $000s**	**Interest rate %**	**Assets $000s**	**Liabilities $000s**	**Net asset liability gap $000s**
Variable to 6 months	1,726,709	6.21	2,551,096	3.07	-	92,789	(917,176)
6 months to 1 year	461,109	4.28	464,355	4.53	-	-	(3,246)
1 to 2 years	953,635	3.25	483,922	4.14	-	-	469,713
2 to 3 years	987,074	2.68	264,997	3.67	-	-	722,077
3 to 4 years	426,059	3.67	336,087	4.41	-	-	89,972
4 to 5 years	205,416	4.98	252,507	4.84	92,789	-	45,698
Over 5 years	33	6.57	641	4.96	-	-	(608)
	4,760,035		4,353,605		92,789	92,789	406,430
Non-interest rate sensitive	42,830		449,260				(406,430)
	4,802,865		4,802,865				-

2022

	Financial statement amounts				Interest rate swap agreements		
Expected repricing or maturity dates	**Assets $000s**	**Interest rate %**	**Liabilities (including members' equity) $000s**	**Interest rate %**	**Assets $000s**	**Liabilities $000s**	**Asset liability gap $000s**
Variable to 6 months	1,585,798	5.44	2,660,219	2.51	-	97,348	(1,171,769)
6 months to 1 year	360,524	3.47	499,143	3.59	-	-	(138,619)
1 to 2 years	575,222	3.17	368,318	3.11	-	-	206,904
2 to 3 years	807,167	2.81	226,448	2.92	-	-	580,719
3 to 4 years	844,279	2.25	150,088	2.51	-	-	694,191
4 to 5 years	382,649	3.41	316,745	4.24	97,348	-	163,252
Over 5 years	36,022	3.09	1,061	5.00	-	-	34,961
	4,591,661		4,222,022		97,348	97,348	369,639
Non-interest rate sensitive	37,433		407,072				(369,639)
	4,629,094		4,629,094				-

The Credit Union's major source of income is its financial margin, which is the difference between income earned on investments and loans to members and interest paid to members on their deposits. The objective of asset liability management is to match interest-sensitive assets with interest-sensitive liabilities, thus controlling wide fluctuations of income during periods of changing interest rates. Certain items on the statement of financial position, such as non-interest bearing member deposits and equity, do not create interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive on the schedule. The Credit Union uses interest rate swap agreements to mitigate risks associated with interest rate fluctuations.

Fair value hedges

Fair value hedges modify exposure to changes in a fixed-rate instrument's fair value caused by changes in interest rates. These hedges economically convert fixed-rate assets and liabilities to floating rates; interest rate swaps are used to hedge interest rate risk.

The following table presents the effects of fair value hedges on the statement of financial position and the statement of income:

2023	Change in fair value of hedged items $000s	Change in fair value of hedging instruments $000s	Hedge ineffectiveness gain (loss) $000s	Carrying amount of hedged items $000s	Accumulated amount of fair value hedge adjustments on hedged items $000s	Accumulated amount of fair value hedge adjustments on hedging instrument $000s
Interest rate swaps	1,079	(1,068)	11	85,454	2,627	2,620

2022	Change in fair value of hedged items $000s	Change in fair value of hedging instruments $000s	Hedge ineffectiveness gain (loss) $000s	Carrying amount of hedged items $000s	Accumulated amount of fair value hedge adjustments on hedged items $000s	Accumulated amount of fair value hedge adjustments on hedging instrument $000s
Interest rate swaps	(4,229)	4,195	(34)	97,348	3,706	3,688

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy or deterioration in lending sectors, which represent a concentration within the Credit Union's loan portfolio, may result in losses that are different from those provided for at the statement of financial position date. Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in loans outstanding and investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is reported to the Board of Directors.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. The Board of Directors is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and credit scoring system, and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member; an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

In measuring credit risk of loans and advances at a counterparty level, the Credit Union considers three components: (i) the probability of default by the member or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Credit Union derives the exposure at default; and (iii) the likely recovery ratio on the defaulted obligations loss given default.

The maximum exposure to credit risk from financial assets, without taking into account any collateral held or other credit enhancements, is as follows:

			2023
Credit risk exposure	**Outstanding $000s**	**Undrawn commitments $000s**	**Total exposure $000s**
Investments and deposits	969,696	-	969,696
Consumer			
Loans	117,875	-	117,875
Mortgages	2,203,957	21,720	2,225,677
Lines of credit	101,307	373,357	474,664
Commercial			
Loans	18,988	-	18,988
Mortgages	1,321,016	208,636	1,529,652
Lines of credit	39,162	54,170	93,332
Letters of credit	-	5,079	5,079
Accrued interest receivable	5,598	-	5,598
Accounts receivable	3,411	-	3,411
Derivative asset	2,620	-	2,620
Total exposure	4,783,630	662,962	5,446,592

			2022
Credit risk exposure	**Outstanding $000s**	**Undrawn commitments $000s**	**Total exposure $000s**
Investments and deposits	940,899	-	940,899
Consumer			
Loans	111,888	-	111,888
Mortgages	2,137,711	23,541	2,161,252
Lines of credit	106,619	364,051	470,670
Commercial			
Loans	14,270	-	14,270
Mortgages	1,244,270	78,678	1,322,948
Lines of credit	40,714	63,518	104,232
Letters of credit	-	1,546	1,546
Accrued interest receivable	4,282	-	4,282
Accounts receivable	2,037	-	2,037
Derivative asset	3,688	-	3,688
Total exposure	4,606,378	531,334	5,137,712

Investments and deposits

Credit risk arises from the investments and deposits in cash resources held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. All of the Credit Union's liquidity investments are held with Central. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. Central's investment policy requires that all investments are highly rated (A or higher) and that all of the assets are readily convertible to cash.

Consumer loans, mortgages and lines of credit

Loans outstanding consist of personal loans and lines of credit, which are secured by various types of collateral required in the loans policy approved by the Board of Directors. Unsecured personal loans are only granted on the basis of a properly qualified and documented covenant value.

Residential mortgages to members consist of $425,600,000 (2022 – $441,028,000) in mortgages with an advance ratio of 80% to 95% of the appraised value, which are fully insured by either the Canadian Mortgage Housing Corporation, Canada Guaranty Mortgage Insurance or Sagen MI Canada (formerly Genworth Capital); $1,776,571,000 (2022 – $1,699,001,000) in conventional residential mortgages with an original maximum advance ratio to 80% of the appraised value; and $1,787,000 (2022 – $1,911,000) in residential mortgages with an original advance ratio to 85% of the appraised value.

Commercial loans, mortgages and lines of credit

The Credit Union often takes security as collateral in a manner similar to other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral and prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. Collateral may include mortgages over commercial properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral. The Credit Union's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Credit Union since the prior period.

The Credit Union manages credit concentration by establishing lending limits for each industry based on risk ratings for the respective industries. As at December 31, 2023, the Credit Union has not exceeded its lending limit for any industry type. The commercial lending by industry is as follows:

	2023 $000s	2022 $000s
Commercial real estate retail	128,805	107,108
Commercial real estate office	94,620	104,887
Commercial real estate industrial	163,988	116,524
Residential real estate	485,943	474,415
Real estate other	41,105	25,781
Health care	171,151	193,329
Accommodation and food services	25,631	27,149
Retail	1,534	1,936
Transportation/warehousing	18,076	-
Construction	129,878	91,437
Entertainment and recreation	16,395	17,828
Other	102,040	138,860
	1,379,166	1,299,254

The credit quality of the commercial loan portfolio for those loans, which are neither past due or impaired, can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the probability of a default using internal rating tools and taking into account statistical analysis as well as the experience and judgment of the credit department. Commercial loans to members are divided into eight segments and are regularly reviewed and updated as appropriate. Loans with ratings of five or six are not considered to be impaired taking into account the repayment status of the loans and the estimated fair value of the collateral.

	2023 $000s	2022 $000s
Rating 1 – Excellent risk	6,039	10,608
Rating 2 – Very good risk	16,163	20,075
Rating 3 – Good risk	333,417	413,268
Rating 4 – Acceptable risk	972,609	744,517
Rating 5 – Caution risk	40,156	100,684
Rating 6 – At risk	1,002	-
Rating 7 – Impaired with no loan loss allowance	-	-
Rating 8 – Impaired with loan loss allowance	9,780	10,102
	1,379,166	1,299,254

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. As disclosed in note 16, the Credit Union is required to maintain in cash and investments in Central not less than 8% of its total savings and deposits. The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, and asset-liability maturity management. Management monitors forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central in the amount of 10% of member deposits as part of its liquidity management strategy.

The following table summarizes the undiscounted cash flows of financial liabilities by contractual maturity.

		Payable on a fixed date				
	On demand $000s	Less than 1 year $000s	1 to 2 years $000s	2 to 5 years $000s	More than 5 years $000s	Total $000s
Financial liabilities						
Savings and deposits	1,986,083	1,039,805	575,492	857,101	607	4,459,088
Accounts payable and accrued liabilities	-	18,604	-	-	-	18,604
Mortgage securitization payable	-	14,507	1,775	32,088	-	48,370
Lease payable	-	1,255	2,679	2,211	1,897	8,042
	1,986,083	1,074,171	579,946	891,400	2,504	4,534,104

Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

Price risk

Price risk arises from changes in market risks, other than interest rate, credit, liquidity or foreign exchange risks causing fluctuations in the fair value or future cash flows of a financial instrument. Price risk is not considered significant at this time.

19 Fair value of financial instruments

Differences between book value and fair value of investments and deposits, loans outstanding, savings and deposits and other financial assets and liabilities are caused by differences between the interest rate obtained at the time of the original investment, loan or deposit and the current rate for the same product. Loans outstanding and savings and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value of loans and member deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates and estimated rates of repayment with the future cash flows discounted using current market rates for equivalent groups of mortgages or loans. The future cash flows on fixed rate deposits and fixed rate borrowings are discounted to their estimated present value using a discount rate based on current market rates for equivalent groups of fixed rate deposits.

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 100 basis points then the fair value of loans outstanding and investments and deposits would decrease by approximately $59,031,000 (2022 – $70,187,000) and the fair value of savings and deposits would decrease by approximately $43,778,000 (2022 – $37,949,000). A corresponding decrease of 100 basis points would result in the fair value of loans outstanding and investments and deposits increasing by approximately $60,620,000 (2022 – $72,486,000) and the fair value of savings and deposits would increase by approximately $45,078,000 (2022 – $39,125,000).

The financial assets and liabilities are recognized on the statement of financial position at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments. The carrying values and fair values for each category of financial asset and liability are presented in the table below. The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment.

				2023
	Level	**FVOCI $000s**	**Amortized cost $000s**	**Estimated fair value $000s**
Assets				
Cash on hand		-	4,260	4,260
Investments and deposits	2	68,693	901,003	969,767
Loans outstanding	2	-	3,796,993	3,608,652
Accounts receivable	2	-	3,411	3,411
Derivative asset	2	-	-	2,620
		68,693	4,705,667	4,588,710
Liabilities				
Savings and deposits	2	-	4,366,118	4,295,411
Members' shares	2	-	346	346
Accounts payable and accrued liabilities	2	-	18,604	18,604
Mortgage securitization liability	2	-	46,312	44,687
Lease liability	2	-	6,997	6,997
		-	4,438,377	4,366,045

				2022
	Level	**FVOCI $000s**	**Amortized cost $000s**	**Estimated fair value $000s**
Assets				
Cash on hand		-	4,844	4,844
Investments and deposits	2	63,551	877,348	940,727
Loans outstanding	2	-	3,649,847	3,446,903
Accounts receivable	2	-	2,037	2,037
Derivative asset	2	-	-	3,688
		63,551	4,534,076	4,398,199
Liabilities				
Savings and deposits	2	-	4,210,200	4,125,715
Members' shares	2	-	338	338
Accounts payable and accrued liabilities	2	-	13,554	13,554
Mortgage securitization liability	2	-	48,565	49,470
Lease liability	2	-	6,875	6,875
		-	4,279,533	4,195,953

Fair value hierarchy

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities. There are no assets measured at fair value classified as Level 1.
- Level 2: quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 inputs include quoted prices for assets in markets that are considered less active.
- Level 3: unobservable inputs that are supported by little or no market. Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

20 Transactions with DGCM, Central, and related parties

DGCM

DGCM was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions/caisses and to ensure credit unions/caisses operate under sound business practices. DGCM provides a safeguard for all savings and deposits of the members of Manitoba credit unions.

Transactions with DGCM included assessments of $3,447,000 (2022 – $3,362,000) and are recorded as member security expenses.

Central

The Credit Union is a member of Central, which acts as a depository for surplus funds, and makes loans to credit unions. Central also acts as a trade association for credit unions.

The Credit Union has in place a line of credit with Central in the amount of 10% of member deposits. The line of credit was not utilized at December 31, 2023. The line of credit with Central is payable on demand with interest payable on a variable rate basis, which at year-end was 7.00% (2022 – 6.25%). As collateral for the line of credit, the Credit Union has pledged its loans outstanding. Interest paid on borrowings from Central during the year amounted to $nil (2022 – $nil).

Transactions with Central included income earned on investments and deposits referred to in note 6 in the amount of $60,668,000 (2022 – $30,993,000) and fees assessed by Central, which include annual affiliation dues in the amount of $ 1,346,000 (2022 – $1,178,000) recorded as organizational expenses.

Related party transactions

Remuneration and reimbursement of expenses to Directors

The aggregate amount of remuneration paid to all Directors for the year ended December 31, 2023 was $355,000 (2022 – $329,000).

The aggregate amount paid to all Directors as reimbursement of expenses on credit union business for the year ended December 31, 2023 was $6,000 (2022 – $6,000).

The outstanding balances at December 31 for Board of Directors and related expenses and income for the year are as follows:

	2023 $000s	2022 $000s
Loans outstanding	1,509	3,053
Savings and deposits outstanding	1,924	2,041

No allowances have been recognized in respect of loans issued to Directors in the current year.

Compensation of key management personnel

Key management personnel of the Credit Union include all senior management. The summary of compensation for key management personnel consisted of salaries of $3,847,000 (2022 – $3,375,000) and employee benefits of $567,000 (2022 – $351,000) for the year ended December 31, 2023.

The outstanding balances at December 31 for key management personnel and related expense and income for the year are as follows:

	2023 $000s	2022 $000s
Loans outstanding	2,417	3,053
Savings and deposits outstanding	2,254	2,041

No allowances have been recognized in respect of loans issued to senior management in the current year.

Loans to directors, management and employees

All transactions with the Credit Union's Directors, management and employees were in accordance with the statutes, by-laws and policies of the Credit Union.

As at December 31, 2023, outstanding loans to Directors, management and employees totalled 0.1% (2022 – 0.1%), in aggregate, of the assets of the Credit Union.

21 Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The assets are held in trust by the Co-operative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at a rate of 6% of the employee's salary. The expense and payments for the year ended December 31, 2023 were $1,295,000 (2022 – $1,161,000). The Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members with respect to the defined contribution plan.

22 Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.