FRONTLINE FINANCIAL CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2023

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Independent Auditor's Report

To the Members of Frontline Financial Credit Union Limited

Opinion

We have audited the accompanying financial statements of Frontline Financial Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2023, and the statements of 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 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.

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

Management is responsible for the preparation and fair presentation of these 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Ontario
March 1, 2024

FRONTLINE FINANCIAL CREDIT UNION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31

		2023		2022
ASSETS				
Cash (Note 3)	$	11,062,717	$	6,227,209
Investments (Note 4)		13,699,760		13,954,753
Income taxes recoverable		88,671		-
Member loans (Note 6)		190,574,713		173,459,355
Property, plant and equipment (Note 8)		756,668		186,756
Prepaid expenses		389,798		362,864
	$	216,572,327	$	194,190,937
LIABILITIES AND MEMBERS' EQUITY				
Liabilities				
Accounts payable and accrued liabilities	$	504,208	$	1,215,771
Income taxes payable (Note 10)		-		52,702
Lease liability		461,811		-
Member deposits (Note 9)		202,908,950		179,836,065
		203,874,969		181,104,538
Members' Equity				
Members' shares (Note 11)		436,263		434,823
Retained earnings		12,261,095		12,651,576
		12,697,358		13,086,399
	$	216,572,327	$	194,190,937

Commitments (Note 17)

Approved on behalf of the Board:

PETER HURST _______ Director

_______ Director

The accompanying notes are an integral part of these financial statements

FRONTLINE FINANCIAL CREDIT UNION LIMITED
STATEMENT OF CHANGES IN MEMBERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2023

	Members' Shares	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2021	$ 423,945	$ 12,269,972	$ 12,693,917
Comprehensive income	-	381,604	381,604
Redemption of patronage shares	(1,570)	-	(1,570)
Issue of members' shares	33,140	-	33,140
Redemption of members' shares	(20,692)	-	(20,692)
BALANCE AT DECEMBER 31, 2022	434,823	12,651,576	13,086,399
Comprehensive income (loss)	-	(390,481)	(390,481)
Redemption of patronage shares	(2,320)	-	(2,320)
Issue of members' shares	49,305	-	49,305
Redemption of members' shares	(45,545)	-	(45,545)
BALANCE AT DECEMBER 31, 2023	$ 436,263	$ 12,261,095	$ 12,697,358

The accompanying notes are an integral part of these financial statements

FRONTLINE FINANCIAL CREDIT UNION LIMITED
STATEMENT OF COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022
INTEREST INCOME		
Member loans	$ 7,463,042	$ 5,467,353
Investments	572,041	437,274
	8,035,083	5,904,627
INTEREST AND LOAN RELATED EXPENSES		
Interest on member deposits	5,325,426	2,536,260
Interest on borrowed funds	18	769
Interest on lease liability	17,918	-
Provision for impairment of loans (Note 7)	55,084	10,000
	5,398,446	2,547,029
FINANCIAL MARGIN	2,636,637	3,357,598
Other Income	774,840	822,413
INCOME BEFORE EXPENSES – CARRY FORWARD	$ 3,411,477	$ 4,180,011

The accompanying notes are an integral part of these financial statements

FRONTLINE FINANCIAL CREDIT UNION LIMITED
STATEMENT OF COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022
INCOME BEFORE EXPENSES - CARRIED FORWARD	$ 3,411,477	$ 4,180,011
EXPENSES		
Member Services		
Marketing and advertising	54,765	97,836
League dues	10,581	10,910
FSRA insurance	135,441	128,253
Electronic service fees	11,456	11,591
	212,243	248,590
Staff		
Employee benefits	365,505	329,391
Staff training	10,848	12,877
Salaries	1,562,345	1,494,457
	1,938,698	1,836,725
Financial		
P.C.A. and other charges	149,643	130,540
Registered administration fees	12,736	15,108
	162,379	145,648
Administrative		
Board and corporate governance	175,498	174,209
Data processing	296,991	233,895
Insurance	103,193	86,441
Office	258,253	239,113
Professional fees	507,194	509,958
	1,341,129	1,243,616
Premises		
Depreciation	73,136	41,664
Utilities	21,515	21,835
Maintenance and repairs	55,825	48,818
Property taxes	16,657	64,621
Rent	46,459	14,094
	213,592	191,032
TOTAL EXPENSES	3,868,041	3,665,611
INCOME (LOSS) BEFORE INCOME TAXES	(456,564)	514,400
Income tax provision (recovery) (Note 10)	(66,083)	132,796
NET AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ (390,481)	$ 381,604

The accompanying notes are an integral part of these financial statements

FRONTLINE FINANCIAL CREDIT UNION LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022
OPERATING ACTIVITIES		
Net income (loss) for the year	$ (390,481)	$ 381,604
Adjustments for non-cash items:		
Depreciation on property and equipment	73,136	41,664
Provision for impairment of loans	55,084	10,000
	128,220	51,664
Change in prepaid expenses	(26,934)	369
Change in income taxes payable (recoverable)	(141,373)	105,728
Change in accounts payable and accrued liabilities	(711,563)	864,429
	(751,650)	1,022,190
	(1,142,131)	1,403,794
Changes in member activities (net)		
Change in member loans	(24,673,105)	(27,020,002)
Loans written off, net of recoveries	(44,463)	(37,251)
Change in member deposits	26,792,285	23,554,276
	2,074,717	(3,502,977)
Cash flows related to interest		
Interest received on member loans	7,547,126	5,467,353
Interest received on investments	585,048	437,274
Interest paid on member deposits	(3,719,400)	(2,536,260)
	4,412,774	3,368,367
Total cash inflows from operating activities	5,345,360	1,269,184
INVESTING ACTIVITIES		
Change in investments	(330,055)	(287,983)
Purchase of property, plant and equipment	(157,280)	(27,535)
Total cash outflows from investing activities	(487,335)	(315,518)
FINANCING ACTIVITIES		
Payments of lease liabilities	(23,957)	-
Proceeds from issue of membership shares	49,305	33,140
Redemption of membership shares	(45,545)	(20,692)
Redemption of patronage shares	(2,320)	(1,570)
Total cash inflow/(outflows)from financing activities	(22,517)	10,878
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,835,508	964,544
Cash and cash equivalents – beginning of year	6,227,209	5,262,665
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 11,062,717	$ 6,227,209

The accompanying notes are an integral part of these financial statements

1. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

Reporting Entity

Frontline Financial Credit Union Limited (the "Credit Union" or "Frontline") was incorporated under the Credit Unions Act, 1940 (the "Act") of Ontario on December 16, 1948 and is a member of Central 1 Credit Union ("Central 1") and is regulated by the Financial Services Regulatory Authority of Ontario ("FSRA"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, mutual funds, automated banking machines ("ABMs"), debit cards, internet banking and mobile banking. The Credit Union's head office is located at 365 Richmond Road, Ottawa, Ontario.

The financial statements for the year ended December 31, 2023 were authorized for issue in accordance with a resolution of the Board of Directors on February 27, 2024.

Basis of Preparation

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") and legislation for Ontario's Credit Unions and Caisses Populaires.

Functional and Presentation Currency

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. Except as otherwise indicated, financial information is presented in Canadian dollars.

Use of Estimates and Judgments

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Regulatory Compliance

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at the annual meeting of members. This information has been integrated into the basic financial statements and notes and they comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information. Notes 13, 15 and 16 contain information disclosed to support regulatory compliance.

1. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Financial Instruments

Recognition and initial measurement

The Credit Union initially recognizes loans and advances and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or use.

Classification

A financial asset is classified and subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL).

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

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

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

All other financial assets are classified and measured at FVTPL.

Financial assets that are held for trading or managed, and whose performance is evaluated on, a fair value basis are measured at FVTPL as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

In assessing whether the contractual cash flows represent solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument in question. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets.

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as subsequently measured at amortized cost or FVTPL.

1. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Derecognition

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in Other Comprehensive Income (OCI) is recognized in profit or loss.

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with other financial institutions, cheques and other items in transit with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Credit Union in the management of its short-term commitments.

Cash and cash equivalents is carried at amortized cost in the statement of financial position.

Investments

Debt instruments

Central 1 deposits are initially recognized at fair value and subsequently classified and measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

Equity instruments

Equity instruments are initially recognized at fair value and subsequently classified and measured at amortized cost or fair value through profit and loss.

1. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Derivative Financial Instruments

Non-Hedge Derivatives

The Credit Union designates certain financial assets upon initial recognition at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Member Loans

The Credit Union initially recognizes loans and advances on the date on which they are originated. Member loans are subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Member loans are subsequently reduced by any allowance for loan loss.

Impairment

The Credit Union recognizes allowance for loan losses for expected credit loss (“ECL”) on member loans. The Credit Union measures allowance for loan losses monthly according to the three-stage ECL model.

Write-off

Member loans are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is remote. Bad debts are written off against the provision for impairment if an allowance for loan losses had previously been recognized. If no provision had been recognized, the bad debts are recognized as expenses in net income.

Member Deposits

All member 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.

1. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Accounts Payable and Accrued Liabilities

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

Property, Plant and Equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight- line basis over the estimated useful life of the assets as follows:

Building	3%
Capital and leasehold improvements	10%
Computer equipment	33 1/3%
Furniture and equipment	20%
Leased building	10%

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

Income Taxes

Current and deferred income taxes are recognized in net income except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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

1. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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 or financial asset.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of Internal Financial Reporting Interpretations Committee 2(IFRIC), *Members' Shares in Cooperative Entities and Similar Instruments.*

Patronage Shares and Distributions

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

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Retained Earnings

Current legislation requires that the Credit Union establish and maintain a sufficient level of regulatory capital in accordance with Section 20 of O. Reg. 105/22 of the Act. At December 31, 2023 the Credit Union has retained sufficient equity to meet these requirements.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by using the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary financial assets measured at amortized cost are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary financial assets measured at amortized cost form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

1. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Revenue Recognition

Revenue is recognized when the amount of revenue can be reliably measured, and it is probable that economic benefits associated with the transaction will be realized. The following specific recognition criteria are used for recognition of income:

(i) Interest Income

Interest income is recognized in the statement of comprehensive income for all interest-bearing financial instruments using the effective rate method, except for those designated as fair value through profit or loss. The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant periods using the estimated future cash flows. The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs, and all other premiums or discounts.

When a loan is classified as impaired as a result of an impairment loss, interest income is calculated based on the loan’s amortized cost (that is, the gross carrying amount less the loss allowance).

(ii) Other Income

Service charges, ABM network revenue, commissions and revenue from other sources are recognized as revenue when the related services are performed or are provided.

New Standards and Interpretations Not Yet Adopted

Amendments to IAS 1 require entities reporting under IFRS to disclose their material accounting policy information, instead of significant accounting policies, effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. This amendment did not materially affect the Credit Union’s financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of the assets and liabilities recognized in the financial statements within the next financial year are:

Derecognition of Mortgages and Loans Held by Other Parties

The Credit Union derecognizes member loans when the contractual rights to the cash flows from the member loans expire, or the Credit Union transfers the member loans. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

If the terms of a member loan are modified, then the Credit Union evaluates whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

Fair Value of Financial Instruments

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

The fair values of the Credit Union's financial instruments not quoted in an active market were estimated using the valuation methods and assumptions as described in the respective notes to these financial statements. Assumptions used include discount rates and estimates of future cash flows. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of the instruments, taking into account changes in market rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the derived fair value estimates may not be capable of being realized immediately and are not recorded in the financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Member Loan Loss Provision

The Credit Union recognizes allowance for loan losses for ECL on member loans. The Credit Union measures allowance for loan losses monthly according to the three-stage ECL model as follows:

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit Impaired
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk (SICR) relative to its initial recognition.	Following a significant increase in credit risk (SICR) relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).
Criteria for movement	At origination, all member loans are categorized into stage 1. A commercial loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement in the credit risk grading is approved by credit managers. For mortgages and personal loans, migration back to Stage 1 may occur upon approval of loan officers if all signs of previous credit deterioration are remedied.	The Credit Union determines a SICR has occurred in mortgages, personal and commercial loans when: A contractual payment is more than 30 days past due.	A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred: A breach of contract such as a default or delinquency in interest or principal payments; Payment on a loan is overdue 90 days or more; or It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
ECL methodology	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months.	Impairment is estimated on the expected credit losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument.	
Collective or individual assessment	Collective assessment of member loans grouped on the basis of similar risk characteristics based on loan type, the length of time the loans are past due and the historical loss experience. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous.		Each credit-impaired member loan is individually assessed.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Member Loan Loss Provision (Continued)

<table>
<tr><td>Application of ECL methodology</td><td>Expected credit loss on a group of member loans is measured on the basis of an explicit probability of default approach. The Credit Union develops loss rates for member loans in Stage 1 and 2 based on historical default and loss experiences for those types of member loans, adjusted for current economic conditions and forecasts for future economic conditions. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans and unused lines of credit). For undrawn loan commitments, the estimate of drawdown is based on historical drawdown information.</td><td>The probability of default on credit-impaired member loans is 100%, therefore, the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union’s best estimate of the difference between the loan’s carrying value and the present value of expected cash flows discounted at the loan’s original effective interest rate.</td></tr>
<tr><td>Key forward-looking information</td><td colspan="2">Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Credit Union's members.

The ECL calculation is sensitive to forward looking scenarios and their respective probability weightings as at the reporting date. Given the significant fluctuations in the Canadian economy as the Bank of Canada works to combat inflation by increasing interest rates, combined with supply chain shortages, the Canadian economy remains uncertain. It remains difficult to predict whether the increase in expected credit losses will materialize into a significant level of write- offs. It is also uncertain whether the Credit Union will recognize additional increases in expected credit losses in subsequent periods. At the reporting date, forecasts and information available surrounding the potential impact of a recession continue to evolve. Any information obtained after the reporting period will be reflected in the ECL of future periods. This may
cause significant volatility in the ECL.</td></tr>
</table>

3. CASH

The Credit Union's current accounts are held with Central 1. The yield on the accounts at December 31, 2023 ranged from 0% to 5.15% (2022 – 0% to 4.40%).

4. INVESTMENTS

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

	2023	2022
Central 1 Deposits		
High Quality Liquid Assets	$ 13,246,182	$ 11,976,010
Accrued interest receivable	20,414	33,422
	$ 13,266,596	$ 12,009,432

High Quality Liquid Assets (HQLA) expected to be recovered or settled within twelve months of the reporting period total $8,886,341 (2022 - $6,454,694). HQLA expected to be recovered or settled more than 12 months after the reporting period total $4,359,840 (2022 - $5,521,316).

The HQLA deposits are on deposit with Credential Asset Management with Central 1 as Trustee. HQLA are held to satisfy liquidity requirements (Note 15) and may be withdrawn during a liquidity event. For deposits to meet the HQLA requirements, they must be bankruptcy remote and creditor proof from third party creditors. HQLA deposits are due within one to four years. At maturity, these deposits are reinvested at market rates for various terms.

	2023	2022
Other Deposits		
Concentra deposit	$ -	$ 501,275
Yorkville deposit	-	1,001,500
Total other deposits	$ -	$ 1,502,775
Equity Instruments		
Central 1 Credit Union – Class A	$ 53,325	$ 50,213
Central 1 Credit Union – Class E	293,800	293,800
Ficanex Technology Limited Partnership Units	84,712	97,206
Other	1,327	1,327
Total Equity Instruments	$ 433,164	$ 442,546
Total Investments	$ 13,699,760	$ 13,954,753

4. INVESTMENTS (Continued)

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 the Board of Directors of Central 1.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market price for these shares; however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are issued with a par value; however, they are redeemable at $293,800 at the option of Central 1. There is no separately quoted market price for these shares however, fair value is determined based on a discounted cash flow model using expected timing of redemption and a market rate of interest. Due to redemption of these shares being at the discretion of Central 1, with no planned redemption currently known, the time period used in the valuation is of significant length, therefore the cost of the shares approximates fair value.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities.

The Credit Union has outstanding $253,010 (2022 - $366,089) in index linked term deposits to its members. The index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of the TSX 60 index.

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, 2023, the Credit Union had entered into such contracts on index linked term deposits for a total of $253,010 (2022 - $366,089). The agreements are secured by a general security agreement covering all assets of the Credit Union.

6. MEMBER LOANS

	2023	2022
Residential mortgages	$ 160,936,830	$ 147,871,621
Personal loans	11,036,003	10,694,053
Commercial loans	18,838,522	15,203,786
	190,811,355	173,769,460
Accrued interest receivable	382,068	297,984
Allowance for impaired loans (Note 7)	(618,710)	(608,089)
Net member loans	$ 190,574,713	$ 173,459,355

Member loans expected to be recovered or settled within twelve months of the reporting period total $20,219,395 (2022 - $24,831,965). Member loans expected to be recovered or settled more than 12 months after the reporting period total $170,591,960 (2022 - $148,937,495).

Terms and Conditions

Member loans can have either a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 6.3%. The rate is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2023 was 7.20%.

The interest rate offered on fixed rate loans being advanced at December 31, 2023 ranges from 2% to 12.99%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments.

Commercial loans are to individuals and corporations and have various repayment terms. They are generally secured by mortgages on real property and general security agreements.

Mortgages and Loans Held by Other Parties

The Credit Union administers CEBA loans totaling $540,000 (2022 - $840,000) that are held by Export Development Canada.

The credit union no longer (2022 - $1,416,305) administers mortgages that were held by Concentra Financial. The last of these mortgages matured during the year and were repurchased by the Credit Union.

6. MEMBER LOANS (Continued)

Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	2023		2022	
	Principal	Yield	Principal	Yield
Variable rate	$ 36,083,760	6.45%	$ 32,190,154	6.88%
Fixed rate due less than one year	6,716,022	4.73%	10,172,008	3.66%
Fixed rate due between one and five years	148,011,573	3.51%	131,407,298	2.90%
	$ 190,811,355		$ 173,769,460	

Quality of collateral held

	2023	2022
Unsecured loans	$ 11,000,295	$ 10,662,199
Unsecured commercial loans	56,099	180,952
Loans secured by cash, member deposits	35,708	68,679
Loan secured by real property	171,437,719	161,113,864
Residential mortgages insured by government	8,281,534	1,743,766
	$ 190,811,355	$ 173,769,460

It is not practical to value all collateral as at the report date due to the variety of assets and conditions.

Fair Value

The fair value of member loans at December 31, 2023 was $183,985,839 (2022 - $168,457,578).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to the segments listed below. Individual or related groups of members loans which exceed 10% of members' equity:

	2023	2022
Residential mortgages	$ 8,997,619	$ 4,802,948
Commercial loans	4,955,793	3,294,259
	$ 15,020,412	$ 8,097,207

The majority of member loans are with members located in and around Ottawa, Ontario

7. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loans comprises:

	2023				2022
Residential Mortgage	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Balance at January 1	$ 54,674	$ 99	$ -	$ 54,773	$ 69,913
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(192)	192	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of allowance for loan losses	53,729	-	-	53,729	(15,140)
Loans written off	-	-	-	-	-
Recoveries of amounts	-	-	-	-	-
Balance at December 31	$ 108,211	$ 291	$ -	$ 108,502	$ 54,773

	2023				2022
Personal Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Balance at January 1	$ 117,515	$ 803	$ 414,575	$ 532,893	$ 534,123
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	476	(476)	-	-	-
Transfer to Stage 3	(30,052)	-	30,052	-	-
Net remeasurement of allowance for loan losses	(13,342)	-	-	(13,342)	36,021
Loans written off	-	-	(47,736)	(47,736)	(41,259)
Recoveries of amounts	-	-	3,273	3,273	4,008
Balance at December 31	$ 74,597	$ 327	$ 400,164	$ 475,088	$ 532,893

	2023				2022
Commercial Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Balance at January 1	$ 20,423	$ -	$ -	$ 20,423	$ 31,304
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of allowance for loan losses	14,697	-	-	14,697	(10,881)
Loans written off	-	-	-	-	-
Recoveries of amounts	-	-	-	-	-
Balance at December 31	35,120	-	-	35,120	20,423
Total	$ 217,929	$ 618	$ 400,163	$ 618,710	$ 608,089

7. ALLOWANCE FOR IMPAIRED LOANS (Continued)

The following table provides a breakdown of the expected credit losses by stage and nature of the loans under IFRS 9 at December 31, 2023:

	2023				2022
Residential Mortgage	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Current	$ 160,755,299	$ -	$ -	$160,755,299	$ 147,760,982
> 30 Days Past Due	-	181,531	-	181,531	110,639
Credit Impaired	-	-	-	-	-
	160,755,299	181,531	-	160,936,830	147,871,621
Allowance for Loan Losses	(108,211)	(291)	-	(108,502)	(54,773)
Carrying Amount	$ 160,647,088	$ 181,240	$ -	$ 160,828,328	$ 147,816,848

	2023				2022
Personal Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Current	$ 10,561,665	$ -	$ -	$ 10,561,665	$ 10,237,862
> 30 Days Past Due	-	20,383	-	20,383	41,616
Credit Impaired	-	-	453,955	453,955	414,575
	10,561,665	20,383	453,955	11,036,003	10,694,053
Allowance for Loan Losses	(74,598)	(327)	(400,163)	(475,088)	(532,893)
Carrying Amount	$ 10,487,067	$ 20,056	$ 53,792	$ 10,560,915	$ 10,161,160

	2023				2022
Commercial Loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Current	$ 18,838,522	$ -	$ -	$ 18,838,522	$ 15,203,786
> 30 Days Past Due	-	-	-	-	-
Credit Impaired	-	-	-	-	-
	18,838,522	-	-	18,838,522	15,203,786
Allowance for Loan Losses	(35,120)	-	-	(35,120)	(20,423)
Carrying Amount	$ 18,803,402	$ -	$ -	$ 18,803,402	$ 15,183,363
Balance at December 31	$ 189,937,557	$ 201,296	$ 53,792	$ 190,192,645	$ 173,161,371

7. ALLOWANCE FOR IMPAIRED LOANS (Continued)

Key Assumptions in Determining the Allowance for Impaired Loans

As disclosed in Note 2, the allowance for impaired loans is calculated based on 3 stages of loans. The Credit Union has identified that Stage 3 loans are those loans that are credit impaired as of the reporting date. The allowance includes the lifetime expected credit losses associated with these identified member loans. This amount has been calculated using SaskCentral's IFRS 9 Lite Impairment Model, and amounted to $400,163 at December 31, 2023.

The Credit Union has identified that Stage 2 loans are those loans which have shown signs of an increased credit risk. An amount equal to the expected lifetime credit loss has been included in the allowance, and was calculated using SaskCentral's IFRS 9 Lite Impairment Model and amounted to $618 at December 31, 2023.

The Credit Union has identified that any loans which do not fall under Stage 2 or 3 noted above would fall within the Stage 1 category. The allowance includes an amount equal to 12 months of expected credit losses associated with these loans, which was calculated using SaskCentral's IFRS 9 Lite Impairment Model, as an amount equal to 12 months of expected credit losses associated with these loans, and amounted to $217,929 at December 31, 2023.

Loans with repayments past due but not regarded as individually impaired include:

2023	1-29 Days	30-89 Days	90 days and greater	December 31 Balance
Residential mortgages	$ 1,059,652	$ 181,531	$ -	$ 1,241,183
Personal loans	189,398	6,343	-	195,741
Commercial loans	127,294	-	-	127,294
Carrying Amount	$ 1,376,344	$ 187,874	$ -	$ 1,564,218

2022	1-29 Days	30-89 Days	90 days and greater	December 31 Balance
Residential mortgages	$ 1,066,660	$ -	$ -	$ 1,066,660
Personal loans	215,581	41,616	-	257,197
Commercial loans	-	-	-	-
Carrying Amount	$ 1,282,241	$ 41,616	$ -	$ 1,323,857

8. PROPERTY PLANT AND EQUIPMENT

	Land	Building	Capital and Leasehold Improvements	Computer Equipment	Furniture and Equipment	Total
Cost						
December 31, 2021	$ 37,726	$ 669,933	$ 301,198	$ 207,153	$ 196,336	$ 1,412,346
Additions	-	-	27,535	-	-	27,535
December 31, 2022	37,726	669,933	328,733	207,153	196,336	1,439,881
Additions	-	485,768	16,756	62,257	78,267	643,048
Disposals	-	-	-	(13,031)	-	(13,031)
December 31, 2023	$ 37,726	$ 1,155,701	$ 345,489	$ 256,379	$ 274,603	$ 2,069,898
Accumulated Depreciation						
December 31, 2021	$ -	$ 554,972	$ 270,664	$ 194,584	$ 191,241	$ 1,211,461
Depreciation	-	18,983	8,772	11,508	2,401	41,664
December 31, 2022	-	573,955	279,436	206,092	193,642	1,253,125
Depreciation	-	53,602	6,783	7,897	4,854	73,136
Disposals	-	-	-	(13,031)	-	(13,031)
December 31, 2023	$ -	$ 627,557	$ 286,219	$ 200,958	$ 198,496	$ 1,313,230
Net Book Value						
December 31, 2022	$ 37,726	$ 95,978	$ 49,297	$ 1,061	$ 2,694	$ 186,756
December 31, 2023	$ 37,726	$ 528,144	$ 59,270	$ 55,421	$ 76,107	$ 756,668

9. MEMBER DEPOSITS

	2023	2022
Chequing	$ 26,823,666	$ 27,726,922
Demand	12,806,224	14,234,756
Platinum savings	23,214,421	28,443,282
Term	87,566,192	64,739,627
Registered retirement savings plan	18,936,030	18,198,327
Registered retirement income funds	7,682,737	7,306,388
Tax-free savings account	22,800,820	17,713,929
	$ 199,830,090	$ 178,363,231
Accrued interest payable	3,078,860	1,472,834
	$ 202,908,950	$ 179,836,065

Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.50% at December 31, 2023.

Demand deposits and platinum savings are due on demand and bear interest at a variable rate up to 1.25% at December 31, 2023. Interest is calculated daily and paid on the accounts monthly or quarterly.

The registered retirement savings plan (RRSPs) accounts can be fixed or variable rate. Term deposits and fixed RRSPs bear fixed rates for terms of up to five years. Interest can be paid annually or upon maturity. Both term deposits and RRSPs bear interest at rates up to 5.80% at December 31, 2023.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually or upon maturity. The interest rates offered on term deposits range from 1.10% to 5.85% at December 31, 2023.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts (TFSAs) can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing deposits is an amount of $700,471 (2022 - $933,196) denominated in U.S. dollars ($940,803 CDN dollars, 2022 - $1,282,865 CDN dollars).

9. MEMBER DEPOSITS (Continued)

Mutual Funds held by Aviso

Aviso administers mutual funds totaling $50,400,000 (2022 - $45,144,273) for Credit Union members.

Fair Value

The fair value of member deposits at December 31, 2023 was $199,931,650 (2022 - $176,314,201).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

Average Yields to Maturity

Member deposits bear interest at both variable and fixed rates with the following average yields at:

	2023		2022	
	Principal	**Yield**	**Principal**	**Yield**
Variable rate	$ 72,663,314	0.50%	$ 82,340,342	0.50%
Fixed rate due less than one year	76,432,274	5.01%	51,948,193	3.26%
Fixed rate due between one and five years	50,734,502	4.61%	45,547,530	3.41%
	$ 199,830,090		$ 179,836,065	

Concentration of Risk

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

There are no individual or related groups of member deposits which exceed 10% of member deposits in each of the deposit types.

The majority of member deposits are with members located in and around Ottawa, Ontario.

10. INCOME TAXES

The significant components of tax expense included in net income are composed of:

	2023	2022
Current tax expense	$ (66,083)	$ 132,796

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2022 - 26.5%) are as follows:

	2023	2022
Income (loss) before taxes	$ (456,564)	$ 514,400
Expected taxes based on the statutory rate	(120,989)	136,316
Reduction due to credit union deduction	-	(60,561)
Other	54,906	57,041
Total income tax expense (recovery)	$ (66,083)	$ 132,796

11. MEMBERS' SHARES

	2023			2022		
	Total	Equity	Liability	Total	Equity	Liability
Membership shares	78,891	$ 394,453	$ -	78,139	$ 390,693	$ -
Patronage shares	4,181	41,810	-	4,413	44,130	-
		$ 436,263	$ -		$ 436,263	$ -

During the year, 9,861 (2021 – 5,486) membership shares were issued and 9,109 (2022 - 4,187) shares were redeemed. The Credit Union is authorized to issue an unlimited number of membership shares.

During the year no (2022 - nil) patronage shares were issued and 232 (2022 - 157) shares were redeemed. The Credit Union is authorized to issue an unlimited number of patronage shares.

11. MEMBERS' SHARES (Continued)

Terms and Conditions

Membership Shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to maintain a minimum of fifteen shares at $5 per share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by FSRA. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (Note 16), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

Patronage Shares

Patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par only when a membership is withdrawn. There is no limit on the number of shares which can be held by a member. The withdrawal of patronage shares is subject to the Credit Union maintaining adequate regulatory capital (Note 16), as is the payment of any distributions on these shares. Patronage shares that are available for redemption are classified as a liability. Any difference between the total patronage shares and the liability amount are classified as equity.

Patronage rebates are at the discretion of the Board of Directors unless a constructive obligation exists for distribution.

12. TRANSFERS OF LOANS RECEIVABLE

The Credit Union periodically may sell mortgage loans to other financial institutions.

As at December 31, 2023, the credit union no longer holds any outstanding loans transferred. In 2022 these amounted to $1,416,305. The net gain or loss on the sale of mortgages resulting from these transfers is immediately recognized in the statement of comprehensive income and there were no credit losses incurred on the mortgages previously transferred.

Transfer of loans receivable activity in the year:

	2023	2022
Cash inflows remitted on collections	$ 22,512	$ 55,319
Service fees received	$ 2,058	$ 5,724

13. RESTRICTED AND RELATED PARTY TRANSACTIONS

The Credit Union entered into the following transactions with restricted and related parties. Restricted parties are defined by O. Reg. 105/22 Section 92 as directors and officers as well as their spouses and immediate dependent family members. Related parties 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 management.

		2023		2022
Compensation, pension and benefits	$	667,394	$	572,166
Loans to restricted and related parties				
Aggregate value of loans received	$	1,212,112	$	1,284,840
Interest received on loans advanced		28,029		27,322
Total value of lines of credit advanced		393,556		202,308
Interest received on lines of credit advanced		16,578		7,007
Unused value of lines of credit		912,519		855,141

The Credit Union's policy for lending to restricted and related parties is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit.

		2023		2022
Deposits from restricted and related parties				
Cash inflows remitted on collections	$	1,005,485	$	879,161
Service fees received	$	15,725	$	28,112

The Credit Union's policy for receiving deposits from restricted and related parties 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 restricted and related parties.

Frontline manages its compensation in accordance with its policies which are reviewed and approved annually by the Board. All decisions regarding base pay, annual increases, and bonuses for officers are recommended by the Governance and Oversight Committee and approved by Board. All other compensation to the employees is approved by the Board of Directors. Section 40 of O. Reg.105/22 requires the disclosure of total remuneration paid to the officers and employees greater than $175,000. The following individuals received total remuneration greater than $175,000.

	Salary	Bonus	Pension	Benefits	Total
Steve Kingan, CEO	$ 179,893	$ 18,000	$ 12,593	$ 10,817	$ 221,303
Debbie Hamilton, COO	$ 145,000	$ 11,846	$ 10,150	$ 10,480	$ 177,476
Lisa Tanguay, CFO	$ 145,000	$ 11,275	$ 10,150	$ 11,026	$ 177,451

14. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The following table represents the carrying amount by classification.

December 31, 2023	FVTPL	FVOCI	Amortized Cost	Total
Cash	$ -	$ -	$ 11,062,717	$ 11,062,717
Investments	433,164	-	13,266,596	13,699,760
Member loans	-	-	190,574,713	190,574,713
Accounts payable and accrued liabilities	-	-	(504,208)	(504,208)
Member deposits	-	-	(202,908,950)	(202,908,950)
	$ 433,164	$ -	$ 11,490,868	$ 11,924,032
December 31, 2022				
Cash	$ -	$ -	$ 6,227,209	$ 6,227,209
Investments	442,546	-	13,512,207	13,954,753
Member loans	-	-	173,459,355	173,459,355
Accounts payable and accrued liabilities	-	-	(1,215,771)	(1,215,771)
Member deposits	-	-	(179,836,065)	(179,836,065)
	$ 442,546	$ -	$ 12,146,935	$ 12,589,481

The following table provides an analysis of financial assets and financial liabilities 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 valuation based on quoted market bid prices in active markets for identical assets or liabilities;

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

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

14. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (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, 2023	**Level 1 Quoted Market Bid Price**	**Level 2 Observable Market Inputs**	**Level 3 Non-Observable Market Inputs**	**Total**
Financial assets				
Investments - FVTPL	$ -	$ 348,452	$ 84,712	$ 433,164
December 31, 2022				
Financial assets				
Investments - FVTPL	$ -	$ 345,619	$ 97,206	$ 442,825

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT General Objectives, Policies and Procedures

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 quarterly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

CREDIT RISK

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure theloan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

Objectives, Policies and Procedures

The Credit Union's credit risk management policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk management policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans and delinquent loans. The Board of Directors also receives an analysis of loans deemed to be uncollectible and allowance for impaired loans monthly.

The Credit Union's definition of default is consistent across credit management and accounting policies, with financial instruments considered to be credit impaired when a borrower fails to make a contractual payment and the payment is past due for 90 days.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is nil.

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

A sizeable portfolio of the loan book is secured by residential property in and around Ottawa, 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.

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.

LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows to meet all cash outflow obligations as they fall due.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective market conditions and the related behaviour of its members and counterparties.

Objectives, Policies and Procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions and Caisses Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet members’ needs, operational expenses and all other Credit Union obligations. The Credit Union has set a minimum liquidity ratio of 7%.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cashflows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements at December 31, 2023.

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

As at December 31, 2023 the position of the Credit Union is as follows:

	Maximum Exposure
Cash	$ 11,062,717
Liquidity reserve deposit	13,265,827
	24,328,544
Total liquidity requirement	15,155,437
Excess liquidity requirement	$ 9,173,107

The maturities of liabilities are shown below under Market Risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

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's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to members as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Credit Union's major source of income is its financial margin, the difference between interest earned on members loans and investments and interest paid on member deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Objectives, Policies and Procedures (Continued)

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Financial Services Regulatory Authority of Ontario (FSRA) in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FSRA as required by Credit Union regulations. For the year ended December 31, 2023, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Maturity dates	Assets	Yield	Liabilities and Members' Equity	Yield	Gap
Interest sensitive					
< 12 months	$ 62,769,255	5.98%	$ 76,432,273	5.01%	$ (13,663,018)
1 – 2 years	102,820,231	3.11%	41,471,645	4.59%	61,348,586
3 – 5 years	50,091,183	4.34%	9,262,858	4.71%	40,828,325
	215,680,669	4.23%	127,166,776	4.85%	88,513,893
Non-interest sensitive	825,575		89,339,468		(88,513,893)
Total	$ 216,506,244		$ 216,506,244		$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors. Non-interest sensitive liabilities and members' equity contain demand savings and member chequing deposits of $72,663,314.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1.00% could result in an increase to net income of $195,000, while a decrease in interest rates of 1.00% would result in a decrease to net income of $240,000.

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.

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

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.

The Credit Union’s foreign exchange risk is related to U.S. dollar deposits. Foreign currency changes are continually monitored by Management for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy. The Credit Union will endeavor to maintain
U.S. dollar assets in proportion to its U.S. dollar liabilities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to members as well as currency purchase costs.

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates is controlled by maintaining U.S. cash deposits in proportion to the U.S. dollar member deposits.

For the year ended December 31, 2023, the Credit Union's exposure to foreign exchange risk was within the structural risk management policy.

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.

16. CAPITAL MANAGEMENT

The Credit Union’s objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Regulations to the Act require that the Credit Union establish and maintain sufficient capital to support the prudent operations, risk profile and align with the credit union’s stress testing program and internal capital adequacy assessment process:

- Tier 1 capital ratio: Tier 1 capital calculated in accordance with the Act shall not be less than 6.5% of the risk weighted value of its assets;

- Total capital ratio: Tier 1 and Tier 2 capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets;

16. CAPITAL MANAGEMENT (Continued)

- Leverage ratio: Retained earnings shall not be less than 3.0% of the book value of assets.

- Capital conservation buffer ratio: Tier 1 capital calculated in accordance with the Act must exceed the requirement for the Tier 1 capital ratio by 2.5%;

- Total supervisory capital ratio: Tier 1 capital, including the capital conservation buffer, and Tier 2 capital calculated in accordance with the Act shall not be less than 10.5% of the risk weighted value of its assets; and

The Credit Union considers its capital to include membership shares, patronage shares, retained earnings and allowance for Stage 1 and Stage 2 loan losses up to the regulatory limits. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Act which establishes the applicable percentage for each class of assets.

	2023	2022
Tier 1 Capital		
Membership shares	$ 394,453	$ 390,693
Retained earnings	12,261,095	12,651,576
Accumulated other comprehensive income	-	-
Tier 2 Capital		
Allowance for Stage 1 and 2 loan losses	218,547	193,514
Patronage shares	41,810	44,130
Total regulatory capital	$ 12,915,905	$ 13,279,913
Tier 1 capital ratio	13.58%	15.90%
Tier 2 and total capital ratio	13.86%	16.10%
Leverage ratio	5.96%	6.80%

As at December 31, 2023 the Credit Union's risk weighted value of its assets is $93,207,114.

17. COMMITMENTS

Credit Facilities

The Credit Union has a total credit facility with Central 1 for $5,775,000. This includes a CAD Clearing limit of $2,250,000 which is charged interest at the BOCOR +.95%, a USD Clearing limit of $25,000 denominated in US dollars, which is charged interest based on the US Base Rate and a $3,500,000 Line of Credit which is charged interest of CDOR + 50bps. These credit facilities are secured by a general security agreement covering all assets of the Credit Union. For credit facilities, interest is charged daily and collected monthly. At December 31, 2023 these facilities have not been utilized (2022 – nil).

Member Loans

The Credit Union has the following commitments to its members at the year end date on account of loans, unused lines of credit and letters of credit:

Unused lines of credit	$ 46,648,767
Letters of credit	$ 25,000

18. DEFINED CONTRIBUTION PENSION PLAN

The Credit Union makes contributions to a pension plan on behalf of its staff. The plan is a defined contribution plan, which specifies the amount of contributions to be paid on behalf of the employees based on length of service and rates of pay.

The amount contributed to the plan for 2023 was $85,008 (2022 - $73,177). The contributions were made for current service and are included in salaries and employees and benefits expense.