TALKA CREDIT UNION LIMITED

FINANCIAL STATEMENTS

For the year ended December 31, 2024

TALKA CREDIT UNION LIMITED

For the year ended December 31, 2024

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Management Responsibility

To the Members of Talka Credit Union Limited:

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

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgements and estimates in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgement is required.

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

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

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

March 21, 2025

e-Signed by Ronald Smith
2025-03-20 11:40:16:16 EST

Chief Executive Officer

To the Members of Talka Credit Union Limited:

Opinion

We have audited the financial statements of Talka Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2024, and the statements of (loss) income and comprehensive (loss) income and 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, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board (“IASB”).

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.

Emphasis of Matter - Capital Management

We draw attention to Note 12 of the financial statements, which indicates that the Credit Union did not meet the minimum regulatory capital conservation buffer ratio and total supervisory capital ratio as at December 31, 2024. Our opinion is not modified in respect of this matter.

Other Matter

The financial statement for the year ended December 31, 2023, were audited by another auditor who expressed unmodified opinion on those statements on March 7, 2024.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the IASB, 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.

MNP LLP
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T: 905.333.9888 F: 905.333.9583

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.

MNP LLP

Burlington, Ontario — Chartered Professional Accountants

March 21, 2025 — Licensed Public Accountants

MNP

TALKA CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION

As at December 31	2024	2023
ASSETS		
Cash and cash equivalents	-	15,173,408
Investments (Note 5)	42,289,469	25,298,649
Loans to members (Note 6)	203,458,388	201,000,629
Other assets	31,205	187,613
Income taxes recoverable	355,691	6,584
Property, plant and equipment (Note 8)	3,700,044	130,951
Intangible assets (Note 8)	158,279	86,868
Deferred income taxes (Note 16)	111,000	123,434
	250,104,076	242,008,136
LIABILITIES		
Bank indebtedness (Note 9)	4,030,605	-
Member deposits (Note 10)	233,731,340	228,377,978
Accounts payable and accrued liabilities	362,783	355,707
Members' share capital (Note 11)	358,987	365,067
	238,483,715	229,098,752
MEMBERS' EQUITY		
Retained earnings	11,620,361	12,909,384
	250,104,076	242,008,136

Subsequent Events (Note 21)

Approved on behalf of the board:

e-Signed by Joshua Rocci
2025-03-20 17:07:08:08 EST

Director

e-Signed by Joseph Futino
2025-03-21 09:59:58:58 EST

Director

TALKA CREDIT UNION LIMITED

STATEMENT OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME AND CHANGES IN MEMBERS' EQUITY

For the year ended December 31	2024	2023
Interest Revenue (Note 13)	11,434,834	9,355,892
Interest Expense		
Interest Expense (Note 14)	7,609,304	6,599,407
Distribution to Members (Note 11)	-	300,782
	7,609,304	6,900,189
Interest Margin	3,825,530	2,455,703
Provision for Expected Loan Losses (Note 7)	3,109,909	15,428
Net Interest Income, After Provision for Loan Losses	715,621	2,440,275
Other income (Note 15)	409,986	336,803
Net Interest and Other Incomes	1,125,607	2,777,078
Operating Expenses		
Salaries and benefits	1,205,579	1,018,342
Depreciation	120,749	49,189
Occupancy	114,290	70,497
General and administrative expenses	1,127,884	1,009,982
Interest on operating loan and bank overdraft	88,309	133,088
	2,656,811	2,281,098
Net (Loss) Income Before Income Taxes	(1,531,204)	495,980
Current (Note 16)	(254,615)	95,600
Deferred (Note 16)	12,434	(4,882)
Net (Loss) Income and Comprehensive (Loss) Income	(1,289,023)	405,262
Retained earnings, beginning of year	12,909,384	12,504,122
Retained earnings, end of year	11,620,361	12,909,384

TALKA CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

For the year ended December 31	2024	2023
Cash Flows From Operating Activities		
Net (Loss) Income and Comprehensive (Loss) Income	(1,289,023)	405,262
Adjustments for:		
Interest revenue	(11,434,834)	(9,355,892)
Interest expense	7,609,304	6,900,189
Interest received on member loans	10,647,848	8,367,178
Interest received on investments	742,223	811,817
Interest paid on member deposits	(8,574,420)	(5,531,141)
Depreciation	120,749	49,189
Provision for expected loan losses	3,109,909	15,428
Deferred income taxes	12,434	(4,882)
Income tax provision	(254,615)	95,600
Income taxes paid	(94,492)	(64,364)
Changes in operating assets/liabilities:		
Member deposits	6,318,478	30,559,417
Loans to members	(5,467,196)	(5,698,740)
Net change in non-cash working capital balances related to operations	107,773	(2,196)
	1,554,138	26,546,865
Cash Flows From Financing Activities		
Demand loans	-	(9,500,000)
Members' share capital	(6,080)	(17,239)
	(6,080)	(9,517,239)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(3,650,475)	(13,141)
Purchase of intangible assets	(110,778)	-
Investments	(16,990,820)	(2,780,740)
	(20,752,073)	(2,793,881)
(Decrease) Increase in Cash and Cash Equivalents (Bank Indebtedness)	(19,204,013)	14,235,745
Opening Cash and Cash Equivalents	15,173,408	937,663
Closing (Bank Indebtedness) Cash and Cash Equivalents	(4,030,605)	15,173,408

1. NATURE OF OPERATIONS

Reporting Entity

Talka Credit Union Limited (the "Credit Union") is a financial institution incorporated under the Credit Unions and Caisses Populaires Act, 2020 ("The Act") of Ontario and operates in accordance with this statute and the accompanying rules and regulations. The Credit Union is a member of Central 1 Credit Union ("Central 1"). Member deposits are insured by the Financial Services Regulatory Authority of Ontario ("FSRAO"). The Credit Union provides financial products and services to members throughout Ontario. The Credit Union's registered office and principal place of business is located at 830 Main Street East, Hamilton, Ontario.

These financial statements have been authorized for issue by the Board of Directors on March 20, 2025.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board (“IASB”).

The financial statements have been prepared using the historical cost basis except for the financial assets and liabilities classified as fair value through profit or loss (“FVTPL”).

The statement of financial position has been presented on a non-classified basis in order of liquidity.

The Credit Union’s functional currency is the Canadian dollar as this is the currency of the primary economic environment in which the Credit Union operates.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Credit Union will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. While there is an elevated allowance for impaired loans derived from one loan during the year ended December 31, 2024 as described in Note 7, the Credit Union has an appropriate credit risk management policy in order to mitigate losses in the remainder of its portfolio. As a result of the elevated allowance, the Credit Union was below minimum regulatory requirements for two ratios as defined in Note 12, and executed a sale of residential mortgage loans to improve these ratios subsequent to year end (Note 21).

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 material 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 4.

Financial Instruments

Classification and measurement

Financial instruments are classified using a principles-based approach based on the Credit Union’s business model and the nature of the cash flows of the asset. All financial instruments are initially measured at fair value and subsequently, all financial assets, including hybrid contracts, are measured at FVTPL, fair value through other comprehensive income (“FVOCI”) or amortized cost. Financial liabilities are subsequently measured at amortized cost. Financial assets are reclassified between measurement categories only when the business model for managing them changes. All reclassifications are applied prospectively from the reclassification date.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

The classification and measurement model requires that all debt instrument financial assets that do not meet a solely payment of principal and interest ("SPPI") test, including those that contain embedded derivatives, be classified at initial recognition as FVTPL. The SPPI test is conducted to identify whether the contractual cash flows of a financial instrument are solely payments of principal and interest such that any variability in the contractual cash flows is consistent with a basic lending arrangement. The principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset, for example, due to repayments of principal or amortization of the premium/discount. Interest for the purpose of this test is defined as the consideration for the time value of money and credit risk, which are the most significant elements of interest within a lending arrangement. Contractual terms that introduce a significant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding.

For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a held for trading or fair value basis are classified as FVTPL. Debt instruments that are managed on a hold to collect and for sale basis are classified as FVOCI. Debt instruments that are managed on a hold to collect basis are classified as amortized cost.

All equity instrument financial assets are classified at initial recognition as FVTPL unless they are not held for short-term profit taking intent and an irrevocable designation is made to classify the instrument as FVOCI for equities.

Derivatives are measured at FVTPL. When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments. If the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are applied to the entire hybrid instrument. If the host contract is a financial liability or an asset that is not within the scope of IFRS 9, embedded derivatives are separately recognized if the economic characteristics and risks of the embedded derivative are not clearly and closely related to the host contract, unless an election has been made to elect the fair value option.

Financial assets are classified under the following classifications:

FVTPL

Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at fair value if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis.

Trading and non-trading financial instruments mandatorily measured at FVTPL are remeasured at fair value as at the balance sheet date. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value are included in non-interest income on a net basis. Interest income earned on trading and non-trading securities and dividends are included in interest income and interest expense.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

Financial instruments may be designated at FVTPL that would otherwise fall into a different accounting category. The fair value option designation, once made, is irrevocable and can only be applied if reliable fair values are available.

Cash and cash equivalents, bank indebtedness and certain investments described in Note 5 are measured at FVTPL.

Amortized cost
Financial assets measured at amortized cost are debt financial instruments with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses.
Loans to members and certain investments described in Note 5 are measured at amortized cost.

FVOCI
Debt financial instruments measured at FVOCI are non-derivative financial assets with contractual cash flows that meet the SPPI test and are managed on a hold to collect and for sale basis.

FVOCI debt instruments are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition, FVOCI debt instruments are remeasured at fair value through OCI, with the exception that both related foreign exchange gains or losses and changes in ECL allowances are recognized in the statement of income and comprehensive income. Cumulative gains and losses previously recognized in OCI are transferred from AOCI to the statement of income and comprehensive income when the debt instrument is sold. Realized gains and losses on sale, determined on an average cost basis, and changes in ECL allowances, are included in gains (losses) from debt securities measured at FVOCI and amortized cost on a net basis in the statement of (loss) income and comprehensive (loss) income. Interest income from FVOCI debt instruments is included in interest income.

Equity financial instruments are measured at FVTPL unless an irrevocable designation is made to measure them at FVOCI. Gains or losses from changes in the fair value of equity instruments designated at FVOCI, including any related foreign exchange gains or losses, are recognized in OCI. Amounts recognized in OCI will not be subsequently recycled to profit or loss, with the exception of dividends. Instead, cumulative gains or losses upon derecognition of the equity instrument will be transferred within equity from AOCI to retained earnings and presented in net gains (losses) reclassified to retained earnings.

The Credit Union does not currently hold any instruments at FVOCI.

Impairment
An expected credit loss impairment model applies for all financial assets not measured at FVTPL. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Forward-looking information (“FLI”) is incorporated into the estimation of ECL allowances, which involves significant judgment.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

The calculation of ECL allowances is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Credit Union expects to receive. The key inputs in the measurement of ECL allowances are as follows:

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

ECL stage development

The model has three stages:

Stage 1 – On initial recognition of the financial instrument, a loss allowance is recognized and maintained equal to 12 months of ECL. 12-month ECL is defined as the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the 12 months after the reporting date.

Stage 2 – If credit risk increases significantly relative to initial recognition of the financial instrument, the loss allowance is increased to cover full lifetime ECL. In assessing whether credit risk has increased significantly, the Credit Union compares the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of its initial recognition. Evidence of increased credit risk is observed when the financial instrument is 30 days or more past due on its contractual payment obligations or the financial instrument has had an unfavorable movement in internal risk ratings. In subsequent reporting years, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union places the financial instrument in the Stage 1 category and reverts to recognizing 12 months of ECL.

Stage 3 – When a financial instrument is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. The Credit Union considers a financial instrument as impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. All financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears are automatically considered impaired. Any financial instruments where the borrower has filed for bankruptcy, or a consumer proposal will also be re-staged to Stage 3.

Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Changes in the loss allowance, including the movement between 12 months and lifetime expected credit losses, is recorded in the statement of (loss) income and comprehensive (loss) income.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery. When financial instruments are secured, this is generally after all collateral has been realized or transferred to the Credit Union, or in certain circumstances, when the net realizable value of any collateral and other available information suggests that there is no reasonable expectation of further recovery. In events where a bankruptcy or consumer proposal occurs, management will file all required documentation with the trustee and realize any available security with the unrecoverable balance being immediately written off. In subsequent years, any recoveries of amounts previously written off are credited to the provision for expected loan losses.

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

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

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

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

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

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

Financial liabilities
Recognition and initial measurement

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

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in the statement of (loss) income and comprehensive (loss) income.

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

Cash and Cash Equivalents
Cash and cash equivalents includes cash on hand and deposits with banks. Cash and cash equivalents accounts are classified as measured at fair value through profit or loss.

Loans to members
All loans to members are financial assets with fixed or determinable payments that are not quoted in an active market. Member loans are initially measured at fair value, net of loan origination fees. Loans are subsequently measured at amortized cost using the effective interest rate method, less any impairment. An allowance for doubtful loans is deducted from the total of the loans on the statement of financial position.

Member deposits
Member deposits are initially recognized 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 method.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities are classified as other financial liabilities and are initially measured 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.

Members' share capital
Members' share capital are classified as liabilities or members' equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. All shares held at year end have met the criteria to be classified as liabilities.

Property, Plant and Equipment
Property, plant and equipment assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is provided at rates intended to depreciate the cost of the assets over their estimated useful lives:

Building	5-8% declining balance
Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

Intangible Assets
Intangible assets consist of computer software, rights for the use of software, and costs incurred to acquire those rights. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is provided using the declining basis at an annual rate of 30%.

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

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

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

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

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

Provisions
Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Cont'd)

Revenue Recognition
Interest on loans to members and investments is recognized using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of this method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the year to maturity or repayment. Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are included in interest using the effective interest method over the estimated repayment term of the related loan.

Other income consists of commission income, service charges, and rent. Other income is recognized when the transaction generating the commission or service charge occurs, which is typically at a point in time. Rental income is earned over the contractual term of the rental contract.

The Credit Union does not have any significant arrangements with multiple performance obligations or variable consideration.

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 the use of 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 (loss) income. Exchange gains and losses arising on the retranslation of available for sale financial assets are treated as a separate component of the change in fair value and recognized in net (loss) income.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction.

Impairment of non-financial assets
The Credit Union reviews the carrying amounts of all non-financial assets, which is comprised of property, plant and equipment, to determine whether there is an indication of impairment. An impairment loss is recognized when the carrying amount exceeds the recoverable amount, which is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the individual cash-generating units (“CGU”) to which the asset belongs, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

When tangible assets are determined to be impaired, an impairment loss is recorded in the current period net (loss) income. If an asset is subsequently determined to be no longer impaired, an impairment reversal is recorded in the current period. Impairment reversals cannot increase the carrying amount of an asset in excess of the carrying amount that would have been determined had no impairment loss been recognized in prior years.

3. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

IFRS 18 Presentation and Disclosure in Financial Statements (New)

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements. The new standard has not yet been incorporated into Part I of the CPA Canada Handbook - Accounting.

- IFRS 18 replaces IAS 1 Presentation of Financial Statements, and for all entities will: Introduce a new defined structure for the statement of profit and loss and require the classification of income and expenses in that statement into one of five categories: operating; investing; financing; income taxes; and discontinued operations. IFRS 18 introduces definitions of these categories for purposes of the statement of profit and loss. Specific categorization requirements will apply to entities whose ‘main business activity’ is to provide financing to customers or to invest in specified assets. Entities will also be required to present new subtotals for ‘operating profit or loss’ and ‘profit or loss before financing and income taxes’.

- Require disclosure of ‘management-defined performance measures’ (MPMs) in a single note to the financial statements. MPMs are subtotals of income and expenses that an entity uses in public communications outside of its financial statements, to communicate management's view of an aspect of the financial performance of the entity as a whole to users. Entities must disclose a reconciliation between the measure and the most directly comparable total or subtotal specifically required to be disclosed by IFRS® Accounting Standards or subtotal listed in IFRS 18.

- Enhance guidance about how to group information within the financial statements. For the statement of cash flows, require that ‘operating profit or loss’ be used as the starting point for determining cash flows from operating activities under the indirect method, and remove the optionality around classification of cash flows from interest and dividends.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, including for interim financial statements. Earlier application is permitted. The new standard is to be applied retrospectively, and, in the year of adoption, a reconciliation is required between how the statement of income and comprehensive income was presented in the comparative period under IAS 1 and how it is presented in the current year under IFRS 18. The Credit Union is currently assessing the impact of this standard on its financial statements.

4. 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 a change in an accounting estimate is recognized prospectively by including it in (loss) income and comprehensive (loss) income in the period of the change, if the change affects that period only; or 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 discussed below.

Fair Value of Financial Instruments
The Credit Union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

Loan Loss Provision

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates and interest rates;
- Declining revenues, working capital deficiencies, increases in balance sheet leverage and liquidity;
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument;
- The correlation between credit risk on all lending facilities of the same borrower; and
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses (ECLs) of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options and demand features;
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes;
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date;
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements; and
- Estimates of effective interest rates used in incorporating the time value of money.

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

In considering the assumptions used to measure ECLs this year, the Credit Union contemplated the significant uncertainty derived from world events including potential tariffs and their impact on unemployment rates, real gross domestic product (GDP) and interest rates. Unemployment and falling GDP can reduce a member's ability to repay their loan obligations. While management makes its best estimates and assumptions, actual results could differ from these estimates.

Deferred income taxes

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

Income taxes

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

5. INVESTMENTS

	2024	2023
Debt Instruments		
Fixed income securities	41,818,480	24,834,202
Accrued interest	189,416	186,559
Total Debt Instruments	42,007,896	25,020,761
Equity Instruments		
Central 1 Credit Union - Class A	63,873	60,188
Central 1 Credit Union - Class E	217,700	217,700
Total Equity Instruments	281,573	277,888
	42,289,469	25,298,649

Debt instruments consist of a pool of High Quality Liquid Assets (HQLA) to comply with regulatory liquidity guidance and Board policies that establish minimum levels of operating liquidity. HQLA securities consist of Level 1 government guaranteed debt instruments with no limits, Level 2A corporate bonds with a minimum rating of AA- limited to 40% and Level 2B corporate bonds with a minimum DBRS rating of BBB- limited to 15%. At year end, the Credit Union complies with regulatory requirements and Board policies.

Equity instruments include shares in Central 1 which are required as a condition of membership. These shares 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.

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

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

6. LOANS TO MEMBERS

	2024	2023
Personal loans	2,068,394	2,972,712
Residential mortgages	144,042,865	148,055,355
Commercial loans	55,121,849	41,705,797
Syndicated mortgages	5,577,130	8,609,178
Accrued interest	524,046	479,283
	207,334,284	201,822,325
Less: allowance for impaired loans (Note 7)	483,103	821,696
Less: allowance for originated credit-impaired loan (Note 7)	3,392,793	-
Total loans to members	203,458,388	201,000,629

Personal loans consist of term loans and lines of credit that are not real estate secured and have various repayment terms. Personal loans have fixed or variable interest rates and a maximum term of 5 years with an average rate of 7.00% at December 31, 2024 (7.10% in 2023).

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with blended payments of principal and interest. Residential mortgages have fixed or variable interest rates with an average rate of 4.97% at December 31, 2024 (4.57% in 2023).

Commercial loans and Syndicated mortgages consist of commercial loans and mortgages to partnerships and corporations and have various repayment terms. They are secured by various types of collateral including mortgages on real property, general security agreements, and personal guarantees. These loans have fixed or variable interest rates with an average rate of 5.99% at December 31, 2024 (5.83% in 2023).

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

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2024	2023
Unsecured or partially secured loans	1,556,915	2,463,631
Fully secured loans	511,479	509,081
Residential mortgages	141,520,996	145,449,208
Insured residential mortgages	2,521,869	2,606,147
Loans secured by commercial property	60,698,979	50,314,976
	206,810,238	201,343,043

6. LOANS TO MEMBERS (Cont'd)

Concentration of Risk

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

At December 31, 2024 there are 23 groups of members (2023 - 36) each with total loans exceeding 10% of members’ equity. The combined total balance outstanding is $47,016,394 (2023 - $63,529,809).

	2024	2023
Residential mortgages		
First mortgages	10,776,179	24,026,728
Meritlines of credit	6,418,297	7,168,573
Personal non-mortgage loans		
Personal loans	20,565	1,320
Lines of credit	-	636
Commercial loans	28,070,582	25,745,832
Syndicated mortgages	1,730,771	6,586,720
	47,016,394	63,529,809

7. ALLOWANCE FOR IMPAIRED LOANS

The following table shows a reconciliation of the opening and closing balances of the loan allowance based on expected credit losses:

	Stage 1 Provision	Stage 2 Provision	Stage 3 Provision	Total
Balance at January 1, 2023	755,721	1,000	49,547	806,268
Provision charged to net income	21,049	(800)	(4,821)	15,428
Balance at December 31, 2023	776,770	200	44,726	821,696
Balance at January 1, 2024	776,770	200	44,726	821,696
Provision charged to net loss	(340,754)	43,060	3,407,603	3,109,909
	436,016	43,260	3,452,329	3,931,605
Loans written off	(14,920)	(18,037)	(22,752)	(55,709)
Balance at December 31, 2024	421,096	25,223	3,429,577	3,875,896

The allowance for impaired loans is broken down as follows:

	Allowance for Impaired Loans		Aggregate Impaired Loans	
	2024	2023	2024	2023
Personal loans	31,593	105,619	23,216	38,500
Commercial loans	3,697,287	318,338	3,392,793	-
Residential loans	147,016	397,739	2,399,048	1,418,500
	3,875,896	821,696	5,815,057	1,457,000

Originated credit-impaired loan

During the year ended December 31, 2024, the Credit Union originated a credit-impaired commercial loan as a result of a credit-risk mitigation strategy on a high credit-risk member account. As at year end, the loan is current, however due to the credit-impaired origination criteria being met, the loan has been placed within Stage 3 with an expected credit loss of $3,392,793.

7. ALLOWANCE FOR IMPAIRED LOANS (Cont'd)

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year end that are past due but not classified as impaired because they are less than 90 days past due.

2024	1 – 29 days	30 – 59 days	60 – 89 days	Total
Personal loans	358	13,396	-	13,754
Commercial mortgages	578,001	-	1,053,927	1,631,928
Residential mortgages	2,084,230	711,083	-	2,795,313
	2,662,589	724,479	1,053,927	4,440,995

2023	1 – 29 days	30 – 59 days	60 – 89 days	Total
Personal loans	6,234	-	-	6,234
Commercial mortgages	-	-	-	-
Residential mortgages	1,388,033	-	-	1,388,033
	1,394,267	-	-	1,394,267

Key Assumptions in Determining the Allowance for Impaired Loans Stage 1 and 2 Provision

All loans have a probability of default. The Credit Union uses historical loss ratios of loans with similar characteristics to estimate the probability and severity of loss on origination of new loans issued. At each reporting date, the Credit Union considers evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. The methodology and assumptions used for estimating cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

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

8. PROPERTY, PLANT AND EQUIPMENT / INTANGIBLE ASSETS

	Land	Building	Furniture and fixtures	Computer equipment	Total	Intangibles
Cost						
Balance at December 31, 2022	14,583	274,668	150,003	213,325	652,579	279,952
Additions	-	-	-	13,141	13,141	-
Balance at December 31, 2023	14,583	274,668	150,003	226,466	665,720	279,952
Additions	1,434,219	2,196,409	-	19,847	3,650,475	110,778
Balance at December 31, 2024	1,448,802	2,471,077	150,003	246,313	4,316,195	390,730
Accumulated Depreciation						
Balance at December 31, 2022	-	210,419	141,545	164,455	516,419	162,246
Depreciation expense	-	3,140	1,545	13,665	18,350	30,839
Balance at December 31, 2023	-	213,559	143,090	178,120	534,769	193,085
Depreciation expense	-	64,719	1,263	15,400	81,382	39,367
Balance at December 31, 2024	-	278,278	144,353	193,520	616,151	232,452
Net Book Value						
December 31, 2023	14,583	61,109	6,913	48,346	130,951	86,868
December 31, 2024	1,448,802	2,192,799	5,650	52,793	3,700,044	158,279

9. BANK INDEBTEDNESS

The Credit Union has available a credit facility with Central 1 Credit Union of CAD $7,500,000 and USD $50,000. Security given is a general security agreement covering all assets of the Credit Union. At December 31, 2024, $2,728,427 CAD (2023 - $nil) of the credit facility was utilized which is included in bank indebtedness, bearing interest at a rate of the overnight rate plus 0.95% (2024 – 4.20%).

10. MEMBER DEPOSITS

MEMBER DEPOSITS	2024	2023
Demand accounts	67,733,043	68,556,102
Term deposits	104,653,714	101,748,479
Tax free savings accounts	24,350,883	21,337,615
Registered retirement savings plans	15,885,749	17,296,869
Registered retirement income funds	17,636,924	16,292,274
Accrued interest	3,471,027	3,146,639
	233,731,340	228,377,978

Demand accounts include chequing and savings accounts and are due on demand.

Term deposits have fixed rates of interest for terms up to five years, or pay a return based on market indexes. Interest can be paid monthly, annually, or upon maturity. At December 31, 2024, the average interest rate on term deposits was 4.20% (4.26% in 2023).

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

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

Tax free savings accounts can be fixed or variable rate with terms and conditions similar to those of the registered retirement savings plan accounts described above.

Registered plans
Concentra Trust acts as trustee of various registered plans offered to the members. Under the agreements with the trust companies, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates by the Credit Union on behalf of the trustee.

Concentration of Risk
The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. As at December 31, 2024, 5 members/groups had deposits in excess of 1% of total member deposits. As at December 31, 2023, 6 members/groups had deposits in excess of 1% of total member deposits. These deposits are broken down as shown on the following page:

10. MEMBER DEPOSITS (Cont'd)

	2024	2023
Chequing and savings	18,645,263	23,917,255
Term deposits	1,106,789	7,268,056
Registered savings plans	-	589,530
	19,752,052	31,774,841

11. MEMBERS' SHARE CAPITAL

MEMBERS' SHARE CAPITAL	2024	2023
Membership Shares	48,520	47,700
Patronage Shares	310,467	317,367
	358,987	365,067

The Credit Union is authorized to issue an unlimited number of member and patronage shares.

Share capital is comprised of membership shares and patronage shares. Membership shares represent the amount of shares that members are required to maintain as a condition of membership. Each member is required to own a minimum of four membership shares with an issue price of $5 each. As at December 31, 2024, the Credit Union had 9,704 membership shares outstanding (2023 - 9,540). Membership shares are classified as a liability. During the year ended December 31, 2024, there were net issuances of 164 membership shares for $820 cash consideration.

Patronage shares are non-voting shares and represent patronage dividends paid to members. Shares are redeemable on withdrawal from membership and are subject to the Credit Union meeting certain capital adequacy requirements.

Distribution on membership may be declared by the Board of Directors, subject to the availability of sufficient earnings to meet regulatory capital requirements of the Act as described in Note 12 of the financial statements. During the year ended December 31, 2024, the Credit Union declared $0 of distribution to members (2023 - $300,782). Membership shares are redeemable on withdrawal of membership, subject to the Credit Union meeting capital adequacy requirements.

Distribution to members

	2024	2023
Loan rebates	-	117,155
Bonus interest on member deposits	-	183,627
	-	300,782

12. CAPITAL MANAGEMENT

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The Credit Union considers its capital to comprise cash and cash equivalents, members' share capital, retained earnings, reserves, and the stage 1 and stage 2 provision for impaired loans.

The Credit Unions and Caisses Populaires Act, 2020, and FSRAO, establish minimum capital ratios that must be maintained by the Credit Union, including a minimum tier 1 capital ratio of 6.5%, minimum retained earnings to risk weighted capital ratio of 3.0%, minimum total capital ratio of at least 8.0%, minimum capital conservation buffer ratio of 2.5%, a minimum total supervisory capital ratio of 10.5%, and a minimum leverage ratio of 3%. At year end, the Credit Union did not meet the minimum regulatory capital conservation buffer ratio and total supervisory capital ratio. The Credit Union executed a sale of residential mortgage loans to improve these ratios subsequent to year end (see Note 21).

The Credit Union has an internal policy that requires a minimum limit for tier 1 capital ratio of 8.0%, retained earnings to risk weighted capital ratio of 5.0%, capital conservation buffer ratio of 2.5%, total capital ratio of 8.5%, total supervisory capital ratio of 11.5%, and leverage ratio of 5.0%. At year end, the Credit Union did not meet the minimum internal policy minimums for capital conservation buffer ratio, total supervisory capital ratio and leverage ratio. The Credit Union executed a sale of residential mortgage loans to improve these ratios subsequent to year end (see Note 21).

Regulatory capital	**2024**	**2023**
Tier 1 Capital		
Members' share capital	358,987	365,067
Retained earnings	11,620,361	12,909,384
Less: software exceeding 1% of Tier 1 Capital	(38,486)	-
Tier 2 Capital		
Stage 1 and stage 2 provision for impaired loans	446,319	776,970
	12,387,181	14,051,421
Percentage of total assets	4.95%	5.81%
Risk weighted equivalent value	122,878,962	119,204,835
Tier 1 capital ratio	9.72%	11.14%
Retained earnings to risk weighted capital ratio	9.46%	10.83%
Capital conservation buffer ratio	2.08%	3.79%
Total capital ratio	10.08%	11.79%
Total supervisory capital ratio	10.08%	11.79%
Leverage ratio	4.95%	5.79%

12. CAPITAL MANAGEMENT (Cont'd)

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

	2024	**2023**
Cash and deposits with Central 1	11,388,373	14,994,146
Deposits with other financial institutions	23,489	1,090,316
Fixed income securities	27,701,680	18,899,911
	39,113,542	34,984,373
% of member deposits and borrowings	16.73%	15.32%

13. INTEREST REVENUE

	2024	**2023**
Personal loans	181,978	164,464
Residential mortgages	7,157,058	5,832,374
Commercial mortgages	3,353,575	2,467,676
Investments	742,223	891,378
	11,434,834	9,355,892

14. INTEREST EXPENSE

	2024	**2023**
Demand chequing and saving accounts	806,032	808,827
Term deposits	4,464,355	3,876,995
Registered saving plans	645,535	557,338
Registered retirement income funds	646,623	555,654
Tax fee savings accounts	1,046,759	800,593
	7,609,304	6,599,407

15. OTHER INCOME

	2024	**2023**
Charges and fees	54,763	101,763
Rental income	13,600	12,800
Foreign exchange gains	44,483	18,771
Other	297,140	203,469
	409,986	336,803

16. INCOME TAX

The current income tax provision was calculated as follows:	**2024**	**2023**
Net (loss) income and comprehensive (loss) before income taxes	(1,531,204)	495,980
Depreciation in excess (shortfall) of capital cost allowance	(22,316)	21,056
Adjust reserves for tax purposes	(46,166)	5,767
Other items	3,686	2,467
Taxable income	(1,596,000)	525,270
Tax at prescribed rate of 26.50% (2022 - 26.50%)	(422,940)	139,197
Ontario Credit Union deduction	132,468	(43,597)
Other items	35,857	-
Current tax provision	(254,615)	95,600

16. INCOME TAX (Cont'd)

Deferred Tax Expense	2024	2023
Origination and reversal of temporary differences	12,434	4,882

The movement in deferred tax liabilities and assets are:

2024	Opening Balance	Recognized in Net (Loss) Income	Closing Balance
Property, plant and equipment	(28,617)	(4,383)	(33,000)
Allowance for impaired loans	142,223	1,777	144,000
Accrued liabilities	9,828	(9,828)	-
	123,434	(12,434)	111,000

2023	Opening Balance	Recognized in Net (Loss) Income	Closing Balance
Property, plant and equipment	(32,449)	3,832	(28,617)
Allowance for impaired loans	138,625	3,598	142,223
Accrued liabilities	12,376	(2,548)	9,828
	118,552	4,882	123,434

17. RELATED PARTY TRANSACTIONS

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

Compensation	**2024**	**2023**
Salaries and other short-term employee benefits	731,803	590,194
Total pension and other post-employment benefits	32,179	25,509
Medical and insurance benefits	75,741	52,465
	839,723	668,168

Loans to Key Management Personnel and Directors	**2024**	**2023**
Aggregate value of loans and mortgages outstanding	6,971,789	4,623,830
Interest received on loans advanced	149,149	70,195
Total value of lines of credit	807,289	1,000,812
Interest received on lines of credit advanced	113,735	21,353
Unused value of lines of credit	4,048,811	2,533,760

The Credit Union's policy for lending to key management personnel 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.

Deposits from Key Management Personnel and Directors	**2024**	**2023**
Aggregate value of term and savings deposits	1,449,318	1,427,222
Total interest paid on term and savings deposits	51,958	37,634

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

Included in board and committee expenses are honoraria totaling $60,000 (2023 - $60,000).

The Act requires the disclosure of remuneration paid to the five highest paid officers and/or employees whose total remuneration for the year exceeds $175,000. There was one employee of the Credit Union which would require disclosure: Chief Executive Officer, Ron Smith, with a salary of $203,846, incentive pay of $10,572 and benefits of $9,394.

18. FINANCIAL INSTRUMENTS

The following table represents the carrying amount by classification.

	2024	2023
Financial assets at fair value through profit or loss		
Cash and cash equivalents	-	15,683,961
Equity investments	281,573	277,888
	281,573	15,961,849
Financial assets at amortized cost		
Debt investments	42,007,896	25,020,761
Loans to members	203,458,388	201,000,629
	245,466,284	226,021,390
Financial liabilities at fair value through profit or loss		
Bank indebtedness	4,030,605	-
Financial liabilities at amortized cost		
Member deposits	233,731,340	228,377,978
Members’ share capital	358,987	365,067
Accounts payable and accrued liabilities	362,783	866,260
	234,453,110	229,609,305

The amounts set out below represent the fair values of the Credit Union's financial instruments where fair value differs from carrying cost.

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits reprice to market on a periodic basis. Cash and cash equivalents, bank indebtedness, accounts payable and accrued liabilities and members' share capital are considered to have fair values that approximate their carrying values due to their short term nature. Fair value of fixed rate investments, fixed rate loans to members, and fixed rate member deposits are determined by discounting the expected future cash flows of these instruments at current market rates for products with similar terms and credit risks. Contractual cash flows are assumed to represent expected cash flows.

2024	Fair value	Book value	Fair value over (under) book value
Assets			
Debt investments	41,919,451	42,007,896	(88,445)
Loans to members	203,431,149	203,458,388	(27,239)
Liabilities			
Member deposits	233,438,191	233,731,340	(293,150)

18. FINANCIAL INSTRUMENTS (Cont'd)

2023	Fair value	Book value	Fair value over (under) book value
Assets			
Debt investments	24,491,226	25,020,761	(529,535)
Loans to members	196,583,458	201,000,629	(4,417,171)
Liabilities			
Member deposits	227,677,091	228,377,978	(700,887)

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

Level 1
Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2
Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3
Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

2024	Level 1	Level 2	Level 3	Total
Central 1 Credit Union - Class A, E	-	281,573	-	281,573
Bank indebtedness	(4,030,605)	-	-	(4,030,605)
Total fair value	(4,030,605)	281,573	-	(3,749,032)

2023	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	15,683,961	-	-	15,683,961
Central 1 Credit Union - Class A, E	-	277,888	-	277,888
Total fair value	15,683,961	277,888	-	15,961,849

19. RISK MANAGEMENT

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives monthly 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.

Credit Risk
The Credit Union is exposed to the risk of loss predominately through its loan to members as its cash and cash equivalents are retained in reputable financial institutions. The Credit Union provides loans to members as its primary source of revenue. Credit is granted through consideration of the member's character, credit history, capacity for debt, and value of collateral available to secure the loan. The risk of credit loss is mitigated by requiring tangible security on loans in excess of $25,000. Mortgages are secured by real property. Term loans and lines of credit are secured by other assets equivalent to the approved balance on the loan.

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

Changes to credit risk in the year relate to a certain high risk commercial loan for which has been identified to have exposure due to uncertainty in collection. Additionally, there is uncertainty around the impact of potential tariffs and its impact on members.

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

Due to the impact of a certain high risk loan, there was a greater exposure to liquidity risk. To address this risk in the subsequent to the year the Credit Union sold the future cash flows on 43 residential loans to another financial institution to improve liquidity (See Note 21).

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 deposits and investments denominated in United States dollars. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. Foreign currency changes are continually monitored for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

19. RISK MANAGEMENT (Cont'd)

Interest Rate Risk

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

The Credit Union is required to establish policies and procedures to limit its exposure to interest rate risk. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board of Directors and by the Act. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The Credit Union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets may differ from that for the interest rate sensitive liabilities.

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

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

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union's analysis of risk due to changes in interest rates determined that an increase in interest rates of 0.50% (2023 - 0.25%) could result in an increase to net income of $165,000 (2023 - $85,000) while a decrease in interest rates of 0.50% (2023 - 0.25%) could result in an decrease to net income of $184,000 (2023 - $85,000).

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.

The tables below identify the maturity dates of interest rate sensitive financial instruments.

2024	Variable / on demand	Less than one year	One to five years	Non-rate sensitive	Total	Effective interest rate
Assets						
Investments	-	19,186,372	22,632,108	281,573	42,100,053	3.29
Loans to members	59,759,244	38,740,771	108,310,223	-	206,810,238	5.29
	59,759,244	57,927,143	130,942,331	281,573	248,910,291	
Liabilities						
Member deposits	68,981,856	91,965,534	69,312,923	-	230,260,313	3.32
Member shares	-	-	-	358,987	358,987	
Bank indebtedness	4,030,605	-	-	-	4,030,605	4.20
Accounts payable and accrued liabilities	-	-	-	362,783	362,783	
	73,012,461	91,965,534	69,312,923	721,770	235,012,688	

19. RISK MANAGEMENT (Cont'd)

2023	Variable / on demand	Less than one year	One to five years	Non-rate sensitive	Total	Effective interest rate
Assets						
Cash and cash equivalents	14,757,725	-	-	926,236	15,683,961	5.15
Investments	-	6,259,155	18,575,047	277,888	25,112,090	2.85
Loans to members	42,859,904	62,297,010	96,186,129	-	201,343,043	4.91
	57,617,629	68,556,165	114,761,176	1,204,124	242,139,094	
Liabilities						
Member deposits	69,937,634	84,348,223	70,945,482	-	225,231,339	3.43
Member shares	-	-	-	365,067	365,067	
Accounts payable and accrued liabilities	-	-	-	355,707	335,707	
	69,937,634	84,348,223	70,945,482	720,774	225,932,113	

20. COMMITMENTS

Mortgages
Outstanding commitments for future advances on mortgages are $325,000 (2023 - $ Nil).

Letters of Credit
Letters of credit available to members are $226,223 (2023 - $125,158).

Credit Lines
Unused lines of credit available to members are $29,887,004 (2023 - $30,725,598).

Contract Commitments
The Credit Union entered into an agreement with Smart Solution, expiring in 2027 and Central 1, expiring in 2027. Payments under the Smart Solutions agreement are dependent on the usage of services. Future minimum payments per annum, as calculated as at December 31, 2024, are approximately $129,435 (2023 - $112,008).

21. SUBSEQUENT EVENTS

Subsequent to year end, in compliance with directives issued by FSRAO, the Credit Union delisted six members whose primary business operations involved cheque cashing. The total member deposits balance held at year end for these members was $19,760,682.

On February 5, 2025, the Credit Union sold the rights to future cash flows on 43 residential loans to an arm’s length financial institution with a principal loan balance at the transfer date of $17,425,393 exclusive of accrued interest at the transfer date of $33,422, which approximated the carrying value of the loans as at December 31, 2024. Cash consideration of $17,526,162 was received on these loans.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation as follows:

Accounts payable of $510,553 have been reclassified to cash and cash equivalents.

Member deposits of $30,559,417 and loans to members of $5,698,740 have been reclassified from financing activities and investing activities, respectively, to operating activities on the statement of cash flows.

General and administrative expenses of $70,497 have been reclassified to occupancy on the statement of (loss) income and comprehensive (loss) income and changes in members' equity.