Victory Credit Union Limited
Financial Statements
December 31, 2023

Contents

For the year ended December 31, 2023

To the Members of Victory Credit Union Limited:

Opinion

We have audited the financial statements of Victory 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 customer-owners' equity, and cash flows and related schedules for the year then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

200 - 100 Venture Run, Dartmouth NS, B3B 0H9 1.800.495.5909 T: 902.835.7333 F: 902.835.5297

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.

Dartmouth, Nova Scotia

MNP LLP

March 8, 2024

Chartered Professional Accountants

Victory Credit Union Limited
Statement of Financial Position
As at December 31, 2023

	2023	2022
Assets		
Cash resources *(Note 5)*	**14,704,483**	13,560,899
Investments and deposits *(Note 7)*	**13,263,809**	11,107,159
Customer-owners' loans *(Note 6)*	**49,312,490**	48,955,511
Other assets	**701,401**	198,601
Deferred income taxes *(Note 8)*	**75,474**	21,500
Property and equipment *(Note 9)*	**1,686,079**	1,737,647
	79,743,736	75,581,317
Liabilities		
Customer-owners' deposits and accrued interest *(Note 10)*	**72,784,468**	69,411,198
Payables and accruals	**142,102**	64,555
Income taxes payable	**64,619**	25,875
	72,991,189	69,501,628

Commitments *(Note 12)*

	2023	2022
Customer-Owners' equity		
Customer-owners' shares *(Note 11)*	**220,860**	223,781
Retained earnings	**6,531,687**	5,855,908
	6,752,547	6,079,689
	79,743,736	75,581,317

Approved on behalf of the Board

Brad Macquarrie Digitally signed by Brad Macquarrie Date: 2024.03.13 13:11:08 -04'00'

Director **Director**

The accompanying notes are an integral part of these financial statements

Victory Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2023

	2023	*2022*
Income		
Loan interest	**2,378,091**	1,944,507
Investment income	**969,864**	396,366
	3,347,955	2,340,873
Interest and loan related expenses		
Interest on deposits	**415,675**	187,933
Borrowed money	**1,941**	951
	417,616	188,884
Loan impairment losses *(Note 6), (Note 17)*	**71,989**	35,533
Financial margin	**2,858,350**	2,116,456
Other income *(Note 15)*	**697,264**	816,261
Income before operating expenses	**3,555,614**	2,932,717
Operating expenses		
Salaries, benefits, and contracted services	**1,184,358**	1,113,706
Administrative expenses *(Schedule 1)*	**1,237,653**	975,521
Occupancy expenses *(Schedule 2)*	**112,727**	135,133
Depreciation of property and equipment *(Note 9)*	**96,058**	94,000
Central service charges	**83,349**	70,848
CUDIC assessment	**73,954**	68,017
	2,788,099	2,457,225
Income before income taxes	**767,515**	475,492
Provision for (recovery of) income taxes *(Note 8)*		
Current	**145,710**	61,469
Deferred	**(53,974)**	(1,000)
	91,736	60,469
Net comprehensive income	**675,779**	415,023

The accompanying notes are an integral part of these financial statements

	2023	2022
Cash provided by (used for) the following activities		
Operating activities		
Interest received from customer-owners' loans	**2,353,601**	1,939,038
Interest received from investments	**843,018**	316,928
Revenue from other income	**697,264**	816,260
Cash paid to suppliers and employees	**(3,056,531)**	(2,566,423)
Interest paid on deposits	**(353,875)**	(203,666)
Recovery of impaired loans	**7,141**	15,778
Income taxes paid	**(106,966)**	4,013
	383,652	321,928
Financing activities		
Net change in customer-owners' deposits	**3,309,529**	1,373,667
Net redemption of equity shares	**(2,921)**	(1,798)
	3,306,608	1,371,869
Investing activities		
Net change in customer-owners' loans	**(411,619)**	(5,574,645)
Net change in investments	**(2,090,567)**	212,253
Purchases of property and equipment	**(44,490)**	(33,687)
	(2,546,676)	(5,396,079)
Increase (decrease) in cash resources	**1,143,584**	(3,702,282)
Cash resources, beginning of year	**13,560,899**	17,263,181
Cash resources, end of year	**14,704,483**	13,560,899

Victory Credit Union Limited
Statement of Changes in Customer-Owners' Equity
For the year ended December 31, 2023

	Customer-owners' shares (Note 11)	Retained earnings	Total equity
Balance January 1, 2022	**225,579**	**5,440,885**	**5,666,464**
Net comprehensive income	**-**	**415,023**	**415,023**
Common shares issued	**7,500**	**-**	**7,500**
Common shares redeemed	**(8,857)**	**-**	**(8,857)**
Surplus shares redeemed	**(441)**	**-**	**(441)**
Balance December 31, 2022	**223,781**	**5,855,908**	**6,079,689**
Net comprehensive income	**-**	**675,779**	**675,779**
Common shares issued	**5,460**	**-**	**5,460**
Common shares redeemed	**(7,900)**	**-**	**(7,900)**
Surplus shares redeemed	**(481)**	**-**	**(481)**
Balance December 31, 2023	**220,860**	**6,531,687**	**6,752,547**

The accompanying notes are an integral part of these financial statements

Victory Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2023

	2023	2022
Income		
Loan interest	**2,378,091**	1,944,507
Investment income	**969,864**	396,366
	3,347,955	2,340,873
Interest and loan related expenses		
Interest on deposits	**415,675**	187,933
Borrowed money	**1,941**	951
	417,616	188,884
Loan impairment losses *(Note 6), (Note 17)*	**71,989**	35,533
Financial margin	**2,858,350**	2,116,456
Other income *(Note 15)*	**697,264**	816,261
Income before operating expenses	**3,555,614**	2,932,717
Operating expenses		
Salaries, benefits, and contracted services	**1,184,358**	1,113,706
Administrative expenses *(Schedule 1)*	**1,237,653**	975,521
Occupancy expenses *(Schedule 2)*	**112,727**	135,133
Depreciation of property and equipment *(Note 9)*	**96,058**	94,000
Central service charges	**83,349**	70,848
CUDIC assessment	**73,954**	68,017
	2,788,099	2,457,225
Income before income taxes	**767,515**	475,492
Provision for (recovery of) income taxes *(Note 8)*		
Current	**145,710**	61,469
Deferred	**(53,974)**	(1,000)
	91,736	60,469
Net comprehensive income	**675,779**	415,023

The accompanying notes are an integral part of these financial statements

Victory Credit Union Limited
Statement of Financial Position
As at December 31, 2023

	2023	*2022*
Assets		
Cash resources *(Note 5)*	**14,704,483**	13,560,899
Investments and deposits *(Note 7)*	**13,263,809**	11,107,159
Customer-owners' loans *(Note 6)*	**49,312,490**	48,955,511
Other assets	**701,401**	198,601
Deferred income taxes *(Note 8)*	**75,474**	21,500
Property and equipment *(Note 9)*	**1,686,079**	1,737,647
	79,743,736	75,581,317
Liabilities		
Customer-owners' deposits and accrued interest *(Note 10)*	**72,784,468**	69,411,198
Payables and accruals	**142,102**	64,555
Income taxes payable	**64,619**	25,875
	72,991,189	69,501,628
Commitments *(Note 12)*		
Customer-Owners' equity		
Customer-owners' shares *(Note 11)*	**220,860**	223,781
Retained earnings	**6,531,687**	5,855,908
	6,752,547	6,079,689
	79,743,736	75,581,317

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Victory Credit Union Limited (the "Credit Union") was formed pursuant to the Credit Union Act of Nova Scotia ("the Act"). The address of the Credit Union's registered office is 150 Wentworth Road, Windsor, Nova Scotia.

The Credit Union operates principally in personal and commercial banking. The Credit Union conducts its principal operations through three branches, offering products and services including deposit business, individual lending, and independent business and commercial lending. The deposit business provides a wide range of deposit and investment products and sundry financial services to all customer-owners. The lending business provides a variety of credit products and services designed specifically for each particular group of borrowers. Other business comprises business of a corporate nature such as real estate and insurance, investment, risk management, asset liability management, treasury operations and revenue and expenses not expressly attributed to the business units.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

The financial statements were approved by the Board of Directors and authorized for issue on March 6, 2024.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2023. Adoption of these amendments resulted in the Credit Union disclosing material accounting policy information instead of significant accounting policy information.

- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 12 Income Taxes

3. Basis of preparation

Basis of measurement

The financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments. The material accounting policies are set out in Note 4.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are prepared based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. These estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively in comprehensive income in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. **Basis of preparation** *(Continued from previous page)*

Macroeconomic environment

The Credit Union continues to operate in an uncertain macroeconomic environment due to actions taken by the Bank of Canada. There is inherent uncertainty in estimating the impacts of the rising interest rates, inflation and supply chain disruptions on the macroeconomic environment. As a result, a heightened level of judgment in estimating expected credit losses (ECL's) continues to be required.

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

By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future years could be material.

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers does not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

Key assumptions in determining the allowance for expected credit losses

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
- 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 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.

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, 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
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Loan to value ratios

3. Basis of preparation *(Continued from previous page)*

- Consumer Price Index
- Inflation
- Housing construction starts

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.

4. Summary of material accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of deposits with Atlantic Central classified as cash resources, investments and customer-owners' loans.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss include cash resources other than those identified above.

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union measures all equity investments at fair value.

4. Summary of material accounting policies *(Continued from previous page)*

Business model assessment

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

Contractual cash flow assessment

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

Reclassifications

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

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments, as well as lease receivables, contract assets, and any financial guarantee contracts and loan commitments not measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For customer-owners' loans the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period ("Stage 1"), unless there has been a significant increase in credit risk since initial recognition ("Stage 2"). For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date ("Stage 3"). Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

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

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

4. Summary of material accounting policies *(Continued from previous page)*

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

Refer to Note 17 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

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

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

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

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

Modification of financial assets

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

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

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

Financial liabilities

Recognition and initial measurement

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

4. **Summary of material accounting policies** *(Continued from previous page)*

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Transaction costs of equity transactions are treated as a deduction from equity.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Interest, gains and losses relating relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

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

Dividend income

Dividend income is recorded in profit or loss when the Credit Union's right to receive payments is established, it is probable that the economic benefits associated with the dividend will flow to the Credit Union, and the amount of the dividend can be measured reliably.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

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

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

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

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

Collateral

The Credit Union recognizes the proceeds from the sale of any non-cash collateral that has been pledged to it and a liability measured at fair value for its obligation to return the collateral.

If a debtor defaults under the terms of its contract and is no longer entitled to the return of any collateral, the Credit Union recognizes the collateral as an asset initially measured at fair value or, if it has already sold the collateral, derecognizes its obligation to return the collateral.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management system.

Investments and deposits

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

4. Summary of material accounting policies *(Continued from previous page)*

Share investments

Share investments are measured at fair value through profit or loss with adjustments to fair value recognized in profit or loss.

Debentures

Investments in debentures and term deposits are measured at amortized cost.

Customer-owners' loans

Customer-owners' loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Customer-owners' loans are subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses. Interest revenue is recorded on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

All assets having limited useful lives are depreciated using the declining balance method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition. The depreciation rates applicable for each class of asset during the current and comparative period are as follows:

	Method	***Rate***
Buildings	declining balance	5 %
Furniture and fixtures	declining balance	20 %
Paving	declining balance	8 %
Computer equipment	declining balance	45 %
Vaults	declining balance	20 %

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in comprehensive income as other operating income or other operating costs, respectively.

4. Summary of material accounting policies *(Continued from previous page)*

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount 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.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Customer-owners' deposits

Customer owners' savings and deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 income.

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 profit will be available which 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.

4. Summary of material accounting policies *(Continued from previous page)*

Customer-owners' shares

Customer-owners' shares, consisting of equity shares, are presented in the statement of financial position as equity instruments in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. They are not covered by deposit insurance. Common shares are redeemable upon request of the customer-owner and approval of the directors. Payments of dividends on shares presented as equity are recognized as a distribution directly in equity.

Dividends are recorded when declared by the Board of Directors.

Revenue recognition

Service charge fees and commission

The Credit Union generates revenue from providing various financing and investing services to its members. Revenue is recognized as services are rendered.

The Credit Union does not have an enforceable right to payment until services are rendered and commission revenue is earned when the products are sold.

The amount of revenue recognized on these transactions is based on the price specified in the contract.

The Credit Union does not expect to have any contracts where the period between the transfer of the promised goods or services to a customer-owner and payment by the customer-owner exceeds one year. Consequently, the Credit Union does not adjust any of the transaction prices for the time value of money.

Revenue recognition for items outside the scope of IFRS 15 are included in the financial instruments accounting policy.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in profit or loss for the current period.

5. Cash resources

	2023	*2022*
Cash - fair value through profit and loss	**2,785,150**	3,325,261
Liquidity and short-term deposits - amortized cost	**11,919,333**	10,235,638
	14,704,483	13,560,899

6. Members' loans receivable

Principal and allowance by loan type:

2023

	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value
Personal loans	6,782,896	43,419	39,077	73,194	**6,714,044**
Residential mortgages	28,868,393	322,454	30,449	80,379	**29,080,019**
Commercial loans	881,223	-	-	9,561	**871,662**
Commercial mortgages	1,284,789	-	-	4,182	**1,280,607**
Mortgage Pool	1,862,872	-	-	350	**1,862,522**
Syndicated loans	5,030,171	-	-	16,373	**5,013,798**
Lines of credit	4,400,987	57,486	51,737	74,475	**4,332,261**
Overdrafts	70,079	-	-	494	**69,585**
Accrued interest	87,992	-	-	-	**87,992**
Total	49,269,402	423,359	121,263	259,008	**49,312,490**

2022

	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value
Personal loans	7,256,339	31,973	28,776	65,160	7,194,376
Residential mortgages	28,392,948	69,480	14,890	66,872	28,380,666
Commercial loans	1,110,393	-	-	11,437	1,098,956
Commercial mortgages	971,323	-	-	1,522	969,801
Mortgage Pool	2,243,250	-	-	466	2,242,784
Syndicated loans	4,855,190	-	-	14,879	4,840,311
Lines of credit	4,146,768	84,882	76,394	50,088	4,105,168
Overdrafts	60,357	-	-	410	59,947
Accrued interest	63,502	-	-	-	63,502
Total	49,100,070	186,335	120,060	210,834	48,955,511

Customer-owners' loans can have either variable or fixed rate of interest and they mature within 1 month to 6 years. The rates offered to customer-owners' are determined by the type of security offered, the customer-owner's credit worthiness, competition from other lenders and the current prime rate.

Commercial loans that are not subject to a government guarantee are all secured by collateral ranging from specific assets such as vehicles, investments, and property to a general security agreement or personal guarantee.

Syndicated loans consist of conventional commercial mortgages maturing within five years and secured by commercial property. The Credit Union receives monthly amounts from the loan administrators which represent blended payments of principal and interest equal to its percentage interests in the loans, less an administration fee.

The mortgage pool consists of insured residential mortgages maturing within five years and secured by residential property. The Credit Union owns 100% of the pool and receives monthly amounts from the loan administrator which represent blended payments of principal and interest from the mortgages in the pool. The Credit Union pays an administrative fee to the loan administrator. The original subscription amount for the mortgage pool was $2,314,059. The original premium on the mortgage pool was $17,293.

6 Members' loans receivable *(Continued from previous page)*

The allowance for loan impairment changed as follows:

	2023	2022
Balance, beginning of year	**330,894**	317,519
Provision for loan impairment	**71,989**	35,533
Less: accounts written off, net of recoveries	**22,612**	22,158
Balance, end of year	**380,271**	330,894

7. Investments and deposits

	2023	2022
Measured at amortized cost:		
Atlantic Central guaranteed investment certificates bearing interest between 4.64% and 5.25%, and maturing between April and November 2024.	**8,000,000**	-
Atlantic Central guaranteed investment certificates bearing interest between 3.08% and 4.56%, and maturing between April and November 2023.	**-**	7,000,000
Debenture maturing October 18, 2024 bearing interest at 5.6%	**2,088,000**	-
Debenture maturing October 18, 2024 bearing interest at 5.6%	**568,962**	-
Debenture maturing October 7, 2023 bearing interest at 4.40%	**-**	2,000,000
Debenture maturing October 7, 2023 bearing interest at 4.30%	**-**	542,186
Debenture maturing September 27, 2024 bearing interest at 5.75%	**1,000,000**	-
	11,656,962	9,542,186
Shares measured at fair value through profit or loss:		
Atlantic Central common shares	**704,880**	729,090
Atlantic Central provincial shares	**137,000**	137,000
Atlantic Central - LSM shares	**587,202**	587,201
League Data Limited - class B preference shares	**25,670**	25,670
Other	**1,535**	1,535
	1,456,287	1,480,496
Accrued interest	**150,560**	84,477
Total	**13,263,809**	11,107,159

8. Income tax

Income tax expense recognized in profit (loss)

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial statutory income tax rates to income before income taxes. This difference results from the following:

	2023	2022
Income before income taxes	**767,515**	475,492
Combined Canada basic federal and provincial income tax rate	**29.0 %**	29.0 %
Expected income tax	**222,579**	137,893
Effect on income tax of:		
Tax impact of non-deductible interest & penalties	**160**	
Tax impact of change in tax rates & other adjustments	**(43,503)**	10,076
Tax effect of rate reduction	**(87,500)**	(87,500)
Total income tax expense	**91,736**	60,469

Deferred income taxes

The components of deferred tax balances are as follows:

	2023	2022
Deferred tax assets (liabilities)		
Allowance for impaired loans	**78,629**	21,348
Property and equipment	**36,575**	15,906
Atlantic Central Shares	**(39,730)**	(15,754)
Deferred tax asset	**75,474**	21,500

9. Property and equipment

	Land	*Buildings*	*Furniture and fixtures*	*Paving*	*Computer equipment*	*Vaults*	*Total*
Cost							
Balance at January 1, 2022	**502,360**	**1,679,420**	**732,412**	**137,690**	**561,226**	**120,346**	**3,733,454**
Additions	**-**	**-**	**3,272**	**24,921**	**5,494**	**-**	**33,687**
Balance at December 31, 2022	**502,360**	**1,679,420**	**735,684**	**162,611**	**566,720**	**120,346**	**3,767,141**
Balance at January 1, 2023	**502,360**	**1,679,420**	**735,684**	**162,611**	**566,720**	**120,346**	**3,767,141**
Additions	**-**	**-**	**8,701**	**-**	**35,789**	**-**	**44,490**
Balance at December 31, 2023	**502,360**	**1,679,420**	**744,385**	**162,611**	**602,509**	**120,346**	**3,811,631**
Accumulated depreciation							
Balance January 1, 2022	**-**	**599,993**	**603,175**	**73,424**	**557,575**	**101,327**	**1,935,494**
Depreciation charge for the year	**-**	**52,586**	**26,257**	**6,136**	**5,216**	**3,805**	**94,000**
Balance at December 31, 2022	**-**	**652,579**	**629,432**	**79,560**	**562,791**	**105,132**	**2,029,494**
Balance at January 1, 2023	**-**	**652,579**	**629,432**	**79,560**	**562,791**	**105,132**	**2,029,494**
Depreciation charge for the year	**-**	**50,267**	**22,968**	**8,626**	**11,153**	**3,044**	**96,058**
Balance at December 31, 2023	**-**	**702,846**	**652,400**	**88,186**	**573,944**	**108,176**	**2,125,552**
Net book value							
At December 31, 2022	502,360	1,026,841	106,252	83,051	3,929	15,214	1,737,647
At December 31, 2023	**502,360**	**976,574**	**91,985**	**74,425**	**28,565**	**12,170**	**1,686,079**

10. Customer-owners' deposits and accrued interest

	2023	2022
Chequing	**36,599,401**	33,538,751
Demand, no penalty on withdrawal	**29,472,822**	29,970,762
RRSP and RRIF	**2,773,917**	2,759,548
Term deposits	**3,837,930**	3,105,480
Accrued interest on deposits	**100,398**	36,657
	72,784,468	69,411,198

Customer owners' deposits are subject to the following terms:

- Chequing and demand deposit products are due on demand and bear interest at rates up to 1.50% (2022 - 0.15%)
- Terms, RRSP's, RRIF's, and TFSA's are subject to fixed and variable rates of interest up to 5.50% (2022 – 4.00%), with interest payments due monthly, annually or on maturity.
- Customer owners' deposits are insured by the Nova Scotia Credit Union Deposit Insurance Corporation.

11. Customer-owners' shares

Authorized:

Common shares

Unlimited redeemable, voting equity shares with a par value of $5 per share. Each customer-owner must hold 10 common shares except for customer-owners under 19 and students, who must hold 1 share. Common shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements and the discretion of the Board of Directors.

Surplus shares

Unlimited redeemable, non-voting equity shares with a par value of $1 per share. Surplus shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements and the discretion of the Board of Directors.

Issued:

	2023	2022
42,176 Common shares (2022 - 42,664)	**210,879**	213,319
10,348 Surplus shares (2022 - 10,829)	**9,981**	10,462
	220,860	223,781

During the year, the Credit Union issued 1,092 (2022 - 1,500) Common shares, redeemed 1,580 (2022 - 1,771) Common shares and redeemed 481 (2022 - 73) Surplus shares.

12. Commitments

Undrawn Line of Credits
The following amounts represent the maximum amount of additional credit that the Credit Union could be obligated to extend. These amounts are not necessarily indicative of the credit risk as many of these arrangements may expire or terminate without being utilized. The Credit Union as of December 31, 2023 had undrawn lines of credit and overdrafts of $6,200,982 (2022 - $6,774,415).

Honeybee Banking System
During the prior year, the Credit Union entered into a subscription agreement with League Data, relating to the development and implementation of the new Honeybee Banking System. The agreement outlines payments of $588,708 made to date, with one additional payment of $302,599 scheduled to be made to League Data in January 2024. The new banking system is anticipated be operational after January 2025.

13. Bank indebtedness

The Credit Union has an authorized line of credit from the Atlantic Central with a limit of $1,889,000 (2022 - $1,846,000) bearing interest at 7.20% (2022 - 5.95%). The line of credit is secured by an assignment of book debts and is to be reviewed on an annual basis. Drawings on the line of credit are netted against cash resources. At December 31, 2023 the line of credit balance was nil (2022 - nil).

14. Capital requirements

The Credit Union's objectives when managing capital are designed to establish a strong base for future growth, to pay dividends on the equity shares and to provide a cushion in the event of market instability. Customer-owners' equity consists of equity shares and retained earnings. In accordance with the Credit Union Act, Victory Credit Union shall establish and maintain equity at a level equal to 5% of its assets. At December 31, 2023, equity was 8.47% (2022 - 8.04%) of its assets. Customer-owners' equity ratios are monitored regularly and reported to the Board monthly. The Credit Union's equity ratios have been in compliance with the regulatory requirements throughout the year.

15. Other income

	2023	*2022*
Account and transaction fees	**577,975**	615,108
Commissions	**49,271**	84,164
Other	**70,018**	116,989
	697,264	816,261

16. Related party transactions

Key management compensation of the Credit Union

Key management of the Credit Union are the General Manager, Accounting Manager, Manager Lending Services, Branch Managers and members of the Board of Directors. Key management personnel (KMP) remuneration includes the following expenses:

	2023	*2022*
Direct compensation	**410,615**	415,655
Contributions to defined contribution pension plans	**18,552**	18,396
Total salaries and benefits	**429,167**	434,051

Transactions with key management personnel

	2023	2022
The total value of the loans outstanding from KMP as at the year-end:		
Mortgages	**1,256,577**	1,015,382
Loans	**397,394**	388,880
Revolving credit	**163,037**	149,800
Less: Approved and undrawn lines of credit	**(18,196)**	(33,098)
	1,798,812	1,520,964

	2023	2022
Interest and other revenue earned on loans and revolving credit facilities to KMP	**70,731**	43,143

	2023	2022
The total value of customer-owners' deposits from KMP as at the year-end:		
Chequing and demand deposits	**253,459**	196,506
Term deposits	**5,641**	32,153
Registered plans	**166,894**	144,663
	425,994	373,322

Transactions with key management personnel

Deposit accounts are maintained under the same terms and conditions as accounts of other customer-owners, and are included in deposit accounts on the balance sheet.

Loans made to key management personnel were made in the normal course of operations with interest rates at regular rates offered to all customer-owners of the Credit Union. Interest rates on deposits and dividends on shares were at identical rates offered to all customers-owners of the Credit Union.

Directors' fees and expenses

	2023	2022
Directors fees and committee remuneration	**7,280**	6,350
Directors expenses	**4,700**	5,250

17. Financial instruments

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk, liquidity risk and foreign currency risk.

Accordingly, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union
- Balance risk and return
- Manage credit, market and liquidity risk through preventative and detective controls
- Ensure credit quality is maintained

17. Financial instruments *(Continued from previous page)*

- Ensure credit, market, and liquidity risk is maintained at acceptable levels
- Diversify risk in transactions, member relationships and loan portfolios
- Price according to risk taken, and
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit Committee and Credit Committee.

There have been no significant changes from the previous year in the Credit Union's risks to which it is exposed or its general policies and procedures for managing risk.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from customer-owners' loans and the Credit Union's lending activities.

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors is responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements
- Borrowing member character requirements
- Limits on aggregate credit exposure per individual
- Limits on concentration of credit risk by loan type, industry and economic sector
- Limits on the types of credit facilities and services offered
- Internal loan approval processes and loan documentation standards
- Loan re-negotiation, extension and renewal processes
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors
- Control and monitoring processes including portfolio risk identification and delinquency tolerances
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans
- Overdraft control and administration processes
- Loan syndication processes

17. Financial instruments *(Continued from previous page)*

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

Providing credit facilities to qualified customer-owners' is one of the Credit Union's primary sources of income and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the customer-owner's ability to repay principal and interest over the term of the facility which is determined by following Board approved policies and procedures, which includes assessing the customer-owner's credit history, character, collateral and debt servicing capacity.

In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with its lending policies and procedures. In addition, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans and advances to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The Credit Union uses the expected loss model to record an allowance against customer-owners' loans. The allowance is broken into three stages. Stage 1 contains all loans that are not delinquent and do not have any known additional risk. Stage 2 contains all loans delinquent between 31 and 90 days, and any loan that has been assessed to have additional risk.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Stage 3 contains all loans delinquent over 90 days, bankruptcy, consumer proposals, credit counselling, debt consolidations and accounts that are in serious default with little chance of recovery.

Each stage is broken down into pools of customer-owners' loans that have similar risk characteristics. The probability of default, risk adjustment and loss given default are used to determine the expected credit loss for each pool of customer-owners' loans.

17. Financial instruments *(Continued from previous page)*

Measurement of expected credit losses

The Credit Union measures expected credit losses for customer-owners' loans on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type. Otherwise, expected credit losses are measured on an individual basis.

Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses 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.

The Credit Union has taken into consideration the macroeconomic impacts of the Bank of Canada interest rate increases on its collective allowance.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments.* The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

Except as noted below, the gross carrying amount of financial assets and exposure amount of loan commitments and financial guarantee contracts represents the maximum exposure to credit risk for that class of financial asset.

		2023		
	Stage 1 12-month ECL	*Stage 2 Lifetime ECL (not credit impaired)*	*Stage 3 Lifetime ECL (credit impaired)*	*Total*
Residential mortgages				
Low risk	28,432,805	435,588	-	28,868,393
High risk	-	-	322,454	322,454
Total gross carrying amount	28,432,805	435,588	322,454	29,190,847
Less: loss allowance	74,493	5,886	30,449	110,828
Total carrying amount	28,358,312	429,702	292,005	29,080,019
Personal loans and lines of credit				
Low risk	10,666,314	160,500	-	10,826,814
High risk	-	-	64,931	64,931
Total gross carrying amount	10,666,314	160,500	64,931	10,891,745
Less: loss allowance	72,508	54,410	58,437	185,355
Total carrying amount	10,593,806	106,090	6,494	10,706,390

17. Financial instruments *(Continued from previous page)*

Commercial loans, mortgages and lines of credit				
Low risk	**2,593,160**	**-**	**-**	**2,593,160**
High risk	**-**	**-**	**35,975**	**35,975**
Total gross carrying amount	**2,593,160**	**-**	**35,975**	**2,629,135**
Less: loss allowance	**18,378**	**-**	**32,378**	**50,756**
Total carrying amount	**2,574,782**	**-**	**3,597**	**2,578,379**
Syndicated loans				
Low risk	**5,030,171**	**-**	**-**	**5,030,171**
Total gross carrying amount	**5,030,171**	**-**	**-**	**5,030,171**
Less: loss allowance	**16,373**	**-**	**-**	**16,373**
Total carrying amount	**5,013,798**	**-**	**-**	**5,013,798**
Mortgage Pool				
Low risk	**1,862,872**	**-**	**-**	**1,862,872**
Total gross carrying amount	**1,862,872**	**-**	**-**	**1,862,872**
Less: loss allowance	**350**	**-**	**-**	**350**
Total carrying amount	**1,862,522**	**-**	**-**	**1,862,522**
Loan commitments				
Low risk	**6,200,982**	**-**	**-**	**6,200,982**
High risk	**-**	**-**	**-**	**-**
Total gross carrying amount	**6,200,982**	**-**	**-**	**6,200,982**
Less: loss allowance	**16,611**	**-**	**-**	**16,611**
Total carrying amount	**6,184,371**	**-**	**-**	**6,184,371**
Total				
Low risk	**54,786,304**	**596,088**	**-**	**55,382,392**
High risk	**-**	**-**	**423,359**	**423,359**
Total gross carrying amount	**54,786,304**	**596,088**	**423,359**	**55,805,751**
Less: loss allowance	**198,712**	**60,296**	**121,263**	**380,271**
Total carrying amount	**54,587,592**	**535,792**	**302,096**	**55,425,480**

	Stage 1 12-month ECL	*2022 Stage 2 Lifetime ECL (not credit impaired)*	*Stage 3 Lifetime ECL (credit impaired)*	*Total*
Residential mortgages				
Low risk	28,139,092	253,856	-	28,392,948
High risk	-	-	69,481	69,481
Total gross carrying amount	28,139,092	253,856	69,481	28,462,429
Less: loss allowance	56,663	10,210	14,890	81,763
Total carrying amount	28,082,429	243,646	54,591	28,380,666

17. Financial instruments *(Continued from previous page)*

Personal loans and lines of credit				
Low risk	10,986,181	64,692	-	11,050,873
High risk	-	-	83,817	83,817
Total gross carrying amount	10,986,181	64,692	83,817	11,134,690
Less: loss allowance	72,076	21,115	75,435	168,626
Total carrying amount	10,914,105	43,577	8,382	10,966,064
Commercial loans, mortgages, and lines of credit				
Low risk	2,494,307	-	-	2,494,307
High risk	-	-	33,038	33,038
Total gross carrying amount	2,494,307	-	33,038	2,527,345
Less: loss allowance	17,208	-	29,735	46,943
Total carrying amount	2,477,099	-	3,303	2,480,402
Syndicated loans				
Low risk	4,855,190	-	-	4,855,190
Total gross carrying amount	4,855,190	-	-	4,855,190
Less: loss allowance	14,879	-	-	14,879
Total carrying amount	4,840,311	-	-	4,840,311
Mortgage Pool				
Low risk	2,243,250	-	-	2,243,250
Total gross carrying amount	2,243,250	-	-	2,243,250
Less: loss allowance	466	-	-	466
Total carrying amount	2,242,784	-	-	2,242,784
Loan commitments				
Low Risk	6,774,415	-	-	6,774,415
High Risk	-	-	-	-
Total gross carrying amount	6,774,415	-	-	6,774,415
Less: loss allowance	18,217	-	-	18,217
Total carrying amount	6,756,198	-	-	6,756,198
Total				
Low Risk	55,492,435	318,548	-	55,810,983
High Risk	-	-	186,335	186,335
Total gross carrying amount	55,492,435	318,548	186,335	55,997,318
Less: loss allowance	179,509	31,325	120,060	330,894
Total carrying amount	55,312,926	287,223	66,275	55,666,424

Concentrations of credit risk

Concentration of credit risk exists if a number of borrowers are exposed to similar economic risks by being engaged in similar economic activities or being located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being Windsor, Nova Scotia and surrounding areas.

17. Financial instruments *(Continued from previous page)*

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	Stage 1 12-month ECL	*Stage 2 Lifetime ECL (not credit impaired)*	*Stage 3 Lifetime ECL (credit impaired)*	*Total*
Balance at January 1, 2022	147,499	41,389	128,631	317,519
Transfer to (from) lifetime ECL (not credit impaired)	18,635	(10,064)	(8,571)	-
Provision for impaired loans	35,533	-	-	35,533
Accounts written off, net of recoveries	(22,158)	-	-	(22,158)
Balance at December 31, 2022	179,509	31,325	120,060	330,894
Balance at January 1, 2023	179,509	31,325	120,060	330,894
Transfer to (from) lifetime ECL (not credit impaired)	(59,064)	28,971	30,093	-
Provision for impaired loans	71,989	-	-	71,989
Accounts written off, net of recoveries	6,278	-	(28,890)	(22,612)
Balance at December 31, 2023	198,712	60,296	121,263	380,271

Financial instruments for which the impairment requirements of IFRS 9 do not apply

The carrying amount of Atlantic Central and League Data Limited shares, as disclosed in Note 6, best represents the Credit Union's maximum exposure to credit risk for those items. The Credit Union holds no collateral or other credit enhancements for these balances.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting customer-owner needs.

Risk measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Credit Union's Board of Directors.

Objectives, policies and processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

17. Financial instruments *(Continued from previous page)*

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in the profit or loss may increase or decrease in response to changes in market interest rates.

In managing interest rate risk, the Credit Union relies primarily upon use of asset - liability and interest rate sensitivity simulation models, which is monitored by management and reported to the Board of Directors which is responsible for managing interest rate risk.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union's risk related to a 1% decrease in rates was 21 basis points of assets or approximately $175,000 decrease in income before income taxes.

Other types of interest rate risk are the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics; for example, the difference between prime rates and the Canadian Deposit Offering Rate and prepayment risk (the risk of loss of interest income arising from early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to the Board of Directors.

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to customer-owners and interest paid to customer-owners on their deposits. The objective of managing the financial margin is to match re–pricing or maturity dates of loans and investments and customer-owners' savings and deposits within policy limits. These limits are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between loans and investments and customer-owners' savings and deposits for those particular maturity dates. Certain items on the statement of financial position, such as non-interest bearing customer-owner deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive in the table below.

Amounts with variable interest rates, or due on demand, are classified as variable.

A significant amount of customer-owners' loans receivable and customer-owners' savings and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

Contractual repricing and maturity

All financial instruments are reported in the table below based on the earlier of their contractual repricing date or maturity date. The schedule below does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

17. Financial instruments *(Continued from previous page)*

('000s)	Assets	Average yield %	Liabilities	Average costs %	2023 Net Asset Liability Mismatch	2022 Net Asset Liability Mismatch
Within 1 year	36,269	4.82 %	(60,812)	0.76 %	**(24,543)**	(28,346)
1 to 2 years	6,759	4.02 %	(2,412)	7.25 %	**4,347**	4,940
2 to 3 years	8,806	3.44 %	(155)	1.29 %	**8,651**	6,423
3 to 4 years	10,553	4.19 %	(34)	3.36 %	**10,519**	10,103
4 to 5 years	3,355	5.77 %	(49)	4.14 %	**3,306**	7,109
Over 5 years	-	- %	-	- %	-	457
Non-interest sensitive	11,539	- %	(9,415)	- %	**2,124**	3,461
	77,281		**(72,877)**		**4,404**	4,147

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. To mitigate this risk, Atlantic Central requires the Credit Union to maintain, at all times, liquidity that is adequate in relation to the business carried on. The level of liquidity is based on a prescribed percentage of total deposit liabilities. At December 31, 2023 the prescribed liquidity requirement was 9% (2022 - 9%).

The Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudent limits on net fund outflows;
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union's responses thereto.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cash flows;
- Maintain a line of credit and borrowing facility with Atlantic Central;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits;
- Monitoring of term deposits.

The Board of Directors receives quarterly 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 liquidity requirements throughout the year.

The Credit Union's maximum exposure to liquidity risk at the reporting date was:

As at December 31, 2023:

	2023	2022
Required liquidity	**(6,550,602)**	(6,247,008)
Liquid assets	**14,704,483**	13,560,899
Excess liquidity	**8,153,881**	7,313,891

17. Financial instruments *(Continued from previous page)*

Liquid assets comprise:

	2023	2022
Cash held at Atlantic Central and on hand	2,785,150	3,325,261
Liquidity and short-term deposits held at Atlantic Central	11,919,333	10,235,638
	14,704,483	13,560,899

The Credit Union manages liquidity risk on a net asset and liability basis. The following table details contractual maturities of financial liabilities:

As at December 31, 2023

	< 1 year	**1-3 years**	**> 3 years**	**Total**
Customer-owner deposits	**70,135,200**	**2,566,646**	**82,622**	**72,784,468**
Payables and accruals	**92,102**	**-**	**-**	**92,102**
Total	**70,227,302**	**2,566,646**	**82,622**	**72,876,570**

As at December 31, 2022

	< 1 year	1-3 years	> 3 years	Total
Customer-owner deposits	68,710,556	515,585	185,057	69,411,198
Payables and accruals	64,555	-	-	64,555
Total	68,775,111	515,585	185,057	69,475,753

18. Fair value measurements

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

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

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

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer.

In determining fair value measurements, the Credit Union uses valuation techniques including net present value techniques and inputs consisting of actual balances, actual results, market values (for similar instruments) and pay frequency. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the value for the Credit Union's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

Financial instruments measured at fair value

The Credit Union's financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

	Fair Value	Level 1	Level 2	2023 Level 3
Financial assets				
Cash	2,785,150	2,785,150	-	-
Investments at fair value through profit and loss	1,456,287	-	1,456,287	-
Total financial assets	4,241,437	2,785,150	1,456,287	-

	Fair Value	Level 1	Level 2	2022 Level 3
Financial assets				
Cash	3,325,261	3,325,261	-	-
Investments at fair value through profit and loss	1,480,496	-	1,480,496	-
Total financial assets	4,805,757	3,325,261	1,480,496	-

For fair value measurements of Level 2 investments at fair value through profit and loss, the Credit Union has assumed the fair value of the amounts is comparable to their amortized cost, which equals the par value of the shares. The shares are not quoted or traded, however when new shares are offered the price remains the same as the par value of all currently available shares. There was no impact of the measurement on profit or loss for the year. There have been no transfers between Level 1, 2 and 3 during the year.

Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

	Carrying amount	Fair Value	Level 1	Level 2	2023 Level 3
Financial assets measured at amortized cost					
Cash resources	11,919,333	11,919,333	-	11,919,333	-
Investments and deposits	11,807,522	11,807,522	11,807,522	-	-
Customer-owner loans	49,312,490	47,414,088	-	47,414,088	-
	73,039,345	71,140,943	11,807,522	59,333,421	-
Financial liabilities measured at amortized cost					
Payables and accruals	92,102	92,102	-	92,102	-
Customer-owners' deposits and accrued interest	72,784,468	72,694,705	-	72,694,705	-
	72,876,570	72,786,807	-	72,786,807	-

	Carrying amount	*Fair Value*	*Level 1*	*Level 2*	*2022 Level 3*
Financial assets measured at amortized cost					
Cash resources	10,235,638	10,235,638	-	10,235,638	-
Investments and deposits	9,626,663	9,626,663	-	9,626,663	-
Customer-owners' loans	48,955,511	47,498,644	-	47,498,644	-
	68,817,812	67,360,945	-	67,360,945	-
Financial liabilities measured at amortized cost					
Payables and accruals	64,555	64,555	-	64,555	-
Customer-owners' deposits and accrued interest	69,411,198	69,379,857	-	69,379,857	-
	69,475,753	69,444,412	-	69,444,412	-

19. Canada Emergency Business Account Program

The Credit Union participated in the Canada Emergency Business Account (CEBA) program by facilitating loans with eligible small businesses. These loans qualify for derecognition as the risk and rewards were transferred to the Government of Canada, therefore these loans are not recognized in the statement of financial position.

As of December 31, 2023, the Credit Union has $1,189,135 (2022 - $1,606,895) funded and outstanding under the program. Under the CEBA program, the CEBA loan repayment date is January 18, 2024.

Schedule 1 - Schedule of Administrative Expenses

For the year ended December 31, 2023

	2023	*2022*
Administrative expenses		
Advertising and promotion	**114,336**	42,903
Atlantic Central dues	**70,871**	53,351
Data processing	**541,304**	447,473
Donations	**101**	1,005
Dues, fees and courier	**31,648**	29,075
Equipment repairs and maintenance	**104,986**	100,378
Insurance - general and bonding	**36,011**	32,632
Meeting expenses	**2,182**	343
Miscellaneous	**45,461**	53,128
Office, stationery and postage	**42,878**	33,472
Professional fees	**184,004**	126,184
Telephone	**43,655**	36,437
Travel	**20,216**	19,140
	1,237,653	975,521

	2023	2022
Occupancy expenses		
Fire insurance	**1,745**	1,745
Heat, light and water	**26,543**	28,347
Property and business occupancy taxes	**57,454**	57,110
Rent on short-term leases	**2,400**	2,400
Repairs and maintenance	**24,585**	45,531
	112,727	135,133