CREDIT UNION
CONSOLIDATED

# ANNUAL REPORT

## 2022



**8k**

Members on Prince Edward Island

**$9k**

Awarded in scholarships to students in 2022

**$3k**

Spent locally through local initiates: Loyal2Local and Pay it Forward

**2**

Convenient locations to service our members

**$300M**

In assets

**18**

Consecutive years ranked top financial institution for Customer Service Excellence


# OUR MISSION

At Consolidated Credit Union, we are focused on you: your community, your future, your prosperity. We want to be a partner in your success. We're committed to providing outstanding financial service and wise financial guidance that will enable you, our members, to reach your financial goals.

Consolidated Credit Union is firmly rooted in our community. That's why we understand what's important to our members, and how we keep our decision-making based on local realities, and the way we give back to communities. It's the human approach and another reason why we're different.

# OUR VALUES

Simple
Holistic
Inclusive
Honest
Passionate
Spiritual
Evolutionary

Lori Gandy
President

Ron MacLean
Vice President

Ron Siliker
Secretary

Harvey Wedge
Director

Derwin Clow
Director

James Arsenault
Director

John MacIsaac
Director

# Board of Directors

**Turning your voice into action**

Our Directors reflect the communities we serve, and play an integral role in shaping the future of our Credit Union.

**Members serving Members**

We are a full-service financial cooperative, and our members are our owners. Rooted in our cooperative structure, the Credit Union Difference is all about service by members, for members, right here in our community.

**Our Board**

At Consolidated Credit Union, we know our profits have a higher purpose - to benefit the people they were built to serve. Any extra profits left over at the end of the year are returned to members in the form of dividends or are gifted to the community in the form of donations, scholarships, sponsorships, and other initiatives.

Our Board represents our communities. It is important for our Credit Union to have a strong Board, consisting of a diverse group of people with diverse backgrounds.

As policymakers, our Board of Directors is instrumental in effecting positive changes within the credit union system. Our Directors provide a direct link and a fresh perspective helping Consolidated Credit Union be more responsive to members' needs.

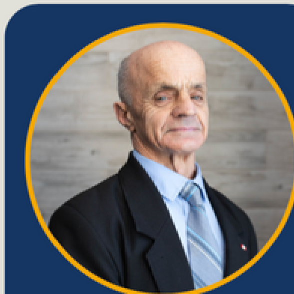
Our Directors are accountable to our membership, for all policies and decisions at Consolidated Credit Union. Additionally, they are responsible to ensure sound management of the credit union and to safeguard our assets.

In 2022, our Board of Directors accomplished a lot and helped us reach our gaols, all while serving our community. We cannot thank our Board enough for their loyalty, commitment, and dedication.

# YOUR BOARD OF DIRECTORS

**Lori Gandy**
President & Chair

**Ron MacLean**
Vice President



**James Arsenault**
Director

**Ron Siliker**
Director

**John MacIsaac**
Director

**Derwin Clow**
Director

**Harvey Wedge**
Director

# President's Report

As President of the Board of Directors for the Consolidated Credit Union, it is my privilege to provide our members with a brief report for 2022.

This past year has seen some ups and downs for all our members. As we started to recover from the pandemic and move forward, inflation continued to rise along with interest rates which caused much stress and uncertainty to everyone. We remained optimistic throughout the year and continued to stay abreast of our members needs.

The board of directors met numerous times throughout the year as we moved forward to our commitment to CUDIC to address our equity situation as was noted in my report for 2021. As part of our regulations with CUDIC, all credit unions on PEI must retain an equity of 5% and although our credit union has increased its assets and our growth has been astronomical these past few years, equity has been slow to achieve the required regulation. In 2022 your CEO along with the Board of Directors developed and implemented a plan to achieve equity with the offering of a Class A Preferred Share and at year-end we not only achieved our equity requirement we exceeded it (5.37%). Thank you to all members who supported this offering.

New directors continue to work through the mandatory board training through CUDA and all but one have completed. Unfortunately, this past year, we had one director leave their term early due to work commitments. Early in January of 2023, Bill Martin resigned his position on the board as he put forth his name to CUDIC as a member of their board. In his place, we asked John MacIsaac to assume the seat. Thank you, Bill, for your input and continued support of our credit union.

CUDIC, our financial regulators completed their annual audit and presented their report to the Directors in late 2022 and our operational controls along with lending practices achieved high scores. Thank you to Rob MacBain and Jamie Cudmore for your support and advice.

The Credit Union Act for PEI has been submitted to the Province of PEI and we await approval.

The Consolidated Credit Union continues to grow in assets and last year we attained assets of over $301 million and had a net earning of approximately, $1.6 million. Sarah Millar will provide further details on the financial aspect of the credit union in her report.
At this time, I would like to acknowledge and thank the following businesses and individuals for their continued support of our credit union: CUDIC (provincial regulator); Arsenault Best Cameron and Ellis (auditors); Atlantic Central and League Savings and Mortgage. Thank you to our CEO, Sarah Millar and her team, for their commitment to your credit union and a special acknowledgment to all staff for their support of the new Class A Preferred Share offering which sold out in record time. To my fellow board members; Ron McLean who will be leaving the board as his term is up, thank you, Ron, James Arsenault, Derwin Clow, Bill Martin, Harvey Wedge, Ron Silliker, Amy Kilbride and John MacIsaac. To our Recording Secretary, Tanya Bernard, thank you for all you do for us. Congratulations to the recipients of the CCU Scholarship Awards from Three Oaks Senior High and Kinkora High School, well wishes and much success in your future endeavours. Finally, and most importantly thank you to all the Members of the Consolidated Credit Union for your trust and support.

In closing, thank you for attending the annual meeting and it is wonderful that we once again can celebrate with all of you in person.

Lori Gandy
President and Chair, Consolidated Credit Union

# CEO's Report

Consolidated Credit Union is your financial institution. It is made up of like-minded people who trust in our staff to assist you with your financial decisions. As a staff, we strive to reflect your values in how we operate your business, all the while being committed to the communities that we serve. As such, you will find the credit union name in many places.

A great example of this is the building we are meeting in tonight. It is so much more than just a rink or a conference centre, it is the hub of this community. It is a place for people to gather to share in life's important moments and because it is important to you, it is important to us. This is just one example of how we strive to be where our members are and to support those events that are meaningful to you.

Each year, as I prepare for the AGM, I often take time to reflect on the year that was and to look forward to the year that will be. I consider 2022 to be another successful step in our journey forward. Financially, your credit union grew and prospered as a direct result of the deep-rooted relationships our staff have with our members. We not only exceeded $300 million dollars in assets for the first time, but we also embarked on our first preferred share offering. This offering was an overwhelming success and is a true example of the strong two-way commitment between our credit union and our members. Not only was the credit union able to enhance our reserves and achieve our required 5% equity level, but our members were able to benefit by gaining access to a new offering with an attractive interest rate. It was truly a win-win for all. While these examples show some of the picture, the real stories are found within the numbers. Within the financial statements are the financial lives of you, our members. Each story is important and continuously changing. As a result, the expectation for us to be a trusted partner and to become more innovative in our product delivery and advice is a responsibility we take very seriously.

In celebrating our successes, I feel it is important to thank those who have played such a huge part in it. As I mentioned earlier, there would not be a credit union without you, our members. Once again, thank you for your trust and the opportunity to share in your journey.

Your Board of Directors is your voice in the direction of your credit union. The Board's purpose is to reflect your values and look after your best interests. I have said this many times before, but I feel that it deserves repeating. I truly appreciate the guidance that your Board of Directors provides. They are a caring and respectful group that is not afraid to do what is best for you, our members.

As an organization, we work hard to build a positive reputation and to create a welcoming place to not only do business but to work. One thing I am always impressed with is our staff's relationships with you, our members. Our thirty-plus staff are your contact to your credit union and are the ones that help and advise you daily. I often hear about the respect you have for this group, and I can assure you that this respect is mutual. So, to our staff, thank you for what you do daily and for being so caring, professional, and open to change. I truly do appreciate how you always put our members first. In the coming years, we are going to be relying on our staff to interact with you as we move forward with the implementation of new technology. The relationships you have with staff will be key to ensuring that we successfully introduce new technology into our business. This is a necessary step in helping us not only stay innovative but also for all of us to stay protected.

Over the years, your credit union has grown into a large financial institution with significant responsibilities. As can be expected, this responsibility comes with obligations and requirements. As the credit union Board and management, we work with a number of different organizations to ensure our long-term success and to provide you, our members, with reassurance that your credit union is acting in your best interests. Arsenault Best Cameron Ellis is our independent auditors, and they are responsible for conducting a thorough review of our financial situation annually and providing a report based on their findings. Prince Edward Island Credit Union Deposit Insurance Corporation is responsible for continuously monitoring our credit union and ensuring that we are abiding by set requirements surrounding not only proper reserves but also activities in our operations that help to reduce the risks we face in our business. Other players in our system such as Atlantic Central, League Savings and Mortgage, Collabria, and League Data work with us daily to deliver products and services to assist our members with their banking needs. I truly appreciate the role that each play in our credit union.

In closing, I am proud to be a part of this great organization. I continue to be confident and excited about the opportunities that lie ahead of us.  We welcome the opportunity to work with you and to share in your success.

Sincerely,

Sarah Millar
Chief Executive Officer, Consolidated Credit Union

# INVESTING IN COMMUNITY

Credit union members are more than just customers. They're our neighbours, teachers, and local entrepreneurs. That's why we call our "customers" members—when you open an account with a credit union, you automatically become part of the business. That also means you get to have a say in how they operate our business—because it's partially your business, too. We love giving back to our community and do so at every chance we can. Read on to see how CCU gave back to our community in 2022.



# INVESTING IN EDUCATORS

Over the past several years, COVID-19 has really thrown a wrench in our education. Throughout all of these changes, and uncertainties, our educators have been AMAZING! We wanted to show our gratitude and recognize all of our local educators for their ongoing dedication, commitment, and compassion that they show our youth.

In January, we asked our community to nominate an influential educator from our community, and we were so honoured to award Sean McDonald and Cara DeCoste from Three Oaks Senior High School with a care package filled with tons of local goodies!

Thank you so much to all of the amazing educators in our community!

# INVESTING IN STUDENTS

We are pleased to announce the six Consolidated Credit Union Scholarship recipients for 2022. Each recipient was awarded $1,500 to put towards their education. In total, CCU distributed $9,000 to local students to help make post-secondary education more affordable.

We're wishing all students the best in their studies and future endeavours!

**$9k**

Awarded in scholarships to students in 2022.

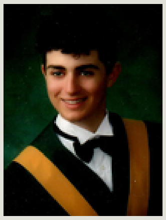
Sean Matheson

Claire Keough

Andrea Caron

Devon Warri

Logan Rogers



Brayden Kirev

Now a global movement, Pink Shirt Day is a day to inspire empathy, and acts of kindness within our communities. We know that bullying can be tough, so that's why we are proud to support to those affected; and that's why, every Pink Shirt Day, our staff shows their support. Bullying is not something we tolerate in our culture, and we're happy to take a stand against it.

# INVESTING IN OUR CITY

In February, the City of Summerside opened the doors to the newest edition to the Credit Union Place: the multipart Dome. Offering over 65,000 square feet, this facility was part of the path to the 2023 Canada Winter Games, and we were thrilled to be able to support it.


# INVESTING IN EMERGENCY HOUSING

We were proud to sponsor the Coldest Night of the Year Summerside and happy to accept this plaque of recognition!

This fundraiser raised funds and awareness for LifeHouse: a Transitional Housing and Emergency Shelter for women and children here in our community.

Many members of our team were out walking to show their support for this cause

# INVESTING IN FINANCIAL LITERACY

Finances aren't something we're taught in school, and while we're working to change that, some students are already excelling in this area.

We turned to our community to nominate youth who were taking huge strides toward setting their future financial selves up for success. We loved seeing the names of students who were working hard and rewarding them with a. brand-new pair of AirPods.

Who said learning about money had to be boring? Our very own Tristan and Shannon were thrilled to pop by the CUP's March Break camp to help out with some fun crafts! The kiddos created their own money-saving jars, shared some things they'd like to save their money for, and did some fun money-themed activity sheets.

Did you know that we offer free Financial Literacy sessions for community groups, organizations, and schools through the Each One Teach One program?

Each One, Teach One (EOTO) is an innovative program that trains employees of financial institutions to deliver basic financial skills workshops in community settings.

Delivered in plain language – and in church basements, neighbourhood houses and community centres – the approach of Each One, Teach One is to meet individuals where they are, when they seek training.
The workshops may have as few as half a dozen participants, or as many as one hundred, and be as short as an hour or as long as a half-day.

The workshops in the Each One, Teach One series, and the approach to training staff to become certified volunteer trainers in the community is now available to, and managed by, credit unions across Canada, in partnership with the Canadian Credit Union Association. Providing members with financial education so that they can confidently manage their personal finances is rooted in the fifth internationally recognized co-operative principle of Education, Training and Information.
Since 2008, credit union staff– on volunteer time – have met and worked with thousands of individuals to increase their financial knowledge, skills and confidence.

If you're interested in hosting an Each One Teach One session, please get in touch with us!

"It's not about the product, it's about teaching them the skills - the financial literacy - they need to make good decisions for their life going forward." - Sandra Hickey



**48**

Each One Teach One Workshops were delivered across Atlantic Canada in 2022.

# INVESTING IN ENVIRONMENT

During World Environment Week, we planted several lilac trees in our community, and also offered members free bee-approved seeds for pick up at our main office. The goal of this was to encourage members of our community to help the planet, so our community can be happy and healthy. We hope you were able to pick up some of our seeds when they were available. If you did, we're sure your garden looked fabulous!


# INVESTING IN EVENTS

We love supporting local events! From golf tournaments, concerts, parades, festivals,  sports, and everything in between, we're happy to keep people coming back to our communities.


# INVESTING IN YOU

Back for its third year, we took our annual Investing in You Women's Conference from an Island-wide event, to an Atlantic-wide event.

While women are more empowered than ever before, there are still areas where there is a lot of ground to make up—like money and financial literacy.

We are planning to bring back this signature event for 2023, and hope to see our members tuning in!


# INVESTING IN OUR TEAM

Honesty, fairness, and trust isn't just our slogan - it's who we are; and we know we have the right team to service our members needs'.

Congratulations goes out to: Pete Peters, Judy Martin, Lucy Zhang, Judy Waugh, and Keith Johnston for their 2022 Service Awards.

A special thank you goes out to our commercial member, Brothers2 for hosting us this evening!

# INVESTING IN ADVOCACY

In November, Credit Union leaders from across the country travelled to Ottawa to advocate for their 10 million members. The purpose of this, was to persuade government officials to have credit unions top-of-mind when making decisions about Canadians finances - not just big banks.

# INVESTING IN CHEER

Each holiday season, we give our staff $50 to support individuals, charities, or businesses that are near and dear to their hearts. From animal shelters, to toys for our toy drive, music therapy programs, the fire department, charities, and everything in between, we love seeing our staff give back to our community!

# FINANCIAL STATEMENTS

# Consolidated Credit Union Ltd.

Financial Statements
**December 31, 2022**

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

# Management's Report

**Management's Report**

The integrity, relevance and comparability of the data in the accompanying financial statements are the responsibility of management.

The financial statements are prepared by management in accordance with International Financial Reporting Standards established by the International Accounting Standards Board. A summary of the significant accounting policies is disclosed in note 3 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with a certainty until future periods.

To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

Management is accountable to the Board of Directors of Consolidated Credit Union Ltd. on matters of financial reporting and internal control. Management provides the Board of Directors with externally audited financial statements annually. The Board also discusses any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by ArsenaultBestCameronEllis, independent external auditors appointed by the Board. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the financial statements.

On behalf of Consolidated Credit Union Ltd.

Sarah Millar
General Manager

# Auditor's Report

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

Member of The AC Group of Independent Accounting Firms

**Chartered Professional Accountants & Business Advisors**
8 MacLeod Crescent
Charlottetown, Prince Edward Island
Canada C1E 3K2
Telephone (902) 368-3100
Fax (902) 566-5074
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March 22, 2023

**Independent Auditor's Report**

**To the Members of Consolidated Credit Union Ltd.**

***Opinion***
We have audited the accompanying financial statements of Consolidated Credit Union Ltd., which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Consolidated Credit Union Ltd. as at December 31, 2022, and the results of its operations 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 Financial Statements* section of our report. We are independent of Consolidated Credit Union Ltd. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

The Annual Report is expected to be made available to us after the date of the auditor’s report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

***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 Consolidated Credit Union Ltd.'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 Consolidated Credit Union Ltd. or to cease operations, or has no realistic alternative but to do so.

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# Auditor's Report

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS
Member of The AC Group of Independent Accounting Firms

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Consolidated Credit Union Ltd.'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 Consolidated Credit Union Ltd.'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 Consolidated Credit Union Ltd. 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.

ArsenaultBestCameronEllis

**Chartered Professional Accountants**

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# Statement of Financial Position

## Consolidated Credit Union Ltd.

Statement of Financial Position

**As at December 31, 2022**

| | 2022 $ | 2021 $ |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 14,282,341 | 15,048,087 |
| Accounts receivable | 169,157 | 28,840 |
| Loans and mortgages (notes 6 and 15) | 250,019,389 | 213,659,251 |
| Prepaid expenses | 606,494 | 326,276 |
| Income taxes receivable | - | 106,114 |
| Property and equipment (note 7) | 2,781,643 | 2,932,741 |
| Investments (note 8) | 33,328,497 | 44,417,047 |
| | 301,187,521 | 276,518,356 |
| **Liabilities** | | |
| Member deposits (note 9) | 283,016,984 | 264,837,334 |
| Accrued interest payable | 1,422,714 | 1,213,914 |
| Other liabilities (note 11) | 143,078 | 163,525 |
| Income taxes payable | 379,332 | - |
| Deferred income taxes (note 12) | 42,400 | 60,900 |
| | 285,004,508 | 266,275,673 |
| **Members' Equity** | | |
| **Class A preferred shares** (note 10) | 4,302,400 | - |
| **Undistributed income** | 11,880,613 | 10,242,683 |
| | 16,183,013 | 10,242,683 |
| | 301,187,521 | 276,518,356 |

**Approved by the Board of Directors**

Ron MacLean Director

Director

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ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

# Statement of Changes in Members' Equity

**Consolidated Credit Union Ltd.**
Statement of Changes in Members' Equity
**For the year ended December 31, 2022**

| | 2022 $ | 2021 $ |
|---|---|---|
| **Undistributed income - Beginning of year** | 10,242,683 | 9,260,654 |
| Net comprehensive income for the year | 1,637,930 | 982,029 |
| **Undistributed income - End of year** | 11,880,613 | 10,242,683 |



ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

# Statement of Comprehensive Income

## Consolidated Credit Union Ltd.

Statement of Comprehensive Income

**For the year ended December 31, 2022**

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Revenue** | | |
| Loan interest (note 15c) | 8,438,986 | 7,369,447 |
| Investment | 654,171 | 229,592 |
| Service fees | 623,609 | 638,325 |
| Commissions | 479,046 | 522,760 |
| Property rentals | 14,778 | 10,320 |
| Other income | 44,000 | 44,033 |
| | 10,254,590 | 8,814,477 |
| **Expenses** | | |
| Staff (notes 13 and 15) | 2,527,204 | 2,386,567 |
| Premises | 179,895 | 166,085 |
| Insurance | 349,499 | 339,938 |
| Office | 151,731 | 182,790 |
| Service fees (note 11) | 1,069,262 | 1,028,594 |
| General | 673,887 | 640,365 |
| Cost of capital | 2,768,655 | 2,614,401 |
| Amortization | 188,962 | 182,325 |
| | 7,909,095 | 7,541,065 |
| **Operating earnings** | 2,345,495 | 1,273,412 |
| **Other income (expense)** | | |
| Share dividends | (99,323) | (78,957) |
| Recovery of (provision for) loan losses (note 6) | (25,546) | 78,315 |
| | (124,869) | (642) |
| | 2,220,626 | 1,272,770 |
| **Provision for (recovery of) income taxes** (note 12) | | |
| Current | 601,196 | 252,641 |
| Deferred | (18,500) | 38,100 |
| | 582,696 | 290,741 |
| **Net comprehensive income for the year** | 1,637,930 | 982,029 |

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ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

# Statement of Cash Flows

## Consolidated Credit Union Ltd.

Statement of Cash Flows

**For the year ended December 31, 2022**

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net comprehensive income for the year | 1,637,930 | 982,029 |
| Items not affecting cash | | |
| Amortization | 188,962 | 182,325 |
| Deferred income taxes | (18,500) | 38,100 |
| Loss (gain) on sale of property and equipment | (1,563) | 2,966 |
| Provision for (recovery of) loan losses | 25,546 | (78,315) |
| | 1,832,375 | 1,127,105 |
| Net change in non-cash working capital items | | |
| Decrease (increase) in accounts receivable | (140,317) | 110,074 |
| Decrease (increase) in loans and mortgages | (36,385,684) | 9,092,148 |
| Decrease (increase) in prepaid expenses | (280,218) | 55,740 ' |
| Decrease (increase) in income taxes receivable | 485,446 | (97,068) |
| Increase in asset held for sale | - | (635) |
| Increase (decrease) in accrued interest payable | 208,800 | (56,689) |
| Increase (decrease) in other liabilities (note 11) | (17,299) | 62,885 |
| | (34,296,897) | 10,293,560 |
| **Financing activities** | | |
| Increase in member deposits | 18,179,650 | 17,515,720 |
| Repayment of other liabilities - lease liability (note 11) | (3,148) | (3,043) |
| Increase in Class A preferred shares | 4,302,400 | - |
| | 22,478,902 | 17,512,677 |
| **Investing activities** | | |
| Purchase of property and equipment | (43,551) | (693,050) |
| Proceeds on disposal of property and equipment | 7,250 | 248,591 |
| Increase in investments | 11,088,550 | (15,323,220) |
| Proceeds on disposal of assets held for resale | - | 83,748 |
| | 11,052,249 | (15,683,931) |
| **Increase (decrease) in cash and cash equivalents** | (765,746) | 12,122,306 |
| **Cash and cash equivalents - Beginning of year** | 15,048,087 | 2,925,781 |
| **Cash and cash equivalents - End of year** | 14,282,341 | 15,048,087 |
| **Supplementary disclosure** | | |
| Interest received | 8,833,297 | 7,616,801 |
| Interest paid | 2,577,541 | 2,868,429 |
| Dividends paid | 78,957 | 64,109 |
| Incomes taxes received | 95,481 | - |
| Income taxes paid | 211,231 | 349,700 |

(6)

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**Consolidated Credit Union Ltd.**
Notes to Financial Statements
**December 31, 2022**

## 1 General information

Consolidated Credit Union Ltd. (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

The Credit Union's head office is located in Summerside, Prince Edward Island.

## 2 Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These financial statements have been approved for issue by the Board of Directors on March 22, 2023.

(b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

**Consolidated Credit Union Ltd.**
Notes to Financial Statements
**December 31, 2022**

## 3 Summary of significant accounting policies

(a) Financial instruments

i) *Classification and measurement of financial assets*

The Credit Union classifies its financial assets into one of the following measurement categories:

- Amortized cost; or
- Fair value through profit or loss (FVTPL).

Financial assets include both debt and equity instruments.

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

i) the Credit Union's business model for managing the asset; and
ii) the cash flow characteristics of the asset.

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Credit Union's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

The Credit Union assesses the business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, the Credit Union takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to group heads and other key decision makers within the Credit Union's business lines;
- How compensation is determined for the Credit Union's business lines' management that manages the assets;
- Whether the assets are held for trading purposes (ie. assets that the Credit Union acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking);
- The risks that affect the performance of assets held within a business model and how those risks are managed.



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The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding.

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Credit Union identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Based on these factors, the Credit Union classifies its debt instruments into one of the following two measurement categories:

*Amortized cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 6. Interest income from these financial assets is included in loan interest revenue using the effective interest rate method.

*Fair value through profit or loss*

Assets that do not meet the criteria for amortized cost are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss, and is not part of a hedging relationship, is recognized in comprehensive income and presented in the comprehensive income statement within investment revenue in the period in which it arises. Interest income from these financial assets is included in investment revenue using the effective interest method.

<u>Equity instruments</u>

The Credit Union subsequently measures all equity investments at FVTPL. Impairment losses and reversals of impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Credit Union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in investment revenue in the statement of comprehensive income (SCI).

ii) *Classification and measurement of financial liabilities*

Financial liabilities are classified into one of the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Amortized cost; or
- Designated at FVTPL.

*Financial liabilities measured at FVTPL*

Financial liabilities measured at FVTPL form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-making. Financial liabilities are recognized on a trade date and are accounted for at fair value, with changes in fair value and any gains or losses recognized in the SCI as part of the non-interest income. Transaction costs are expensed as incurred.

*Financial liabilities measured at amortized cost*

Member deposits are accounted for at amortized cost. Interest on deposits, calculated using the effective interest rate method, is recognized as cost of capital expense. Interest on subordinated notes and debentures, including capitalized transaction costs, is recognized using the effective interest rate method as interest expense.

*Financial liabilities designated at FVTPL*

Financial liabilities classified in this category are those that have been designated by the Credit Union upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is only available for those financial liabilities for which a reliable estimate of fair value can be obtained.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities designated at FVTPL are recorded in the Statement of Financial Position at fair value and any changes in fair value are recognized in the SCI.

iii) *Determination of fair value*

Fair value of a financial asset or liability is the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Credit Union has access at the measurement date.

The company measures instruments carried at fair value under the following fair value hierarchy. The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

iv) *Derecognition of financial assets and liabilities*

The derecognition criteria are applied to the transfer of part of an asset rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognized when the contractual rights to the cash flows from the asset has expired or the Credit Union transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party, or the Credit Union has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Credit Union has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Credit Union derecognizes the transferred asset only if it has lost control over the asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the SCI.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognized as a gain/loss in the SCI.

v) *Impairment*

The Credit Union applied a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – when a financial instrument experiences a credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD – the probability of default is an estimate of the likelihood of default over a given time period. A default may only happen at a certain time over the remaining estimated life.
- EAD – the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD – the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial recognition;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

(b) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in the statement of comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(d) Property and equipment

Furniture, equipment and computers and pavement are stated at cost less accumulated amortization. Land and buildings were stated at fair value on October 1, 2010 which subsequently became the cost basis (see note 4). Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Buildings and right-of-use asset depreciation are calculated on a straight-line method over 40 years and 5.5 years, respectively. All other property and equipment is amortized using the declining balance method at the following annual rates:

| | |
|---|---|
| Furniture and equipment | 20% |
| Computers | 30% |
| Pavement | 8% |

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Credit Union will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying asset. Right-of-use assets are recognized for contracts that are, or contain, leases.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at December 31, 2022.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(e) Leased assets

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union;

- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period, considering its rights within the defined scope of the contract; and

- the Credit Union has the right to direct the use of the identified asset throughout the period. The Credit Union assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period.

At lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients option. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in other liabilities.

(f) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the asset's fair value less costs of disposal. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(g) Employment benefits

Short-term obligations

Liabilities for wage and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in the SCI in respect of the employees service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are included in other liabilities in the statement of financial position.

(h) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the Credit Union considers all contractual terms of the loan and mortgage excluding any provision for future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Mortgage prepayment penalties are recognized in SCI when received. All interest is recognized on an accrual basis.

ii) Investment and other income

Investment and other income is recognized as revenue on an accrual basis.

iii) Service fees

Service fees are recognized on an accrual basis in accordance with the service agreement.

iv) Commissions

Commissions income is recognized when the event creating the commission takes place.

v) Property rentals

Property rental income is recognized in the month the rent is earned.

(i) Income taxes

Income tax expense comprises current and deferred tax and is recognized in the SCI.

i) Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous periods.

ii) Deferred income tax

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax basis of the Credit Union's loans outstanding and property and equipment. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

(j) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;

ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or

iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(k) Capital disclosures

The Credit Union considers its capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

(l) Standards issued but not yet effective

Certain new accounting standards and interpretations have been issued but are not effective for the fiscal year ended December 31, 2022 and have not been early adopted by the Credit Union. These standards are not expected to have a material effect on the Credit Union in the current or future reporting periods.

**4 Critical accounting estimates and judgments**

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions change. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

**Consolidated Credit Union Ltd.**
Notes to Financial Statements
**December 31, 2022**

(a) Fair value of land and building

On October 1, 2010, the Credit Union increased the carrying value of land and building by $212,112. The fair value of the property and equipment was determined by an independent third party appraisal.

(b) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. The assessment of a significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

(c) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded amortization expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(d) Fair value of financial instruments

Fair value measurement techniques are used to value various financial assets and financial liabilities and are used in impairment testing on certain non-financial assets.

The fair values of the Credit Union's financial instruments were estimated using the valuation methods and assumptions described below. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Fair values of floating loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market and the spread remains appropriate. Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks. Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms. A credit valuation adjustment is applied to the calculated fair value of uninsured deposits to account for the credit union's own risk.

## Consolidated Credit Union Ltd.

Notes to Financial Statements
**December 31, 2022**

The fair value for the Credit Union's investments as detailed in note 5 is determined as follows:

- Membership shares in Atlantic Central, League Data, Co-operative, CU Financial Management Limited and CU Cumis Wealth do not trade in a public market. Fair market value approximate par value as the shares are subject to regular rebalancing across the membership; and
- Liquidity reserve deposits are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms.

(e) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. Tax assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

(f) Extension of options for leases

When the Credit Union has an option to extend a lease, management uses its judgment to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practices and any cost that will be incurred to change the asset is an option to extend is not take, to help them determine the lease term.

## Consolidated Credit Union Ltd.
Notes to Financial Statements
**December 31, 2022**

### 5 Fair value of financial instruments

*Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | Fair level hierarchy | 2022 Carrying amount $ | 2022 Fair value $ | 2021 Carrying amount $ | 2021 Fair value $ |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Loans and mortgages | Level 2 | 250,019,389 | 250,019,389 | 213,659,251 | 213,659,251 |
| Liquidity reserve deposit | Level 2 | 17,979,183 | 17,979,183 | 16,993,718 | 16,993,718 |
| Atlantic Central shares | Level 2 | 3,274,554 | 3,274,554 | 3,348,569 | 3,348,569 |
| League Data shares | Level 2 | 71,730 | 71,730 | 71,730 | 71,730 |
| Co-operative membership | Level 3 | 3,000 | 3,000 | 3,000 | 3,000 |
| CU Financial Management Limited | Level 3 | 28 | 28 | 28 | 28 |
| CU Cumis Wealth | Level 3 | 2 | 2 | 2 | 2 |
| Term deposits | Level 2 | 12,000,000 | 12,000,000 | 24,000,000 | 24,000,000 |
| | | 283,347,886 | 283,347,886 | 258,076,298 | 258,076,298 |
| **Financial liabilities** | | | | | |
| Member deposits | Level 2 | 283,016,984 | 283,016,984 | 264,837,334 | 264,837,334 |

The fair value for items that are short-term in nature are equal to book value. These include cash and cash equivalents, accounts receivable, accrued liabilities and other liabilities.



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## Consolidated Credit Union Ltd.

Notes to Financial Statements

**December 31, 2022**

### 6 Loans and mortgages

(a) Loans at amortized cost

| | Gross loans $ | Allowance for credit losses $ | 2022 Net carrying amount $ | Gross loans $ | Allowance for credit losses $ | 2021 Net carrying amount $ |
|---|---|---|---|---|---|---|
| Insured mortgages | 1,732,502 | 130 | 1,732,372 | 1,310,765 | 98 | 1,310,667 |
| Uninsured mortgages | 136,015,924 | 27,648 | 135,988,276 | 115,072,760 | 14,713 | 115,058,047 |
| Personal loans | 4,856,516 | 21,126 | 4,835,390 | 4,812,111 | 14,334 | 4,797,777 |
| Personal lines of credit and overdrafts | 5,086,496 | 51,316 | 5,035,180 | 4,767,374 | 57,314 | 4,710,060 |
| Dealer plan loans | 657,322 | 2,301 | 655,021 | 1,274,325 | 4,460 | 1,269,865 |
| Commercial loans | 2,433,053 | 4,981 | 2,428,072 | 3,130,096 | 5,951 | 3,124,145 |
| Commercial mortgages | 87,832,291 | 65,875 | 87,766,416 | 72,356,852 | 54,267 | 72,302,585 |
| Commercial lines of credit | 4,249,057 | 53,314 | 4,195,743 | 3,927,168 | 49,491 | 3,877,677 |
| Syndication loans | 2,076,320 | 519 | 2,075,801 | 1,805,968 | 451 | 1,805,517 |
| Mortgage pools | 485,616 | 36 | 485,580 | 604,240 | 45 | 604,195 |
| Municipalities | 998,629 | 75 | 998,554 | 1,068,401 | 80 | 1,068,321 |
| Secured lines of credit and overdrafts | 3,823,493 | 509 | 3,822,984 | 3,730,830 | 435 | 3,730,395 |
| | 250,247,219 | 227,830 | 250,019,389 | 213,860,890 | 201,639 | 213,659,251 |

*Mortgages and loans*

Mortgages are secured by realty mortgages with interest rates of 2.39% - 6.79% (2021 - 2.39% - 6.79%).

Non-mortgage loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.05% - 18.50% (2021 - 1.95% - 18.00%) on personal and business loans and 0.00% - 30.00% (2021 - 0.00% - 30.00%) on line of credits and overdrafts. The non-mortgage loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

*The Credit Union's prime lending rate*

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at December 31, 2022 was 6.45% (2021 - 2.45%).

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(b) Impaired loans

| | Gross impaired loans $ | Allowance for credit losses $ | Net carrying amount $ | Gross impaired loans $ | Allowance for credit losses $ | Net carrying amount $ |
|---|---|---|---|---|---|---|
| | | | 2022 | | | 2021 |
| Uninsured mortgages | 431,162 | 17,479 | 413,683 | 327,051 | 6,107 | 320,944 |
| Personal loans | 58,495 | 11,530 | 46,965 | 80,146 | 4,870 | 75,276 |
| Personal lines of credit and overdrafts | 40,876 | 26,088 | 14,788 | 84,976 | 33,902 | 51,074 |
| Commercial loans | 10,779 | 1,347 | 9,432 | 10,168 | 1,271 | 8,897 |
| Commercial lines of credit | 54,075 | 20,278 | 33,797 | 50,568 | 18,963 | 31,605 |
| Secured lines of credit and overdrafts | 7,438 | 223 | 7,215 | 5,722 | 156 | 5,566 |
| | 602,825 | 76,945 | 525,880 | 558,631 | 65,269 | 493,362 |

(c) Allowance for credit losses

| | Balance as at January 1, 2022 $ | Provision for (recovery of) credit losses $ | Net write-offs $ | Net $ |
|---|---|---|---|---|
| | | | | 2022 |
| Insured mortgages | 98 | 32 | - | 130 |
| Uninsured mortgages | 14,713 | 12,935 | - | 27,648 |
| Personal loans | 14,334 | 6,792 | - | 21,126 |
| Personal lines of credit and overdrafts | 57,314 | (5,998) | - | 51,316 |
| Dealer plan loans | 4,460 | (2,159) | - | 2,301 |
| Commercial loans | 5,951 | (970) | - | 4,981 |
| Commercial mortgages | 54,267 | 11,608 | - | 65,875 |
| Commercial lines of credit | 49,491 | 3,823 | - | 53,314 |
| Syndication loans | 451 | 68 | - | 519 |
| Mortgage pools | 45 | (9) | - | 36 |
| Municipalities | 80 | (5) | - | 75 |
| Secured lines of credit and overdrafts | 435 | 74 | - | 509 |
| | 201,639 | 26,191 | - | 227,830 |



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| As at December 31, 2022 | Stage 1<br>$ | Stage 2<br>$ | Stage 3<br>$ | 2022<br>Total<br>$ |
|---|---|---|---|---|
| Insured mortgages | 130 | - | - | 130 |
| Uninsured mortgages | 10,169 | 1,199 | 16,280 | 27,648 |
| Personal loans | 9,595 | 502 | 11,029 | 21,126 |
| Personal lines of credit and overdrafts | 25,228 | 29 | 26,059 | 51,316 |
| Dealer plan loans | 2,301 | - | - | 2,301 |
| Commercial loans | 3,634 | - | 1,347 | 4,981 |
| Commercial mortgages | 65,875 | - | - | 65,875 |
| Commercial lines of credit | 33,036 | - | 20,278 | 53,314 |
| Syndication loans | 519 | - | - | 519 |
| Mortgage pools | 36 | - | - | 36 |
| Municipalities | 75 | - | - | 75 |
| Secured lines of credit and overdrafts | 286 | - | 223 | 509 |
| | 150,884 | 1,730 | 75,216 | 227,830 |

| As at December 31, 2021 | Stage 1<br>$ | Stage 2<br>$ | Stage 3<br>$ | 2021<br>Total<br>$ |
|---|---|---|---|---|
| Insured mortgages | 98 | - | - | 98 |
| Uninsured mortgages | 8,606 | 1,931 | 4,176 | 14,713 |
| Personal loans | 9,464 | 2,873 | 1,997 | 14,334 |
| Personal lines of credit and overdrafts | 23,412 | 8,015 | 25,887 | 57,314 |
| Dealer plan loans | 4,460 | - | - | 4,460 |
| Commercial loans | 4,680 | - | 1,271 | 5,951 |
| Commercial mortgages | 54,267 | - | - | 54,267 |
| Commercial lines of credit | 30,528 | - | 18,963 | 49,491 |
| Syndication loans | 451 | - | - | 451 |
| Mortgage pools | 45 | - | - | 45 |
| Municipalities | 80 | - | - | 80 |
| Secured lines of credit and overdrafts | 279 | 5 | 151 | 435 |
| | 136,370 | 12,824 | 52,445 | 201,639 |

**Consolidated Credit Union Ltd.**
Notes to Financial Statements
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(d) Provision for loan losses

| | 2022 $ | 2021 $ |
|---|---|---|
| Increase (decrease) in allowance | 26,191 | (111,568) |
| Write offs | - | 52,011 |
| Recoveries | (645) | (18,758) |
| | 25,546 | (78,315) |

(e) Loans past due but not impaired

At December 31, 2022 and December 31, 2021, all loans that were past due have been considered impaired by the Credit Union.

## 7 Property and equipment

| | Land $ | Building $ | Furniture, equipment and computers $ | Pavement $ | Total $ |
|---|---|---|---|---|---|
| **Recorded amount** | | | | | |
| Balance - Beginning of period | 440,144 | 2,644,713 | 921,842 | 116,302 | 4,123,001 |
| Additions | - | 19,533 | 24,018 | - | 43,551 |
| Disposals | - | - | (177,196) | - | (177,196) |
| Balance - End of period | 440,144 | 2,664,246 | 768,664 | 116,302 | 3,989,356 |
| **Accumulated amortization** | | | | | |
| Balance - Beginning of period | - | 515,890 | 590,176 | 84,194 | 1,190,260 |
| Current period amortization | - | 107,964 | 78,429 | 2,569 | 188,962 |
| Disposals | - | - | (171,509) | - | (171,509) |
| Balance - End of period | - | 623,854 | 497,096 | 86,763 | 1,207,713 |
| **Carrying value** | | | | | |
| December 31, 2021 | 440,144 | 2,128,823 | 331,666 | 32,108 | 2,932,741 |
| December 31, 2022 | 440,144 | 2,040,392 | 271,568 | 29,539 | 2,781,643 |

As at December 31, 2022, furniture, and equipment and computers includes right-of-use assets with a cost of $17,907 (2021 - $17,907), accumulated amortization of $11,395 (2021 - $8,139), and carrying amount of $6,412 (2021 - $9,768). For the year ended December 31, 2022, amortization expense includes $3,256 related to the right-of-use assets (2021 - $3,256).

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## 8 Investments

| | 2022 $ | 2021 $ |
|---|---|---|
| *Measured at fair value through profit or loss* | | |
| Liquidity reserve | 17,979,183 | 16,993,718 |
| Atlantic Central shares | 3,274,554 | 3,348,569 |
| League Data shares | 71,730 | 71,730 |
| Co-operative membership | 3,000 | 3,000 |
| CUMIS Wealth Holdings | 28 | 28 |
| | 2 | 2 |
| Total fair value measured through profit or loss | 21,328,497 | 20,417,047 |
| *Measured at amortized cost* | | |
| Term deposits | 12,000,000 | 24,000,000 |
| | 33,328,497 | 44,417,047 |

*Liquidity reserve deposit*

In order to meet the Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (note 16b). The deposit bears interest at a variable rate.

*Term deposits*

Term deposits were invested with Atlantic Central and were carried at amortized cost which approximated fair value. These term deposits have the following maturity dates and rates of return:

| | Amount $ | Rate of Return | Maturity |
|---|---|---|---|
| | 5,000,000 | 1.60% | March 2, 2023 |
| | 1,000,000 | 2.16% | March 23, 2023 |
| | 1,000,000 | 3.08% | April 23, 2023 |
| | 5,000,000 | 4.50% | November 6, 2023 |
| Total | 12,000,000 | | |



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### 9 Member deposits

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Member shares (note 10) | 22,177,507 | 22,138,899 |
| Savings and Plan 24 | 42,059,572 | 43,912,278 |
| Chequing accounts | 102,160,432 | 93,211,535 |
| Term deposits | 72,592,773 | 62,435,983 |
| RRSP and RRIF | 44,026,700 | 43,138,639 |
| | 283,016,984 | 264,837,334 |

*Member share and share accounts* include the $5 membership share plus individual members' deposits.

*Member share and share accounts* pay members a dividend return at the discretion of the Board. Privileges of the shares are under the authority of the Board. The member dividend rate declared and paid for 2022 was 0.50% (2021 - 0.50%) based on the average minimum monthly share balance throughout the period.

*Savings and Plan 24* are deposits on a call basis that pay holders a variable interest rate ranging from 0.00% - 4.5% (2021 - 0.00% - 3.0%) and 0.00% - 1.10% (2021 - 0.00% - 1.10%), respectively.

*Chequing accounts* are held on a call basis and pay the account holders interest at the Credit Union's stated rates, 0.00% -1.75% (2021 - 0.00% - 1.75%).

*Term deposits* are for periods of one to five years and generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Fixed *term deposits* bear interest at various rates ranging from 0.00% - 7.25% (2021 - 0.00% - 4.75%) and extend for a term of up to five years.

Withdrawal privileges on all member deposit accounts are subject to the overriding right of the Board to impose a waiting period.

*RRSP and RRIF*

Concentra Financial is the Trustee for the registered savings plans offered to plan owners. Under an agreement with the trust company, members' contributions to the 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 the parties designed by them, by the Credit Union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates ranging from 0.00% - 6.75% (2021 - 0.00% - 4.5%).

# Consolidated Credit Union Ltd.

Notes to Financial Statements

**December 31, 2022**

## 10 Member shares

Member shares are not guaranteed by the Credit Union Deposit Insurance Corporation

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Membership shares and deposits | 22,177,507 | 22,138,899 |
| Class A preferred shares | 4,302,400 | - |

Membership shares

An unlimited number of membership shares are available for issuance, with a par value of $5 each. As a condition of membership in Consolidated Credit Union, each member must hold at least one share. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial ability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

Class A preferred shares

The Credit Union will issue up to 50,000 Class A preferred shares having a par value of $100 per share available only to members of the Credit Union. The minimum number of Class A preferred shares shares which may be issued by one member is 10 and the maximum number of shares which may be purchased by one member is 500. The Class A preferred shares are non-cumulative, non-voting, non-participating shares with a minimum dividend rate adjusted every three years. The dividend rate for the first 3 year period is 7.25% and will be paid annually in the form of interest. The dividends shall be paid in priority to any dividends on any other shares of the Credit Union and in priority to patronage refunds. After the 3 year period, the shares may be redeemed or rolled over into a new issuance of Class A preferred shares at the sole direction of the directors. Based upon these redemption characteristics, these shares have been classified as part of members' equity.

As of December 31, 2022, 43,024 shares have been issued. The remaining 6,976 shares were issued in January 2023.

## 11 Other liabilities

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Trade liabilities | 41,197 | 50,959 |
| Accrued liabilities | 94,551 | 102,089 |
| Lease liability | 7,330 | 10,477 |
| | 143,078 | 163,525 |



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The initial recognition of the present value of the lease liability of $17,907 is a non-cash transaction. During the year, payments of $3,509 (2021 - $3,509) were made of which $3,148 (2021 - $3,043) was a reduction to the lease liability and $361 (2021 - $466) was recorded as a service fee expense.

Consolidated Credit Union Ltd. has entered into an equipment lease agreement which expires December 16, 2024. Undiscounted contractual cash flows are as follows:

| | $ |
|---|---|
| Year ending December 31,2023 | 3,492 |
| 2024 | 3,492 |

### 12 Income taxes

(a) Tax rate reconciliation

| | 2022 $ | 2021 $ |
|---|---|---|
| Income before income taxes | 2,220,626 | 1,272,770 |
| Taxes at statutory rates - 31.00% (2021 - 31.00%) | 688,394 | 394,559 |
| Impact of the 21% (2021 - 20%) small business deduction and additional deduction for credit unions | (105,000) | (100,000) |
| Permanent differences and other | 17,802 | (41,918) |
| | 601,196 | 252,641 |

(b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 31% (2021 - 31%), as follows:

| | 2022 $ | 2021 $ |
|---|---|---|
| Balance - Beginning of period | 60,900 | 22,800 |
| Comprehensive income statement expense (recovery) | (18,500) | 38,100 |
| Balance - End of period | 42,400 | 60,900 |

Deferred income tax liabilities are attributable to the following items:

| | 2022 $ | 2021 $ |
|---|---|---|
| **Deferred income tax liability** | | |
| Property and equipment | 91,600 | 105,200 |
| Allowance for impaired loans | (49,200) | (44,300) |
| | 42,400 | 60,900 |

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## 13 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the period, the Credit Union expensed $113,575 (2021 - $110,187) in contributions to the plan. This expense is included with staff expenses on the SCI.

## 14 Related party transactions

The Credit Union provides financial services to members. These members hold the loans and mortgages and member deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

## 15 Composition of key management

Key management includes the Board of Directors, chief executive officer, chief financial officer, front office manager, senior financial services officer, compliance officer, IT administrator and marketing and project manager. Compensation awarded to key management included:

(a) Key management, excluding directors

| | 2022 $ | 2021 $ |
|---|---|---|
| Salaries and short-term employee benefits | 811,434 | 724,662 |

(b) Directors' remuneration

| | 2022 $ | 2021 $ |
|---|---|---|
| Honorariums | 28,500 | 28,500 |
| Payment for expenses while on credit union business | 6,427 | - |

(c) Loans to directors and key management personnel

| | 2022 $ | 2021 $ |
|---|---|---|
| Loans outstanding - Beginning of year | 2,001,095 | 1,259,625 |
| Loans issued during the year | 484,567 | 335,507 |
| Loan repayments during the year | (546,223) | (341,987) |
| Net change due to change in personnel and board | (153,359) | 747,950 |
| Loans outstanding - End of year | 1,786,080 | 2,001,095 |
| Interest income earned | 59,869 | 22,891 |

The loans issued to directors and key management personnel and close family members during the year of $1,786,080 (2021 - $2,001,095) are repayable over 1-7 years and have interest rates ranging from 2.39% - 7.45% (2021 - 2.45% - 5.45%).

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## 16 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market, interest rate and operational risk. Authority for all risk-taking activities rests with the Board of Directors (the "Board"), which approves risk management policies, delegates limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who reports to the Board.

The Credit Union's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial assets is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

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

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Cash and cash equivalents | 14,282,341 | 15,048,087 |
| Accounts receivable | 169,157 | 28,840 |
| Loans and mortgages | 250,019,389 | 213,659,251 |
| Investments | 33,328,497 | 44,417,047 |
| | 297,799,384 | 273,153,225 |



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Cash and cash equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

The Credit Union's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

| | **2022**<br>**$** | **2021**<br>**$** |
|---|---|---|
| Cash and cash equivalents | 14,282,341 | 15,048,087 |

Credit Union bylaws require Consolidated Credit Union Ltd. to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Consistent with other Prince Edward Island Credit Unions, Consolidated Credit Union Ltd. is required by the Credit Union Deposit Insurance Corporation to maintain 10% of the prior quarter's member deposits in liquid investments of which 90% must be held by Atlantic Central in order to ensure ongoing cash flow requirements are met. The Credit Union was compliant with this requirement at December 31, 2022.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

| | **Under 1 year**<br>**$** | **Over 1 to 5 years**<br>**$** | **Over 5 years**<br>**$** | **2022 Total**<br>**$** |
|---|---|---|---|---|
| Member deposits | 222,224,724 | 38,614,753 | - | 260,839,477 |
| Share accounts | 22,177,507 | - | - | 22,177,507 |
| Accrued interest payable | 1,422,714 | - | - | 1,422,714 |
| Other liabilities | 143,078 | - | - | 143,078 |
| | 245,968,023 | 38,614,753 | - | 284,582,776 |

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| | Under 1 year $ | Over 1 to 5 years $ | Over 5 years $ | 2021 Total $ |
|---|---|---|---|---|
| Member deposits | 183,837,305 | 58,861,130 | - | 242,698,435 |
| Share accounts | 22,138,899 | - | - | 22,138,899 |
| Accrued interest payable | 1,213,914 | - | - | 1,213,914 |
| Other liabilities | 163,525 | - | - | 163,525 |
| | 207,353,643 | 58,861,130 | - | 266,214,773 |

The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the Credit Union to enhance profitability.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

| | Net interest income change 2022 $ | Net interest income change 2021 $ |
|---|---|---|
| Before tax impact of | | |
| 1% increase in interest rates | (67,000) | 9,600 |
| 1% decrease in interest rates | 8,600 | 45,600 |

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(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

Consistent with other Prince Edward Island Credit Unions, Consolidated Credit Union Ltd. is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets.

In accordance with the recommendations of the Canadian Chartered Professional Accountants related to the financial statement presentation of financial instruments, the ownership shares are presented in the Statement of Financial Position as financial liabilities. At December 31, 2022, the equity level for regulatory purposes is as follows:

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Ownership shares (note 10) | 41,200 | 41,320 |
| Members' equity | 11,880,613 | 10,242,683 |
| Class A preferred shares | 4,302,400 | - |
| Total regulatory equity | 16,224,213 | 10,284,003 |
| Total assets | 301,187,521 | 276,518,356 |
| Equity level | 5.39% | 3.72% |

| | # | 2022<br>$ |
|---|---|---|
| Opening, January 1, 2022 | 8,264 | 41,320 |
| Net decrease | (24) | (120) |
| Closing, December 31, 2022 | 8,240 | 41,200 |



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### 17 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

| | | | | | **2022** |
|---|---|---|---|---|---|
| | **Under 1 year $** | **Over 1 to 5 years $** | **Over 5 years $** | **Not interest rate sensitive $** | **Total $** |
| **Assets** | | | | | |
| Cash and equivalents | 13,128,015 | - | - | 1,154,326 | 14,282,341 |
| Effective interest rate | 0.30% | | - | | |
| Accounts receivable | - | - | - | 169,157 | 169,157 |
| Loans and mortgages | 69,928,729 | 179,470,898 | 428,114 | 191,648 | 250,019,389 |
| Effective interest rate | 5.55% | 3.72% | 4.36% | | |
| Prepaid expenses | - | - | - | 606,494 | 606,494 |
| Property and equipment | - | - | - | 2,781,643 | 2,781,643 |
| Investments | 33,328,497 | - | - | - | 33,328,497 |
| Effective interest rate | 0.50% | | | | |
| Total assets | 116,385,241 | 179,470,898 | 428,114 | 4,903,268 | 301,187,521 |
| **Liabilities and surplus** | | | | | |
| Member deposits | 168,259,391 | 38,614,753 | - | 76,142,840 | 283,016,984 |
| Effective interest rate | 1.59% | 2.47% | | | |
| Accrued interest payable | - | - | - | 1,422,714 | 1,422,714 |
| Other liabilities | - | - | - | 143,078 | 143,078 |
| Income taxes payable | - | - | - | 379,332 | 379,332 |
| Deferred income taxes | - | - | - | 42,400 | 42,400 |
| Share capital | - | - | - | 4,302,400 | 4,302,400 |
| Undistributed income | - | - | - | 11,880,613 | 11,880,613 |
| Total liabilities and surplus | 168,259,391 | 38,614,753 | - | 94,313,377 | 301,187,521 |
| **Interest rate sensitivity gap** | (51,874,150) | 140,856,145 | 428,114 | (89,410,109) | - |



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| | Under 1 year $ | Over 1 to 5 years $ | Over 5 years $ | Not interest rate sensitive $ | 2021 Total $ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 15,048,087 | - | - | - | 15,048,087 |
| Effective interest rate | 0.00% | | | | |
| Accounts receivable | - | - | - | 28,840 | 28,840 |
| Loans and mortgages | 44,077,580 | 168,780,900 | 703,300 | 97,471 | 213,659,251 |
| Effective interest rate | 3.74% | 3.33% | 4.23% | | |
| Prepaid expenses | - | - | - | 326,276 | 326,276 |
| Income taxes receivable | - | - | - | 106,114 | 106,114 |
| Property and equipment | - | - | - | 2,932,741 | 2,932,741 |
| Investments | 44,417,047 | - | - | - | 44,417,047 |
| Effective interest rate | 0.50% | | | | |
| Total assets | 103,542,714 | 168,780,900 | 703,300 | 3,491,442 | 276,518,356 |
| **Liabilities and surplus** | | | | | |
| Member deposits | 137,499,801 | 58,861,130 | - | 68,476,403 | 264,837,334 |
| Effective interest rate | 0.82% | 2.25% | | | |
| Accrued interest payable | - | - | - | 1,213,914 | 1,213,914 |
| Other liabilities | - | - | - | 163,525 | 163,525 |
| Deferred income taxes | - | - | - | 60,900 | 60,900 |
| Undistributed income | - | - | - | 10,242,683 | 10,242,683 |
| Total liabilities and surplus | 137,499,801 | 58,861,130 | - | 80,157,425 | 276,518,356 |
| **Interest rate sensitivity gap** | (33,957,087) | 109,919,770 | 703,300 | (76,665,983) | - |

As at December 31, 2022, the Credit Union's net interest spread was 2.18% (2021 - 1.86%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.

## 18 Commitments

On May 24, 2022 the Credit Union entered into a committment with League Data Limited to transition it's core banking platform to a new platform. The total cost of the transition is estimated to be $1,579,166. As at December 31, 2022, the Credit Union has incurred costs of $315,833 which is included on the financial statements in prepaid expenses.

The Credit Union had lines of credit and loans and mortgages approved but not disbursed at December 31, 2022 amounting to $21,908,127.



ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

CREDIT UNION

CONSOLIDATED