KAWARTHA CREDIT UNION LIMITED

Financial Statements

At December 31, 2023

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Independent Auditor's Report

To the Members of Kawartha Credit Union Limited

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Peterborough, Ontario
February 23, 2024

KAWARTHA CREDIT UNION LIMITED

Statement of Financial Position

December 31	**2023**	**2022**
		(thousands of Canadian dollars)
Assets		
Cash resources (Note 8)	**$ 7,234**	$ 6,176
Liquidity deposits (Note 8)	**133,696**	153,356
Investments (Note 11)	**12,993**	18,057
Derivative financial instruments (Note 10)	**613**	462
Members' loans (Note 4)	**2,003,221**	1,903,822
Other assets (Note 15)	**8,602**	12,003
Property and equipment (Note 20)	**19,992**	21,345
Right-of-use assets (Note 21)	**17,102**	16,920
	$ 2,203,453	$ 2,132,141
Liabilities and Members' Equity		
Liabilities		
Term Loans (Note 14)	**$ 11,000**	$ 2,000
Members' deposits (Note 5)	**1,881,212**	1,840,872
Accounts payable and accrued liabilities	**1,678**	7,931
Derivative financial instruments (Note 10)	**492**	498
Securitized mortgages under administration (Note 12)	**139,684**	111,348
Membership shares (Note 6)	**1,372**	1,324
Employee future benefits (Note 19)	**5,641**	5,515
Lease liabilities (Note 21)	**18,088**	17,771
	2,059,167	1,987,259
Members' Equity		
Class A Investment shares (Note 6)	**61,727**	61,727
Class B Affinity shares (Note 6)	**12,282**	16,061
Contributed surplus	**732**	656
Retained earnings	**69,440**	68,346
Accumulated other comprehensive income (loss)	**105**	(1,908)
	144,286	144,882
	$ 2,203,453	$ 2,132,141

Approved by the Board:

Darcy Hern Director

D Paul Ayotte Director

KAWARTHA CREDIT UNION LIMITED

Statement of Income

For the year ended December 31	**2023**	**2022**
	(thousands of Canadian dollars)	
Financial Revenue		
Interest on members' loans	**$ 78,380**	$ 61,016
Investment income	**3,959**	2,772
	82,339	63,788
Financial Expense		
Interest on members' deposits	**46,592**	22,421
Interest on borrowings	**573**	359
	47,165	22,780
Financial Margin	**35,174**	41,008
Other Income (Note 16)	**10,353**	10,245
	45,527	51,253
Operating Expenses		
Salaries and employee benefits	**26,999**	25,307
Loan loss expense (recovery)	**700**	(831)
Occupancy (Note 21)	**4,965**	5,034
Banking costs	**961**	938
Other expenses (Note 17)	**3,027**	3,167
Information system costs	**5,687**	5,352
Deposit insurance	**1,646**	1,565
Promotion	**665**	907
Directors' expenses	**172**	194
	44,822	41,633
Operating Income	**705**	9,620
Patronage reversals (distributions) (Note 6)	**18**	(720)
Income before income taxes	**723**	8,900
Income tax expense (Note 18)	**(331)**	1,384
Net Income	**$ 1,054**	$ 7,516

KAWARTHA CREDIT UNION LIMITED

Statement of Comprehensive Income

For the year ended December 31		2023		2022
		(thousands of Canadian dollars)		
Net Income (Page 5)	**$**	**1,054**	$	7,516
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Fair value gain (loss) on high quality liquidity assets (Note 8)		**2,461**		(3,123)
Fair value gain realized on Swaps		**-**		(122)
Related income tax recovery (expense)		**(448)**		541
Items that are not recycled or reclassified to net income:				
Actuarial gain on remeasurement of defined benefit non-pension plans (Note 19)		**-**		482
Related income tax (expense)		**-**		(88)
Comprehensive Income	**$**	**3,067**	$	5,206

KAWARTHA CREDIT UNION LIMITED

Statement of Changes in Members' Equity

	Accumulated Other Comprehensive Income	Class A Investment Shares	Class B Affinity Shares	Retained Earnings and Contributed Surplus	Total
				(thousands of Canadian dollars)	
Balance at December 31, 2021	**$ 402**	**$ 61,727**	**$ 16,499**	**$ 65,222**	**$ 143,850**
Net income	-	-	-	7,516	7,516
Dividends paid (Note 6)	-	-	-	(3,777)	(3,777)
Class B Affinity shares					
Net share redemptions	-	-	(397)	-	(397)
Forfeitures	-	-	(41)	41	-
Fair value loss on liquidity deposits net of tax	(2,582)	-	-	-	(2,582)
Actuarial gain on remeasurement of defined benefit non pension plans net of tax (Note 19)	394	-	-	-	394
Fair value gain realized on Swaps	(122)	-	-	-	(122)
Balance at December 31, 2022	**(1,908)**	**61,727**	**16,061**	**69,002**	**144,882**
Net income	-	-	-	1,054	1,054
Dividends reversed (Note 6)	-	-	-	40	40
Class B Affinity shares					
Net share redemptions	-	-	(3,703)	-	(3,703)
Forfeitures	-	-	(76)	76	-
Fair value gain on liquidity deposits net of tax	2,013	-	-	-	2,013
Actuarial gain on remeasurement of defined benefit non pension plans net of tax (Note 19)	-	-	-	-	-
Balance at December 31, 2023	**$ 105**	**$ 61,727**	**$ 12,282**	**$ 70,172**	**$ 144,286**

KAWARTHA CREDIT UNION LIMITED

Statement of Cash Flows

For the year ended December 31	**2023**	**2022**
		(thousands of Canadian dollars)
Operating activities		
Net income	**$ 1,054**	$ 7,516
Adjustments for non-cash items:		
Depreciation on property and equipment	**2,755**	3,047
Depreciation on right-of-use assets	**1,281**	1,262
(Gains) losses on investments	**352**	(26)
	5,442	11,799
Changes in operating assets and liabilities:		
Decrease (increase) in other assets	**2,953**	(2,440)
Increase in derivative financial instruments (net)	**(157)**	(30)
Decrease in accounts payable and accrued liabilities	**(6,253)**	(2,503)
Increase in employee future benefits	**126**	102
Increase in members' deposits	**40,340**	83,330
Increase in members' loans	**(99,399)**	(160,585)
Total cash outflows from operating activities	**(56,948)**	(70,327)
Financing Activities		
Decrease in liquidity deposits	**22,129**	17,626
Proceeds from term loans	**9,000**	2,000
Net proceeds from mortgage securitizations	**28,336**	33,258
Class B Affinity shares net redemptions	**(3,703)**	(397)
Increase in membership shares	**48**	70
Dividends reversed (paid) to members	**40**	(3,777)
Repayment of lease liabilities	**(1,146)**	(1,079)
Gain realized on Swaps	**-**	(122)
Total cash inflows from financing activities	**54,704**	47,579
Investing Activities		
Purchases of property and equipment (net of disposals)	**(1,402)**	(1,175)
Decrease in investments (net)	**4,704**	10,038
Total cash inflows from investing activities	**3,302**	8,863
Net increase (decrease) in cash resources	**1,058**	(13,885)
Cash resources, beginning of year	**6,176**	20,061
Cash resources, end of year	**$ 7,234**	$ 6,176

Refer to Note 23 for supplementary cash flow information.

1. CORPORATE INFORMATION

Reporting Entity

Kawartha Credit Union Limited ("the Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act, 2020 ("The Act") of Ontario and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, and commercial (including agricultural) loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, mutual funds, automated teller machines ("ATMs"), debit and credit cards, and online and mobile banking. The Credit Union head office is located at 14 Hunter Street East, Peterborough, Ontario, Canada.

These financial statements were authorized for issue by the Board of Directors on February 22, 2024.

2. BASIS OF PRESENTATION

i) Statement of Compliance

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

ii) Basis of Measurement

These financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through other comprehensive income ("FVOCI") or fair value through profit and loss ("FVTPL").

The Credit Union's functional and presentation currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars.

iii) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires Management to make certain critical accounting estimates. It also requires Management to exercise judgment in applying the Credit Union's accounting policies. The areas involving critical judgments and estimates in applying policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The determination of whether the loan receivables due from qualifying borrowers under the CEBA program meet the derecognition criteria for financial assets in IFRS 9 (Note 4);
- The determination of impairment of member loans; assessing whether credit risk on the financial asset has increased significantly since initial recognition; and the incorporation of forward-looking information into the measurement of the expected credit loss ("ECL") (Note 4);
- The classification of financial assets, which includes assessing the business model within which the assets are held, whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding, and how the business model's objective is achieved (Notes 4 and 8);
- The fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Notes 4, 5, 8, 10 & 11);
- The determination of the liability for employee future benefits (Note 19); and
- The determination of lease terms for any leases that include a renewal option and termination option, the determination of whether the Credit Union is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each contract (Note 21).

2. BASIS OF PRESENTATION (continued)

In preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that Management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

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

4. MEMBERS' LOANS

		2023		2022
				(thousands of Canadian dollars)
Residential mortgages	**$**	**1,504,985**	$	1,448,480
Personal loans		**82,007**		79,013
Commercial loans		**416,270**		377,053
		2,003,262		1,904,546
Accrued interest receivable		**3,323**		2,594
Allowance for impaired loans		**(3,364)**		(3,318)
Net members' loans	**$**	**2,003,221**	$	1,903,822

Terms and Conditions

Members' loans can have either a variable or fixed rate of interest and mature within six years. Variable rate loans are based on a "prime rate" formula, ranging from prime minus 5.76% to prime plus 17.30%. The rate is determined by the type of security offered and the members' credit worthiness. At December 31, 2023 the Credit Union's residential mortgage prime rate was 7.20% and the prime rate was 7.70% for all other lending.

The interest rate offered on fixed rate loans advanced at December 31, 2023 ranges from 1.58% to 13.92%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

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

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

4. MEMBERS' LOANS (continued)

Commercial loans consist of term loans, operating lines of credit and mortgages to sole proprietors, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

The Credit Union, on an exception basis, offers members loan deferrals to help ensure repayment of loans.

Average Yields to Maturity

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

	2023		2022	
	Principal	**Yield (%)**	Principal	Yield (%)
			(thousands of Canadian dollars)	
Variable rate	**$ 275,662**	**9.10**	$ 271,890	8.30
Fixed rate due less than one year	**185,146**	**3.77**	115,952	4.00
Fixed rate due between one and five years	**1,542,454**	**3.72**	1,516,704	3.19
	$ 2,003,262		$ 1,904,546	

i) Recognition and Initial Measurement

The Credit Union initially recognizes member loans on the date on which they are originated. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

ii) Classification and Subsequent Measurement

Member loans are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Member loans are subsequently reduced by any allowance for loan losses.

iii) Derecognition and Contract Modifications

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

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

4. MEMBERS' LOANS (continued)

If the terms of a member loan are modified but not substantially, then the member loan is not derecognized.

If the member loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the member loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and is presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on member loans.

The Credit Union administered the Canada Emergency Business Account ("CEBA") program on behalf of the Government of Canada. The Credit Union provided lending to businesses who qualified for CEBA ("qualifying borrower"). In exchange for the services, the Government pays the financial institution an administration fee. The Credit Union contracts with a third party to assist with the administration of CEBA accounts in exchange for one half of the fee it earns from the Government.

Per the terms of the agreement, it is determined that the Credit Union meets the derecognition criteria for the loans advanced to the qualifying borrower; therefore the loans administered under the CEBA program are not recognized on the Statement of Financial Position.

The Credit Union agreed to fund the Highly Affected Sectors Credit Availability Program ("HASCAP") on behalf of and fully guaranteed by the Government of Canada and its agencies. As of December 31, 2023 there were three loans funded (2022 - four) under this program with $1,792,513 loan balance outstanding (2022 - $1,972,370).

iv) Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Credit Union's member loans.

v) Interest on Members' Loans

Interest on members' loans is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the member loan to its gross carrying amount.

vi) Credit Risk Management

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

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

4. MEMBERS' LOANS (continued)

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

- General loan policy statements including approval of lending policies, eligibility for loans with stress testing the ability of a borrower to pay at a higher rate, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including schedule of assigned limits;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Audit procedures and processes for the Credit Union's lending activities;
- Restriction of certain business, including businesses engaged in or associated with illegal activities and businesses involved in the production of marijuana; and
- Maintaining the Credit Union's watch list for applicable loans following significant increase in credit risk with appropriate follow-up and risk mitigation techniques.

With respect to credit risk, the Board of Directors receives quarterly reports summarizing new loans, delinquent loans and bad debts. The Board of Directors also receives an analysis of allowance for loan losses quarterly.

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risk of a reduction of the loan to value ratio (“LTV”) should the property market decline. The risk of losses from loans undertaken is primarily reduced by adhering to other lending criteria including a borrower's ability to pay. There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk. Consistent with the prior year the Credit Union continues to use a third party tool to assist in the measurement and quantification of the allowance for loan losses for ECL Stage 1 and 2 member loans.

4. MEMBERS' LOANS (continued)

Amounts Arising from ECL

The Credit Union recognizes allowance for loan losses for ECL on member loans. The Credit Union measures allowance for loan losses monthly for ECL stage 3 credit impaired loans and quarterly for ECL stage 1 and stage 2 loans according to a three-stage ECL model as follows:

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk ("SICR") relative to its initial recognition.	Following a significant increase in credit risk ("SICR") relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).
Criteria for movement	At origination, all member loans are categorized as stage 1. A commercial loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement back is approved by the credit risk committee. For residential mortgages, personal loans or lines-of-credit, including overdrafts, migration back to stage 1 may occur if either: • all signs of previous credit deterioration are remedied and the member has re-established a consistent record of timely payments as required or • the loan is restructured with sufficient security pledged and the member has re-established a consistent record of timely payments as required.	For commercial loans on the watch list, the Credit Union categorizes their riskiness based on three risk levels. The Credit Union determines a SICR has occurred when a commercial loan moves to the watch list due to a number of factors, including deteriorating financial results, potential security shortfalls or adverse developments of the borrower. Commercial loans where the Credit Union has, for one reason or another, initiated the exiting process but not considered to be impaired, are kept on the watch list and classified in stage 2 until they are paid out. For residential mortgages, a SICR has occurred if payments are over 29 days past due and the mortgage is uninsured. For personal loans and lines-of-credit, including overdrafts, a SICR has occurred if payments are over 29 days past due and not secured by real estate.	A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred: • a breach of contract such as a default or delinquency in interest or principal payments; • significant financial difficulty of the borrower; • the restructuring of a loan by the Credit Union on terms that the Credit Union would not consider otherwise; • payment on a loan or line of credit, including overdrafts, is overdue 90 days or more; • it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

4. MEMBERS' LOANS (continued)

<table>
<tr><th>Stage</th><th>1 – No Significant Increase in Credit Risk Since Initial Recognition</th><th>2 – Significant Increase in Credit Risk Since Initial Recognition</th><th>3 – Credit-Impaired</th></tr>
<tr><td>ECL methodology</td><td>Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months (12-month expected credit loss).</td><td colspan="2">Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss).</td></tr>
<tr><td>Collective or individual assessment</td><td colspan="2">Loans are individually assessed based on risk characteristics including loan type, LTV, quality of security, borrower risk assessment, and for commercial loans, the industry of the borrower.</td><td>Each credit-impaired member loan is individually assessed.</td></tr>
<tr><td>Application of ECL methodology</td><td colspan="2">Expected credit loss is measured for each loan on the basis of an explicit probability of default approach. The Credit Union develops loss rates for member loans in stage 1 and loss rates for member loans in stage 2, based on historical default and loss experiences for similar member loans, adjusted for current economic conditions and forecasts of future economic conditions. Loss rates are also applied to undrawn loan commitments (unadvanced loans and unused lines of credit).</td><td>The probability of default on credit-impaired member loans is 100%, therefore the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.</td></tr>
<tr><td>Key forward-looking information</td><td colspan="3">Unemployment rates, housing price indices, national data for real GDP, household debt levels and Government of Canada bond rates in addition to other relevant economic information impacting the markets where the Credit Union does business are all considered when determining loss rates.</td></tr>
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4. MEMBERS' LOANS (continued)

Credit Quality Analysis

The following table sets out the Credit Union's credit risk exposure for loans as at December 31, 2023. Stage 1 represents performing loans carried with a 12-month expected credit loss. Stage 2 represents performing loans carried with a lifetime expected credit loss. Stage 3 represents loans with a lifetime credit loss that are credit impaired. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

				2023	2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
					(thousands of Canadian dollars)
Residential Mortgages					
Current	$ 1,488,286	$ -	$ -	$ 1,488,286	$ 1,438,773
> 29 Days past due	2,644	8,118	-	10,762	4,299
Credit impaired	-	-	8,062	8,062	7,017
	1,490,930	8,118	8,062	1,507,110	1,450,089
Allowance for loan losses	(770)	(45)	(66)	(881)	(757)
Carrying amount	$ 1,490,160	$ 8,073	$ 7,996	$ 1,506,229	$ 1,449,332
Personal Loans					
Current	$ 79,959	$ -	$ -	$ 79,959	$ 77,270
> 29 Days past due	31	1,173	-	1,204	779
Credit impaired	-	-	933	933	1,031
	79,990	1,173	933	82,096	79,080
Allowance for loan losses	(735)	(38)	(813)	(1,586)	(1,481)
Carrying amount	$ 79,255	$ 1,135	$ 120	$ 80,510	$ 77,599
Commercial Loans					
Current	$ 407,961	$ -	$ -	$ 407,961	$ 353,516
> 29 Days past due	127	-	-	127	60
Watch list loans	-	4,236	-	4,236	24,385
Credit impaired	-	-	5,055	5,055	10
	408,088	4,236	5,055	417,379	377,971
Allowance for loan losses	(680)	(79)	(138)	(897)	(1,080)
Carrying amount	$ 407,408	$ 4,157	$ 4,917	$ 416,482	$ 376,891
Balance at December 31	$ 1,976,823	$ 13,365	$ 13,033	$ 2,003,221	$ 1,903,822

4. MEMBERS' LOANS (continued)

The allowance for loan losses in the preceding table includes amounts related to loan commitments either undrawn or approved but not funded at year end. The Credit Union has the following loan commitments to its members at December 31st:

				2023	2022
	Residential Mortgages	**Personal Loans**	**Commercial Loans**	**Total**	Total
				(thousands of Canadian dollars)	
Unadvanced loans	**$ 6,586**	**$ -**	**$ 87,029**	**$ 93,615**	$ 88,278
Unused Lines of Credit	**-**	**196,770**	**33,334**	**230,104**	235,210
	$ 6,586	**$ 196,770**	**$ 120,363**	**$ 323,719**	$ 323,488

Allowance for Loan Losses

The following tables show the continuity from the opening balance to the closing balance of the allowance for loan losses by type of member loan. The allowance for loan losses in these tables include in stage 1 the ECL on loan commitments for unadvanced member loans and the unused portion of members lines of credit.

				2023	2022
Residential Mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Total
				(thousands of Canadian dollars)	
Balance at January 1	**$ 717**	**$ 19**	**$ 21**	**$ 757**	$ 564
Transfer to Stage 1	**16**	**(13)**	**(3)**	**-**	-
Transfer to Stage 2	**(20)**	**20**	**-**	**-**	-
Transfer to Stage 3	**(6)**	**(1)**	**7**	**-**	-
Net remeasurement of allowances for loan losses	**(58)**	**12**	**43**	**(3)**	(30)
New members loans originated	**121**	**8**	**-**	**129**	223
Loans written off	**-**	**-**	**(2)**	**(2)**	-
Recoveries of amounts previously written off	**-**	**-**	**-**	**-**	-
Balance at December 31	**$ 770**	**$ 45**	**$ 66**	**$ 881**	$ 757

4. MEMBERS' LOANS (continued)

Personal Loans	**Stage 1**	**Stage 2**	**Stage 3**	**2023 Total**	2022 Total
					(thousands of Canadian dollars)
Balance at January 1	**$ 650**	**$ 23**	**$ 808**	**$ 1,481**	$ 1,591
Transfer to Stage 1	**78**	**(10)**	**(68)**	**-**	-
Transfer to Stage 2	**(8)**	**8**	**-**	**-**	-
Transfer to Stage 3	**(6)**	**(3)**	**9**	**-**	-
Net remeasurement of allowances for loan losses	**(91)**	**18**	**681**	**608**	54
New members loans originated	**112**	**2**	**6**	**120**	178
Loans written off	**-**	**-**	**(681)**	**(681)**	(436)
Recoveries of amounts previously written off	**-**	**-**	**58**	**58**	94
Balance at December 31	**$ 735**	**$ 38**	**$ 813**	**$ 1,586**	$ 1,481

Commercial Loans	**Stage 1**	**Stage 2**	**Stage 3**	**2023 Total**	2022 Total
					(thousands of Canadian dollars)
Balance at January 1	**$ 627**	**$ 443**	**$ 10**	**$ 1,080**	$ 3,306
Transfer to Stage 1	**23**	**(23)**	**-**	**-**	-
Transfer to Stage 2	**-**	**-**	**-**	**-**	-
Transfer to Stage 3	**-**	**(53)**	**53**	**-**	-
Net remeasurement of allowances for loan losses	**(96)**	**(288)**	**103**	**(281)**	(1,411)
New members loans originated	**126**	**-**	**-**	**126**	155
Loans written off	**-**	**-**	**(61)**	**(61)**	(985)
Recoveries of amounts previously written off	**-**	**-**	**33**	**33**	15
Balance at December 31	**$ 680**	**$ 79**	**$ 138**	**$ 897**	$ 1,080

4. MEMBERS' LOANS (continued)

Write-offs

Member loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, member loans written off could still be subject to enforcement activities consistent with the Credit Union's procedures for recovery of amounts due.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

The Credit Union continues to seek recoveries on loans that were written off until they have exhausted all reasonable efforts to collect. Below are the contractual amounts of members' loans written off in the year where, for personal loans, recovery is still being pursued as at December 31, 2023.

	2023 (thousands of Canadian dollars)
Residential mortgages	$ 2
Personal loans	681
Commercial loans	61
	$ 744

Renegotiated Member Loans

From time to time the contractual terms of a loan are modified if the member is experiencing financial difficulties. An assessment of impairment of renegotiated loans consistent with existing loan loss impairment policies is performed. Renegotiated loans are permitted to remain in performing status if the modifications are not considered to be significant or are returned to performing status when none of the criteria for classification as impaired continues to apply.

Quality of Collateral Held

To manage credit risk, collateral or security may be provided by members for loans granted. For impaired loans, an assessment of the collateral is taken into consideration when estimating the expected future cash flows and net realizable amount of the loan. Collateral accepted by the Credit Union includes real estate as well as non-real estate assets, including vehicles, certain business assets (accounts receivable, inventory and fixed assets), assignment of wages or term deposits, personal guarantees and general security agreements. It is not practical to value all collateral as at the reporting date due to the variety of the nature of the assets. The following table provides a breakdown of the Credit Union's loan portfolios based on security type.

4. **MEMBERS' LOANS** (continued)

	2023				2022
	Residential Mortgages	**Personal Loans**	**Commercial Loans**	**Total**	Total
				(thousands of Canadian dollars)	
Secured by real estate	**$ 1,507,110**	**$ 2,250**	**$ 403,123**	**$ 1,912,483**	$ 1,816,983
Secured by non-real estate	**-**	**78,662**	**14,166**	**92,828**	88,212
Unsecured	**-**	**1,184**	**90**	**1,274**	1,945
	$1,507,110	**$ 82,096**	**$ 417,379**	**$ 2,006,585**	$ 1,907,140

Residential mortgages include $246,456,324 (2022 - $228,252,938) of loans insured by Canada Mortgage and Housing Corporation or Sagen MI Canada Inc. The total collateral held for member loans in stage 3, with collateral capped at the loan value before allowance that they are held against, is $13,033,303 (2022 - $7,219,534). None of the collateral held by the Credit Union is permitted to be sold or repledged in the absence of default by the owner.

Concentration of Credit Risk

The Credit Union monitors concentration of credit risk on the basis of both members' authorized and outstanding exposure. No individual or related groups of members' outstanding loans exceed 15.00% of members' equity.

The Credit Union has credit risk concentration from its geographic distribution of member loans in Eastern Ontario in addition to credit risk from commercial loan industry concentration.

Fair Value

The estimated fair value of variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined using Level 3 valuations (Note 10) by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

For fixed rate loans, the weighted average market interest rate used in estimating fair value was 3.78% (2022 - 3.25%) and the weighted average term to maturity was 2.34 years (2022 - 2.31 years). The fair value of members' loans as at December 31st is as follows:

	2023	2022
	(thousands of Canadian dollars)	
Residential mortgages	**$ 1,442,152**	$ 1,375,447
Personal loans	**80,959**	78,548
Commercial loans	**408,900**	367,355
	$ 1,932,011	$ 1,821,350

5. MEMBERS' DEPOSITS

	2023	2022
	(thousands of Canadian dollars)	
Chequing accounts	**$ 464,422**	$ 496,759
Demand savings accounts	**167,347**	201,802
Term deposits	**652,472**	622,816
Registered retirement savings plans	**145,675**	141,720
Registered retirement income funds	**128,754**	115,642
Tax free savings account	**301,317**	250,660
	1,859,987	1,829,399
Accrued interest on member deposits	**21,225**	11,473
	$ 1,881,212	$ 1,840,872

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate of 0.00% at December 31, 2023. Interest is calculated daily and paid on the accounts monthly.

Demand savings accounts are due on demand and bear interest at a variable rate up to 1.15% at December 31, 2023. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits on December 31, 2023 range from 0.50% to 4.50%.

Registered retirement savings plans ("RRSPs") accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at a rate of 0.05% at December 31, 2023.

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

The tax-free savings accounts ("TFSAs") can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above. The variable rate TFSAs bear interest at a rate of 1.15% at December 31, 2023.

Included in demand savings accounts and term deposits is an amount of $6,881,811 (2022 - $7,343,389) denominated in US dollars.

Average Yields to Maturity

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

	2023		2022	
	Principal	**Yield(%)**	Principal	Yield(%)
Variable rate	**$ 631,769**	**0.65**	$ 698,561	0.54
Fixed rate due less than one year	**803,314**	**3.89**	748,596	2.63
Fixed rate due between one and five years	**424,904**	**4.19**	382,242	3.15
	$ 1,859,987		$ 1,829,399	

5. MEMBERS' DEPOSITS (continued)

i) Recognition and Initial Measurement

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

ii) Classification and Subsequent Measurement

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

iii) Concentration of Credit Risk

The Credit Union does not have exposure to groupings of individual deposits that exceed 8.00% of members' deposits which concentrate risk and create exposure to particular segments.

Members' deposits are primarily with members located in Eastern Ontario.

iv) Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. Liquidity risk primarily arises from the Credit Union's members' deposits, which are its most significant financial liability.

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

The Financial Services Regulatory Authority of Ontario (FSRA) Liquidity Adequacy Requirements for Credit Unions and Caisses Populaires articulates the methodology that Credit Unions must use to calculate minimum liquidity requirements and the expectations for Credit Unions to maintain adequate and prudent liquidity. The Credit Union monitors and manages liquidity using the Liquidity Coverage Ratio ("LCR"), Net Stable Funding Ratio ("NSFR") and Net Cumulative Cash Flow ("NCCF") metrics while maintaining a minimum amount of High Quality Liquid Assets as a percentage of total assets.

The Credit Union manages liquidity risk by:

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

The Board of Directors receives quarterly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the minimum Board liquidity requirements throughout the period.

5. MEMBERS' DEPOSITS (continued)

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

	Maximum Exposure
	(thousands of Canadian dollars)
Qualifying liquid assets on hand	
Cash resources	$ 7,234
Liquidity deposits	133,696
	140,930
Minimum Liquidity Requirement	121,084
Excess Liquidity	$ 19,846

The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

i) Fair Value Measurement

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks. The fair value of members' deposits as at December 31st is as follows:

	2023	2022
	(thousands of Canadian dollars)	
Chequing and demand savings accounts	**$ 631,769**	$ 698,561
Term deposits	**646,806**	613,661
Registered plans	**572,323**	501,143
	$ 1,850,898	$ 1,813,365

For fixed rate deposits, the weighted average market interest rate used in estimating fair value was 4.10% (2022 - 2.79%) and the weighted average term to maturity was 1.15 years (2022 - 1.23 years).

ii) Service Fee Revenue

Revenue from servicing fees is recognized either on a monthly basis or at the point in time when the transaction takes place.

6. MEMBERS' SHARES

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

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

	2023		2022	
	Equity	**Liability**	Equity	Liability
			(thousands of Canadian dollars)	
Membership shares	**$ -**	**$ 1,372**	$ -	$ 1,324
Class A Investment shares (net of issuance costs)	**61,727**	**-**	61,727	-
Class B Affinity shares	**12,282**	**-**	16,061	-
	$ 74,009	**$ 1,372**	$ 77,788	$ 1,324

Terms and Conditions

Membership Shares

The Credit Union is authorized to issue an unlimited number of membership shares. As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold 5 member shares with a par value of $5 per share, with the exception of members under 18 years old who are only required to hold 1 member share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. As at year ended December 31, 2023, there were 274,460 membership shares issued (2022 – 264,861).

Funds invested by members in member shares are not insured by FSRA. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any dividends on these shares. Member shares that are available for redemption based on sufficient regulatory capital are classified as a liability. Any difference between the total member shares and the liability amount are classified as equity.

Class A Investment Shares

The Credit Union is authorized to issue an unlimited number of Class A Investment shares, in series, with rights, privileges, restrictions and conditions to be determined by the Board of Directors, subject to statutory restrictions. As at December 31, 2023, there were 62,235,017 Class A shares issued (2022 – 62,235,017). These shares are redeemable at the sole and absolute discretion of the Board of Directors on a date commencing five years after the issue date, subject to a maximum of 10.00% of the shares outstanding at the end of the previous fiscal year or a higher percentage subject to an exception approved by the Board. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any distributions on these shares. Class A shares that are available for redemption are classified as Tier 2 capital. Class A shares available for redemption as of December 31, 2023 total 4,067,705.

6. MEMBERS' SHARES (continued)

Class B Affinity Shares

The Credit Union is authorized to issue an unlimited number of Non-Cumulative Redeemable Non-Voting Non-Participating Class B Affinity shares. As at December 31, 2023, there were 12,281,928 Class B Affinity shares issued (2022 - 15,311,539). The Class B shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the sole and absolute discretion of the Board of Directors on a date commencing five years after the issue date, subject to a maximum of 10.00% of the shares outstanding at the end of the previous fiscal year or a higher percentage subject to an exception approved by the Board. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any distributions on these shares. The Credit Union in total recorded net patronage reversals in the year of $18,063 (2022 - $719,661 payment). Class B shares available for redemption as of December 31, 2023 total 799,922.

Distributions to Members

Dividends recorded to Members' Equity are as follows:

	2023	2022
	(thousands of Canadian dollars)	
Dividends paid on Class A Investment shares	**$ -**	$ 3,090
Dividends paid (reversed) on Class B Affinity shares	**(40)**	687
	$ (40)	$ 3,777

7. CAPITAL MANAGEMENT

The Credit Union's capital management objective is to hold sufficient capital to ensure long-term viability, protecting against unanticipated losses and exceeding regulatory requirements.

The FSRA Capital Adequacy Requirements for Credit Unions and Caisses Populaires requires that the Credit Union establish and maintain a minimum level of capital for the ratios outlined in the table below. The Supervisory Capital Ratio consists of the Total Capital Ratio plus a 2.50% capital conservation buffer requirement.

The Credit Union maintains an internal policy that minimum capital ratios shall be no less than outlined in the table below.

RATIO	CALCULATION	BOARD POLICY MINIMUM	REGULATORY MINIMUM
Leverage (as a percentage of assets)	Regulatory Capital/(Total Assets + Risk Weighted Off Balance Sheet Assets)	4.5%	3.0%
Retained Earnings	(Retained Earnings + Contributed Surplus)/Risk Weighted Assets	3.5%	3.0%
Tier 1 Capital	Tier 1 Capital/Risk Weighted Assets	7.5%	6.5%
Total Capital	Total Capital/Risk Weighted Assets	9.0%	8.0%
Supervisory Capital	Total Capital Ratio + 2.5%	11.5%	10.5%

Following the FSRA definition, the Credit Union's capital includes membership shares, Class A Investment shares, Class B Affinity shares, contributed surplus, retained earnings and accumulated other comprehensive income less the amount of computer software as an aggregate exceeding 1% of the Credit Union's Tier 1 Capital.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Credit Unions and Caisses Populaires Act of 2020 which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2023 was $1,077,431,221 (2022 - $1,027,317,855).

7. CAPITAL MANAGEMENT (continued)

Loans issued under the CEBA program are excluded from risk-based capital and leverage ratios as the Credit Union meets the derecognition criteria for the loans advanced to the borrower; therefore the loans administered under the CEBA program are not recognized on the Statement of Financial Position.

Total regulatory capital is composed of Tier 1 and Tier 2 Capital as follows:

	2023	2022
	(thousands of Canadian dollars)	
Tier 1 Capital		
Class A Investment shares	**$ 61,727**	$ 61,727
Class B Affinity shares	**12,282**	16,061
Less: Redeemable portion of Class A and Class B shares	**(4,868)**	(3,672)
Membership shares	**1,372**	1,324
Contributed surplus	**732**	656
Retained earnings	**69,440**	68,346
Accumulated other comprehensive income (loss)	**105**	(1,908)
Software exceeding 1% of Tier 1 capital	**(1,437)**	(1,498)
Net Tier 1 Capital	**139,353**	141,036
Tier 2 Capital		
Redeemable portion of Class A and Class B shares	**4,868**	3,672
Allowance for loan losses	**2,347**	2,479
Total Tier 2 Capital	**7,215**	6,151
Total Regulatory Capital	**$ 146,568**	$ 147,187
Tier 1 Capital Ratio	**12.93%**	13.73%
Total Capital Ratio	**13.60%**	14.33%
Leverage Ratio	**6.59%**	6.84%

8. CASH RESOURCES AND LIQUIDITY DEPOSITS

Cash resources consist of cash and cash equivalents. Liquidity deposits consist of deposit notes and High Quality Liquid Assets (HQLA). The Credit Union's current accounts are held with Central 1. At December 31, 2023 the Credit Union recognized other comprehensive gains of $2,461,366 (2022 - $3,122,493 loss) as the HQLA fair value adjustment.

At December 31, 2023 $14,909,495 (2022 - $15,927,958) of Kawartha's securitized mortgages were held as HQLA investments.

Cash resources and liquidity deposits are initially measured at fair value plus transaction costs and subsequently measured at amortized cost. HQLA investments are initially measured at fair value with transaction costs expensed. HQLA investments are classified and subsequently measured at FVOCI. Upon derecognition the cumulative gains or losses of HQLA investments are reclassified from OCI and recorded in profit and loss.

8. CASH RESOURCES AND LIQUIDITY DEPOSITS (continued)

	2023	2022
	(thousands of Canadian dollars)	
Cash resources	**$ 7,234**	$ 6,176
Liquidity deposits	**10,000**	34,000
High Quality Liquid Assets (HQLA)	**108,786**	103,427
Kawartha securitized mortgages held in HQLA	**14,910**	15,929
Total liquidity deposits	**133,696**	153,356
Total cash resources and liquidity deposits	**$ 140,930**	$ 159,532

9. FINANCIAL MARGIN AND INTEREST

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

The Credit Union's interest rate risk is monitored by Management through the Asset Liability Committee (ALCO) and managed within the policies and limits approved by the Board. For the year ended December 31, 2023, the Credit Union is in compliance with these policies.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity. An adjustment has been made for repayments that may occur prior to maturity based on recent member activity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Maturity dates	Assets	Yield (%)	Liabilities And Members' Equity	Cost (%)	Gap
Interest sensitive				(thousands of Canadian dollars)	
< 6 months	$ 568,347	4.10	$ 172,740	3.37	$ 395,607
1 year	236,163	3.76	504,487	3.92	(268,324)
2 years	485,904	3.38	399,249	3.77	86,655
3 years	473,471	3.09	156,176	3.08	317,295
4 years	252,531	3.87	107,686	3.08	144,845
5 years	132,174	4.96	62,276	2.31	69,898
Interest sensitive	$ 2,148,590		$ 1,402,614		$ 745,976
Non-interest sensitive	$ 54,863		$ 800,839		$ (745,976)
Total	$ 2,203,453		$ 2,203,453		$ -

9. FINANCIAL MARGIN AND INTEREST (continued)

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

Interest rate shock analysis is used to assess the potential change in the Credit Union's financial margin over a 12-month period when there is an increase or decrease in interest rates. This shock analysis is calculated and reported monthly to the ALCO and quarterly to the Board. An analysis of the Credit Union's risk to financial margin due to changes in interest rates determined that an increase in interest rates of 1.00% could result in an increase to net income of $961,000, while a decrease in interest rates of 1.00% could result in a decrease to net income of $977,000.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

The following schedule sets out the carrying amount of non-derivative financial assets and financial liabilities expected to be recovered or settled less than and after 12 months from the reporting date:

			2023			2022
	<12 months	**>12 months**	**Total**	<12 months	>12 months	Total
				(thousands of Canadian dollars)		
Financial assets						
Cash resources	**$ 7,234**	**$ -**	**$ 7,234**	$ 6,176	$ -	$ 6,176
Liquidity deposits	**38,685**	**95,011**	**133,696**	88,948	64,408	153,356
Investments	**-**	**12,993**	**12,993**	5,032	13,025	18,057
Member loans	**464,131**	**1,542,454**	**2,006,585**	390,436	1,516,704	1,907,140
Right-of-use assets	**1,318**	**15,784**	**17,102**	1,249	15,671	16,920
Other assets	**4,795**	**3,807**	**8,602**	7,203	4,800	12,003
	$ 516,163	**$ 1,670,049**	**$ 2,186,212**	$ 499,044	$ 1,614,608	$ 2,113,652
Financial Liabilities						
Term loans	**$ 11,000**	**$ -**	**$ 11,000**	$ 2,000	$ -	$ 2,000
Members' deposits	**1,456,308**	**424,904**	**1,881,212**	1,458,630	382,242	1,840,872
Accounts payable accrued liabilities	**1,678**	**-**	**1,678**	7,931	-	7,931
Lease liabilities	**1,168**	**16,920**	**18,088**	1,099	16,672	17,771
Securitized mortgages under administration	**32,457**	**107,227**	**139,684**	14,753	96,595	111,348
Membership shares	**-**	**1,372**	**1,372**	-	1,324	1,324
	$ 1,502,611	**$ 550,423**	**$ 2,053,034**	$ 1,484,413	$ 496,833	$ 1,981,246

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union utilizes derivative financial instruments to mitigate the risk on certain instruments. The Credit Union has not applied hedge accounting to any of its derivative financial instruments for the year ended December 31, 2023.

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities. The tables below provide an overview of the Credit Union's derivative portfolio.

At December 31, 2023

	Maturities of Derivatives (Notional Amounts)			Fair Value	
	Within 1 year	**1 to 5 years**	**Total**	**Asset**	**Liability**
				(thousands of Canadian dollars)	
Interest rate swaps:					
Receive fixed	$ -	$ 25,000	$ 25,000	$ 107	$ -
Foreign exchange	4,000	-	4,000	14	-
Index-linked options	2,089	3,442	5,531	492	492
Total	$ 6,089	$ 28,442	$ 34,531	$ 613	$ 492

At December 31, 2022

	Maturities of Derivatives (Notional Amounts)			Fair Value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
				(thousands of Canadian dollars)	
Interest rate swaps:					
Receive fixed	$ 75,000	$ -	$ 75,000	$ -	$ 854
Foreign exchange	4,700	-	4,700	-	36
Index-linked options	560	5,367	5,927	462	462
Total	$ 80,260	$ 5,367	$ 85,627	$ 462	$ 1,352

Interest Rate Swaps

As described in Note 4, the Credit Union issues loans with variable interest rates to its members, which exposes the Credit Union to interest rate risk. The Credit Union can enter into fixed interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks. As at December 31, 2023, the Credit Union had entered into one interest rate swap contract for $25,000,000 (2022 – $75,000,000) notional principal whereby it has agreed to pay at variable interest rates based on the Overnight Index Swap Rate ("OIS") and receive at fixed interest rates. The swap contract has a fixed interest rate of 4.52% with a maturity date of June 2025. All agreements are secured by a general security agreement covering all assets of the Credit Union.

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Foreign Exchange Swaps

The Credit Union uses foreign exchange derivative instruments as a hedge to manage currency risk. These derivatives consist of US dollar swap transactions which are simultaneous sell/buy and buy/sell of an identical amount of US dollars over two different days at an agreed exchange rate. Board policy governs the amount and term of these instruments.

Equity Index-Linked Deposits

The Credit Union has outstanding $5,455,795 (2022 - $5,854,807) in index-linked term deposits to its members. The index-linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of the S&P TSX index. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of $491,874 (2022 - $462,431).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the index associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each index-linked term deposit on the face value of the deposit sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the index. As at December 31, 2023, the Credit Union had entered into such contracts on index-linked term deposits for a total of $5,531,356 (2022 - $5,926,733). These contracts are presented in assets and have a fair value of $491,874 (2022 - $462,431). The agreements are secured by a general security agreement covering all assets of the Credit Union.

Fair Value of Derivatives

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable yield curves. The following table provides an analysis of derivatives that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

All derivative valuations are Level 2 valuations and there were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2023 and 2022.

11. INVESTMENTS

i) Recognition and Initial Measurement

The Credit Union recognizes equity instruments on the settlement date, which is the date that the asset is received by the Credit Union. The instruments are initially measured at fair value.

ii) Classification and Subsequent Measurement

The Credit Union classifies its equity instruments as FVOCI. The FVOCI designation was made on the Credit Union's investment in Central 1 Credit Union Limited shares because those shares are a condition of membership with that Central. The FVOCI designation was made on Other Investments because the investments are expected to be held for the long term for strategic purposes.

Equity instruments are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (OCI). Gains and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

The Credit Union measures Liquidity investments and Guaranteed Investment Certificates at amortized cost. The amortized cost designation was made because the objective of the investments is to collect contractual cash flows. Interest revenue, credit impairment and foreign exchange gains or losses are recognized in profit and loss. On derecognition, gains or losses are recognized in profit and loss.

iii) Derecognition

The Credit Union derecognizes investments when the contractual rights to the cash flows from the investment expires or the Credit Union transfers the investment. On derecognition, any cumulative gain or loss recognized in OCI is not recognized in profit or loss.

iv) Fair Value Measurement

The following table provides information on the investments by type of security and issuer.

	2023	2022
	(thousands of Canadian dollars)	
Central 1 Credit Union Limited		
Class A membership shares	**$ 585**	$ 589
Class E membership shares	**2,285**	2,285
Other investments	**61**	93
Excess liquidity deposits	**10,062**	15,090
	$ 12,993	$ 18,057

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

11. INVESTMENTS (continued)

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis. Fair value is determined based on the rebalancing mechanism used by Central 1, which calculates the amount of shares a credit union must hold. On May 31, 2023 Central 1 approved the Class A share rebalancing based on consolidated assets. Class A shares decreased by $3,711. Subsequent to their initial measurement, Class A Central 1 shares are fair valued using a Level 2 fair value measurement as described in Note 10.

Class E Central 1 shares were issued to Ontario Credit Unions as part of the combination agreement between Credit Union Central of Ontario (CUCO) and the Credit Union Central of British Columbia (CUCBC) and are redeemable at the option of Central 1. These shares were issued with a par value however are redeemable at $100 at the option of Central 1. There is no separately quoted market value for these shares; however, fair value is determined based on a discounted cash flow model using the expected timing of redemption and a market rate of interest. Due to redemption of these shares being at the discretion of Central 1, with no planned redemption currently known, the time period used in the valuation is of significant length, therefore, the cost of the shares approximates their fair value. Subsequent to their initial measurement, Class E Central 1 shares are fair valued using a Level 3 fair value measurement as described in Note 10.

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2023 and 2022. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

The Credit Union maintains other excess liquidity deposits issued by large Canadian Financial Institutions in compliance with liquidity and investment policies. The deposits bear interest at varying rates, dependent on the term of the investment, and are measured at amortized cost.

12. MORTGAGE SECURITIZATIONS AND TRANSFERS

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition have not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

During the year, the Credit Union securitized residential mortgages of $57,978,580 (2022 - $61,473,178). The Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities. As a result of scheduled maturities of securitized asset pools, the Credit Union during the year derecognized $247,077 (2022 - $252,969) of securitization assets.

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.

12. MORTGAGE SECURITIZATIONS AND TRANSFERS (continued)

Transferred Financial Assets that are recognized in their entirety

The following table summarizes the carrying and fair values of mortgages of the Credit Union that have been securitized by the Credit Union as well as the carrying and fair values of the corresponding mortgage securitization liabilities.

	2023	2022
	(thousands of Canadian dollars)	
Carrying amount of assets:		
Members' loans (Note 4)	$ 156,355	$ 114,696
Other securitization assets (Note 15)	2,319	2,848
Total Securitized Assets	158,674	117,544
Carrying amount of mortgage securitization liabilities	(139,684)	(111,348)
Net Securitized Assets	$ 18,990	$ 6,196

13. FOREIGN EXCHANGE RISK

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. The Credit Union limits its foreign currency exposure in accordance with its Structural Risk Management Board policy. Foreign currency changes are continually monitored by the Asset Liability Committee for effectiveness of foreign exchange mitigation activities and holdings.

The Credit Union's exposure to changes in currency exchange rates is controlled by limiting the unhedged foreign currency exposure to $500,000 in U.S. funds.

For the year ended December 31, 2023, the Credit Union's exposure to foreign exchange risk is in compliance with policy.

There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk.

14. COMMITMENTS

i) Credit Facilities

The Credit Union has a committed line of credit and term loan facilities with Central 1 Credit Union Limited totaling $75,850,000. As of December 31, 2023 the Credit Union had $64,850,000 of unused credit facilities (2022 - $73,850,000). Security given is an assignment of loans receivable and a general security agreement covering all assets of the Credit Union. The Credit Union has also pledged certain mortgage securitization assets against its standby line of credit with Central 1.

ii) Commitments

In addition to its lease agreements, the Credit Union has entered into a number of additional commitments with third party service providers for terms of varying lengths. Payments to these service providers are expected to total approximately $22,238,000 over a seven year period.

iii) Contingencies

The nature of the Credit Union's activities are such that there may be litigation pending or in progress at any time. With respect to claims at December 31, 2023 Management believes the Credit Union has valid defences and appropriate insurance coverages in place. In the event any claims are successful, Management believes that such claims are not expected to have a material effect on the Credit Union's financial position.

15. OTHER ASSETS

	2023	2022
	(thousands of Canadian dollars)	
Interest receivable on liquidity deposits	$ 507	$ 855
Deferred income taxes (Note 18)	1,117	1,533
Current income taxes	516	-
Other securitization assets (Note 12)	2,319	2,848
Other assets	4,143	6,767
	$ 8,602	$ 12,003

16. OTHER INCOME

	2023	2022
	(thousands of Canadian dollars)	
Service fee revenue	$ 8,461	$ 8,979
Other income	773	634
Rental income	619	616
Derivative loss	(6)	(457)
Foreign exchange gain	438	379
CEBA administration fee	68	94
	$ 10,353	$ 10,245

17. OTHER EXPENSES

	2023	2022
	(thousands of Canadian dollars)	
Equipment costs	$ 798	$ 854
Professional services	525	654
Other supplies and postage	595	572
Education and staff development	241	322
Telephone	233	228
Central dues and regulatory assessments	129	108
Miscellaneous	302	226
Savings and loan life insurance	131	132
Collection costs	73	71
	$ 3,027	$ 3,167

18. INCOME TAXES

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

The effects of temporary differences, which give rise to the deferred income tax assets reported in other assets on the balance sheet, are as follows:

	At December 31, 2022	Recognized in Net Income	Recognized in OCI	**At December 31, 2023**
				(thousands of Canadian dollars)
Employee future benefits	$ 1,004	$ 23	$ -	**$ 1,027**
Allowance for impaired loans	467	(21)	-	**446**
Property and equipment	(634)	6	-	**(628)**
HQLA deposits	541	-	(448)	**93**
Other	155	24	-	**179**
	$ 1,533	$ 32	$ (448)	**$ 1,117**

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

	2023	2022
	(thousands of Canadian dollars)	
Income before income taxes	**$ 723**	$ 8,900
Statutory income tax rate	**26.50** %	26.50 %
Expected income tax expense	**192**	2,359
Decrease in taxes resulting from:		
Reduction due to Ontario credit union tax reduction	**-**	(739)
Tax savings on dividends	**-**	(292)
Non-deductible expenses and other reconciling items	**18**	(397)
Income tax expense	**$ 210**	$ 931

The income tax expense recognized in net income consists of the following:

	2023	2022
	(thousands of Canadian dollars)	
Current provision	**(299)**	1,499
Deferred provision (recovery)	**(32)**	(115)
	$ (331)	$ 1,384

The income tax expense recognized in OCI consists of a deferred charge of $447,969 (2022 – recovery of $453,453).

19. EMPLOYEE FUTURE BENEFITS

i) Defined Contribution Pension Plan

The Credit Union sponsors a defined contribution pension plan. Contributions to the plan during the year ended December 31, 2023 were $1,088,942 (2022 - $1,007,303).

ii) Defined Benefit Post-Retirement Non-Pension Plan

The Credit Union provides health and dental benefits for retired employees who were employed on a full time basis prior to November 1, 2003. The Credit Union recognizes these post-retirement costs in the period in which the employees render their services. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and Management's best estimate of retirement ages of employees, employee turnover and expected health care costs. Gains or losses arising from actuarial assessments are recognized through Other Comprehensive Income. The most recent actuarial valuation report was performed as at April 30, 2022.

The accrued benefit obligation at December 31, 2023 of $5,641,010 (2022 - $5,514,600) and the net periodic benefit cost for the year ending December 31, 2023 was determined by actuarial valuation using a discount rate of 4.30% (2022 - 4.30%).

Information about the Credit Union's defined benefit plan is as follows:

	2023	2022
	(thousands of Canadian dollars)	
Accrued benefit obligation:		
Balance at the beginning of the period	**$ 5,515**	$ 5,895
Service cost for the period	**49**	70
Interest cost for the period	**234**	199
Benefits cost for the period	**(157)**	(167)
Actuarial gain	**-**	(482)
Accrued liability	**$ 5,641**	$ 5,515
Components of net periodic benefit cost:		
Service cost for the period	**49**	70
Interest cost for the period	**234**	199
Net periodic benefit cost	**$ 283**	$ 269

The main actuarial assumptions employed for the valuations are as follows:

General Inflation [CPI rate]	2.00%
Interest [discount] rate	4.30%

Medical costs were assumed to increase at the CPI rate plus 2.90% in 2023, adjusted every five years based on actuarial assumptions, until reaching the CPI rate plus 2.60% in 2041 and thereafter.

Dental costs were assumed to increase at the CPI rate plus 3.20% in 2023, adjusted every five years based on actuarial assumptions, until reaching the CPI rate plus 2.60% in 2041 and thereafter.

19. EMPLOYEE FUTURE BENEFITS (continued)

Assumed health care cost trend and interest (discount) rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend and interest (discount) rates would have the following effects for 2023 on the Accrued benefit obligation:

	Increase	Decrease
Interest [discount] rate	$ (772,700)	$ 980,400
Health care cost trend rate	$ 907,100	$ (732,200)

20. PROPERTY AND EQUIPMENT

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

Parking lot	25 years
Buildings	20 - 50 years
Buildings	10 years
Equipment	
computer	3 - 5 years
computer software	3 - 10 years
furniture & other	5 - 10 years
Leasehold improvements	Remaining term of the lease

Where components of items of buildings have different useful lives, they are accounted for as separate items of buildings.

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

20. PROPERTY AND EQUIPMENT (continued)
(thousands of Canadian dollars)

	Land and Parking Lots	Buildings	Equipment, Furniture and Software	Leasehold Improvements	Total
Cost					
Balance at December 31, 2021	$ 3,543	$ 11,589	$ 25,199	$ 12,278	$ 52,609
Additions	-	122	1,102	60	1,284
Disposals	-	-	(41)	(70)	(111)
Balance at December 31, 2022	3,543	11,711	26,260	12,268	53,782
Additions	-	66	1,004	334	1,404
Disposals	-	-	(34)	(2)	(36)
Balance at December 31, 2023	**$ 3,543**	**$ 11,777**	**$ 27,230**	**$ 12,600**	**$ 55,150**
Accumulated Depreciation					
Balance at December 31, 2021	$ 279	$ 4,218	$ 18,146	$ 6,749	$ 29,392
Depreciation Expense	44	363	1,940	700	3,047
Disposals	-	-	(2)	-	(2)
Balance on December 31, 2022	323	4,581	20,084	7,449	32,437
Depreciation Expense	45	351	1,721	638	2,755
Disposals	-	-	(34)	-	(34)
Balance at December 31, 2023	**$ 368**	**$ 4,932**	**$ 21,771**	**$ 8,087**	**$ 35,158**
Net Book Value					
December 31, 2022	$ 3,220	$ 7,130	$ 6,176	$ 4,819	$ 21,345
Balance at December 31, 2023	**$ 3,175**	**$ 6,845**	**$ 5,459**	**$ 4,513**	**$ 19,992**

21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

At inception of a contract, the Credit Union assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

i) Nature of Leasing Activities (in the capacity as lessee)

The Credit Union leases branch offices. The leases of their branch offices expire between August 2025 and August 2035 with extension periods ranging from 5 to 20 years. Extension options are included in the lease term when the Credit Union is reasonably certain to exercise that option. The lease payments comprise annual payments over the lease term ranging from $6 to $58 per square foot. All leases have either a fixed rate as outlined in the lease agreement or increase based on an inflation adjustment. The Credit Union's obligation under lease are secured by the lessor's title to the leased assets.

ii) Recognition and Initial Measurement

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally the Credit Union uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (i.e. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Credit Union to use an identified asset and require services to be provided to the Credit Union by the lessor, the Credit Union has elected to account for the entire contract as a lease, and therefore the Credit Union does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

iii) Subsequent Measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Credit Union's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

Right-of-use assets consist of the following:

		Branch Offices
		(thousands of Canadian dollars)
Cost		
Balance at December 31, 2022	$	21,347
Additions		311
Modification to lease terms		1,152
Disposals		-
Balance at December 31, 2023	**$**	**22,810**
Accumulated Depreciation		
Balance at December 31, 2022		(4,427)
Depreciation for the year		(1,281)
Disposals		-
Balance at December 31, 2023		**(5,708)**
Carrying amount at December 31, 2023	**$**	**17,102**

Lease liabilities consist of the following:

		Branch Offices
		(thousands of Canadian dollars)
Balance at December 31, 2022	$	17,771
Additions		311
Interest expense		436
Effect of modification to lease terms		1,127
Lease payments		(1,557)
Balance at December 31, 2023	**$**	**18,088**

Additional amounts recognized in profit or loss:

		2023		2022
		(thousands of Canadian dollars)		
Depreciation of right-of-use assets	**$**	**1,281**	$	1,262
Interest expense on lease liability		**436**		455
Expenses relating to variable lease payments not included in lease liabilities (included in operating expenses)		**768**		737

Amounts recognized in the statement of cash flows:

		2023		2022
		(thousands of Canadian dollars)		
Total cash outflow for leases	**$**	**1,557**	$	1,531

21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

iv) Liquidity Risk

The Credit Union does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Credit Union's finance function.

The following table sets out the contractual maturities, representing undiscounted contractual cash-flows, of lease liabilities at December 31, 2023:

	2023
	(thousands of Canadian dollars)
No later than 1 year	$ 1,604
Later than 1 year and not later than 5 years	6,254
Later than 5 years	14,207
	$ 22,065

22. RELATED PARTY TRANSACTIONS

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

	2023	2022
	(thousands of Canadian dollars)	
Compensation:		
Salaries and other employee benefits	$ 2,097	$ 2,089
Defined contribution pension plan benefits	115	108
	$ 2,212	$ 2,197

	2023	2022
	(thousands of Canadian dollars)	
Loans to key Management personnel:		
Aggregate value of loans advanced	$ 1,130	$ 1,165
Interest received on loans advanced	20	20
Total value of lines of credit advanced	23	25
Interest received on lines of credit advanced	2	1
Unused value of lines of credit	77	65

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

	2023	2022
	(thousands of Canadian dollars)	
Deposits from key Management personnel:		
Aggregate value of term and savings deposits	$ 85	$ 154
Total interest paid on term and savings deposits	3	23

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

22. RELATED PARTY TRANSACTIONS (continued)

Regulatory Reporting

i) Remuneration of Officers and Employees

Pursuant to the requirements of IAS 24, related party disclosures, total remuneration for the Credit Union's officers and senior Management during the year (including salary, defined contribution pension plan payments, allowances and special payments) was $1,852,512 (2022 - $1,845,966).

Section 40 of O. Reg.105/22 requires the disclosure of remuneration paid to the five highest paid officers and employees where the total remuneration exceeds $175,000 during the year. The individuals and their respective remuneration (salary, defined contribution pension plan payments and allowances) included Norah McCarthy, President and CEO ($527,474, $23,670, $9,000), Mark Oakes, CFO and CRO ($304,207, $15,780), Peter Van Meerbergen, EVP Member Experience ($237,572, $15,780), Brad Best, EVP Information Systems and Corporate Services ($230,412, $15,780) and Jennifer Gauthier, EVP Human Resources ($224,730, $15,780).

Remuneration is fair and competitive with salaries of similar positions at credit unions of approximately equal asset size used as comparators. Kawartha actively participates in compensation surveys to ensure alignment with the market.

ii) Restricted Party Loans

The Credit Union has enacted a policy requiring disclosure and Board approval of all restricted party transactions. Restricted parties have been defined in the policy to include anyone who is, or has been within the preceding twelve months, a Director or Officer of the Credit Union, their spouse or relatives residing within the same house. The Credit Unions and Caisses Populaires Act, 2020, provides a broader definition of restricted parties which includes all relatives of Directors and Officers. There was 1 new loan advanced to a restricted party as defined by policy during the year, and there are 15 loans outstanding to restricted parties with an aggregate value of $2,085,774 at December 31, 2023.

iii) Other Statutory Information

Pursuant to the requirements of the Credit Unions and Caisses Populaires Act, 2020, the following information is provided:

	2023	2022
	(thousands of Canadian dollars)	
Director remuneration paid	**$ 161**	$ 164
Deposit insurance premium paid	**1,646**	1,565

23. STATEMENT OF CASH FLOWS

The following amounts are included in the cash provided by operations:

		2023		2022
		(thousands of Canadian dollars)		
Interest received on loans to members	**$**	**79,109**	$	60,258
Interest paid on member deposits		**36,840**		16,829

24. SUBSEQUENT EVENTS

On February 22, 2024, the Board of Directors of the Credit Union passed a resolution to declare a cash dividend of 5.75% on the Class A Investment Shares, payable to the shareholders of record at December 31, 2023.

On February 22, 2024, the Board of Directors of the Credit Union passed a resolution to declare a share dividend of 3.00% on the Class B Affinity Shares, payable to the shareholders of record at December 31, 2023.