DUCA Financial Services Credit Union Ltd.

Consolidated financial statements
December 31, 2022

Building a better working world

Independent auditor's report

To the Members of
DUCA Financial Services Credit Union Ltd.

Opinion

We have audited the financial statements of **DUCA Financial Services Credit Union Ltd.** [the "Credit Union"], which comprise the statement of financial position as at December 31, 2022, and the statement of income and comprehensive income, statement of changes in equity and statement of 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 the Credit Union as at December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

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 *Auditors 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 the audit committee of the board of directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

The Audit Committee of the Board of Directors is 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 the Audit Committee of the Board of Directors 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.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 28, 2023

DUCA Financial Services Credit Union Ltd.

Consolidated statement of financial position

[In thousands of Canadian dollars]

As at December 31

	Note	2022 $	2021 $
Assets			
Cash and cash equivalents	6	**38,245**	130,334
Investments and third-party mortgages	7	**340,622**	472,038
Members' loans	8, 9	**6,411,207**	4,847,709
Other assets	11	**86,574**	59,813
Derivative financial instruments	16	**34,936**	—
Property and equipment, net	13	**5,802**	4,699
Intangible assets, net	27	**9,019**	5,385
Goodwill	28	**10,055**	1,678
Total assets		**6,936,460**	5,521,656
Liabilities and Members' equity			
Liabilities			
Members' deposits	14	**5,596,127**	4,554,856
Securitization liabilities	10	**435,614**	468,188
Borrowings	24	**362,030**	97,105
Securities lent or sold under repurchase agreements	24	**31,315**	—
Accounts payable and accrued liabilities	26	**24,822**	25,899
Derivative financial instruments	16	**34,238**	238
Deferred tax liability	15	**5,967**	4,897
Patronage return	17	**—**	1,000
Members' shares	18	**941**	989
Subordinated debt	25	**74,368**	—
Total liabilities		**6,565,422**	5,153,172
Members' equity			
Members' shares	18	**227,928**	233,563
Retained earnings		**144,152**	134,921
Accumulated other comprehensive loss		**(1,042)**	—
Total Members' equity		**371,038**	368,484
Total liabilities and Members' equity		**6,936,460**	5,521,656

See accompanying notes

Approved by the Board:

Director

Director

DUCA Financial Services Credit Union Ltd.

Consolidated statement of income

[In thousands of Canadian dollars]

Year ended December 31

	Note	2022	2021
		$	$
Interest income			
Interest on Members' loans		**203,588**	158,102
Investment income		**14,473**	11,038
		218,061	169,140
Interest expense			
Interest on Members' deposits		**114,580**	70,291
Borrowings, securitizations and other interest expense		**26,532**	14,555
		141,112	84,846
Net interest income		**76,949**	84,294
Non-interest income	19	**28,143**	14,412
Total revenue		**105,092**	98,706
Provision for (recovery of) credit losses	9	**(927)**	37
Non-interest expense			
Salaries and benefits		**46,878**	37,405
Occupancy		**4,711**	2,993
Technology		**6,121**	5,588
Other general and administrative		**28,264**	21,026
		85,974	67,012
Income before the undernoted		**20,045**	31,657
Patronage return (recovery)	17	**(160)**	1,000
Income before income taxes		**20,205**	30,657
Income tax expense	15	**3,884**	4,955
Net income for the year		**16,321**	25,702

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Consolidated statement of comprehensive income

[In thousands of Canadian dollars]

Year ended December 31

	Note	2022	2021
		$	$
Net income for the year		**16,321**	25,702
Other comprehensive income (loss)			
Items that will be subsequently reclassified to net income for the year			
Cash flow hedges			
Net losses on derivatives designated as cash flow hedges	16	**(1,952)**	—
Net losses reclassified to net income	16	**674**	—
		(1,278)	—
Income tax recovery		**(236)**	—
		(1,042)	—
Total other comprehensive loss		**(1,042)**	—
Comprehensive income		**15,279**	25,702

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Consolidated statement of changes in Members' equity

[In thousands of Canadian dollars]

	Note	Class A shares $	Class B shares Series 1 $	Class B shares Series 4 $	Retained earnings $	Accumulated other comprehensive loss, net of tax $	Total Members' equity $
Balance, December 31, 2020		37,489	39,588	161,482	116,779	—	355,338
Net income for the year		—	—	—	25,702	—	25,702
Dividends to Members, net of tax	18	—	—	—	(7,560)	—	(7,560)
Issue of shares		2,181	—	—	—	—	2,181
Redemption of shares		(3,177)	(3,889)	(111)	—	—	(7,177)
Balance, December 31, 2021		36,493	35,699	161,371	134,921	—	368,484
Net income for the year		**—**	**—**	**—**	**16,321**	—	**16,321**
Dividends to Members, net of tax	18	**—**	**—**	**—**	**(7,090)**	—	**(7,090)**
Issue of shares		**1,266**	**—**	**—**	**—**	**—**	**1,266**
Redemption of shares		**(2,557)**	**(3,630)**	**(714)**	**—**	**—**	**(6,901)**
Losses on derivatives designated as cash flow hedges arising during the year		**—**	**—**	**—**	**—**	**(1,042)**	**(1,042)**
Balance, December 31, 2022		**35,202**	**32,069**	**160,657**	**144,152**	**(1,042)**	**371,038**

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Consolidated statement of cash flows

[In thousands of Canadian dollars]

Year ended December 31

	Note	2022 $	2021 $
Operating activities			
Net income for the year		**16,321**	25,702
Add (deduct) non-cash items:			
Depreciation and amortization	11, 13, 27	**6,166**	4,736
Provision for (recovery of) credit losses	7, 9	**(927)**	37
Current income taxes	15	**3,658**	3,035
Deferred income taxes	15	**226**	1,920
Unrealized gain on derivative instruments	16	**(467)**	(6)
Patronage return (recovery)	17	**(160)**	1,000
Gain on sale of property and equipment	19	**—**	(2,060)
Interest paid on lease liabilities	26	**430**	274
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	8	**(7,503)**	(1,815)
Increase in income taxes paid		**(3,146)**	(509)
Increase in other assets and intangible assets	11, 27	**(21,196)**	(9,578)
Increase to Members' loans	8, 9	**(1,555,021)**	(716,509)
Increase to Members' deposits	14	**1,037,339**	718,529
Increase (decrease) in accrued interest payable	14	**3,932**	(5,078)
Increase (decrease) in accounts payable and accrued liabilities	26	**(4,225)**	11,237
Decrease in securitization liabilities	10	**(32,574)**	(234,883)
Increase in derivative financial instruments		**(52)**	(112)
Realized loss on derivative instruments designated as cash flow hedges	16	**(1,694)**	—
Other		**(102)**	—
Cash used in operating activities		**(558,995)**	(204,080)
Financing activities			
Increase (decrease) in securities lent or sold under repurchase agreements		**31,315**	(192,089)
Increase in borrowings		**264,925**	97,105
Issuance of subordinated debt		**74,368**	—
Repayment of lease liabilities	26	**(2,875)**	(1,874)
Issuance of Class A shares		**1,266**	2,181
Redemption of Membership shares		**(48)**	(68)
Redemption of Class A shares		**(2,557)**	(3,177)
Redemption of Class B shares		**(4,344)**	(4,000)
Patronage return paid		**(840)**	(1,538)
Dividend on Class A shares		**(725)**	(737)
Dividend on Class B shares		**(7,975)**	(8,505)
Cash provided by (used in) financing activities		**352,510**	(112,702)
Investing activities			
Acquisition of subsidiary, net of cash acquired		**(12,406)**	—
Net change in investments and third-party mortgages	7	**131,370**	32,635
Purchase of property and equipment	13	**(2,019)**	(993)
Sale of property and equipment	13	**—**	2,256
Purchase of intangible assets	27	**(2,549)**	(438)
Cash provided by investing activities		**114,396**	33,460
Net decrease in cash and cash equivalents		**(92,089)**	(283,322)
Cash and cash equivalents, beginning of year		**130,334**	413,656
Cash and cash equivalents, end of year		**38,245**	130,334

See accompanying notes

1. Corporate information

DUCA Financial Services Credit Union Ltd. [the "Credit Union" or "DUCA"] is incorporated under the *Credit Unions and Caisses Populaires Act, 2020* [the "Act"] of Ontario and is a Member of Central 1 Credit Union ["Central 1"].

The Credit Union is primarily involved in providing a full range of retail and commercial services to its Members in Ontario. The activities of the Credit Union are regulated by the Financial Services Regulatory Authority of Ontario ["FSRA"]. The Credit Union has 17 branches in Ontario.

On April 1, 2022, the Credit Union acquired Continental Currency Exchange Canada Ltd. ["CCE"], which is a foreign currency exchange and money transfer business offering services to customers via a network of 19 branches in Ontario. CCE is a wholly owned subsidiary of the Credit Union.

2. Basis of presentation

[a] Statement of compliance

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

These consolidated financial statements have been authorized for issue by the Board of Directors on February 28, 2023.

[b] Use of judgments and estimates

Management has exercised judgments in the process of applying the Credit Union's accounting policies.

The preparation of consolidated financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated statement of financial position date and the reported amounts of revenue and expenses during the year. Key areas where Management has made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, deferred income taxes and useful lives of fixed assets. Actual results could differ from those estimates. Management has applied judgments in the classification of financial instruments within the consolidated financial statements.

In the past year, while many COVID-19 pandemic-related risks are receding and measures to contain the spread of the virus have lifted in many regions, the pandemic continues to have an impact on Canadian, U.S., and global economies including contributing to high levels of inflation, rising interest rates, and the resulting threat of recession and housing market correction. The full extent of the impact of the heightened economic situation in 2022 will have on the Canadian economy and the Credit Union's business remains uncertain and difficult to predict and has been incorporated into the forward-looking indicators. Updated forward-looking macroeconomic assumptions have been incorporated into the models used in the Credit Union's expected credit loss estimation process for 2022.

[c] Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following items that are measured at fair value:

- Derivative financial instruments; and
- Financial instruments at fair value through profit or loss [“FVTPL”].

[d] Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency. Financial information presented in Canadian dollars has been rounded to the nearest thousand, except where otherwise indicated.

[e] Basis of consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of the Credit Union and its subsidiary after the elimination of intercompany transactions and balances.

3. Changes to accounting policies

The Credit Union adopted the following new standards and interpretations effective January 1, 2022:

Interest Rate Benchmark Reform – Phase 2 Amendments

On May 16, 2022, Refinitiv Benchmark Service (UK) Limited, the administrator of CDOR, announced that the calculation and publication of all tenors of CDOR will permanently cease following a final publication on June 28, 2024. The Canadian Alternative Reference Rate Working Group [“CARR”] was created to identify and seek to develop a new risk-free Canadian dollar interest rate benchmark. An enhanced Canadian Oversight Repo Rate Average [“CORRA”] has been designed to comply with recommendations of the Financial Stability Board as part of a global effort to reform benchmark interest rates. There is some uncertainty about how the Canadian dollar benchmark rates will evolve and the speed at which CORRA will become a dominant benchmark for Canadian dollar borrowings. Starting in 2022, Canada Mortgage Housing Corporation [“CMHC”] has introduced the floating rate *National Housing Act* [“NHA”] mortgage-backed securities [“MBS”] pool type, of which the coupon is referenced to CORRA. The Credit Union has many swaps and other derivatives that are referenced to CDOR. All of these instruments are with large Canadian financial institutions and the Credit Union will rely on those institutions to amend the agreements as required to incorporate the new reference rate. The Credit Union believes this transition will have a minimal impact, if any, on the Credit Union’s operations. As of December 31, 2022, the carrying amount of non-derivative financial liabilities with exposure to CDOR maturing after June 2024 is $200,000 [2021 – nil].

4. Significant accounting policies

[a] Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less, and for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

[b] Financial instruments

[i] Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

[ii] Classification

[1] Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ["FVOCI"] or FVTPL.

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income (loss) ["OCI"]. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

[a] Business model assessment

The Credit Union assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to Management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Credit Union's Management;
- The risks that affect the performance of the business model and the financial assets held within that business model and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

[b] Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Credit Union considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Credit Union's claim to cash flows from specified assets [e.g., non-recourse asset arrangements]; and
- Features that modify consideration of the time value of money – e.g., periodical reset of interest rates.

[c] Reclassifications

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

[2] Financial liabilities

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

Financial assets and financial liabilities measured at FVTPL are those that are designated by Management upon initial recognition, assets part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. Financial assets and financial liabilities at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

[iii] Derecognition

[1] Financial assets

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

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

In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Credit Union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by CMHC that issue bonds to third-party investors. This includes securitization of insured residential mortgages by participating in the NHA MBS program and Canada Mortgage Bond [“CMB”] program. Through the programs, the Credit Union issues securities backed by residential mortgages that are insured against borrowers’ default. All securitization transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the Credit Union’s securitizations do not qualify for derecognition based on the above criteria, the Credit Union does not derecognize the transferred financial assets but records a secured borrowing with respect to any consideration received.

[2] Financial liabilities

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

[iv] Modifications of financial assets and financial liabilities

[1] Financial assets

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

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

[2] Financial liabilities

The Credit Union derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

[v] Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Credit Union has access at that date. The fair value of a liability reflects its non-performance risk. For assets and liabilities carried at fair value, the Credit Union measures such value using the procedures set out below, irrespective of whether these assets and liabilities are carried at fair value as a result of an election.

When available, the Credit Union uses quoted market prices to determine fair value and classifies such items as Level 1. In some cases where a market price is not available, the Credit Union uses quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. Items valued using such internally generated valuation techniques are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

[vi] Impairment

The Credit Union recognizes expected credit loss ["ECL"] allowances on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments [loans and advances and certain investment securities]; and
- Loan commitments issued.

The Credit Union measures loss allowances at an amount equal to lifetime ECL or 12-month ECL. 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

The impairment model measures ECL using a three-stage approach as described below:

Stage 1: When a financial asset has not shown a significant increase in credit risk ["SICR"] since origination, the Credit Union records a 12-month ECL. Interest income is calculated on the gross carrying amount.

Stage 2: When a financial asset has shown a SICR since origination, the Credit Union records a lifetime ECL. Interest income is calculated on the gross carrying amount.

Stage 3: When a financial asset is credit-impaired, the Credit Union records a lifetime ECL. Interest income is calculated on the gross carrying amount net of impairment allowance.

[1] Measurement of ECL

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a SICR and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period, including pre-payment, extension and other options.

[2] Significant increase in credit risk

The determination of a SICR considers many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status.

[3] Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect ECLs over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

[4] Forward-looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Credit Union formulates a “base case” view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes forecasts by large Canadian banks and financial institutions. The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting.

[5] Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized, and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

[6] Credit-impaired financial assets

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer, including delinquency;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

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.

[7] Write-off

Loans and debt securities 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, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

[vii] Designation of fair value through profit or loss

[1] Financial assets

At initial recognition, the Credit Union has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

[2] Financial liabilities

The Credit Union has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- The liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

[c] Derivatives held for risk management

Derivatives held for risk management purposes are measured at fair value in the consolidated statement of financial position and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value.

The Credit Union may utilize bond forwards or interest rate swaps to manage interest rate risks and may utilize forward contracts or cross-currency swaps to manage risk of foreign currency fluctuations.

Hedge accounting

The Credit Union elected to apply hedge accounting to derivatives that meet the criteria for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"]. The Credit Union utilizes two types of hedge relationships for accounting purposes, fair value hedges and cash flow hedges. If derivative instruments do not meet all of the criteria for hedge accounting or are managed as economic hedges, the changes in fair value of such derivatives are recognized in non-interest income.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Credit Union's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. To qualify for hedge accounting, there must be a correlation of between 80% and 125% in the changes in fair values or cash flows between the hedged and hedging items. Hedge effectiveness is assessed at the inception of the hedging relationship and on an ongoing basis.

Hedge ineffectiveness occurs when the changes in the fair value of the hedging item [derivative] differ from the fair value changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in non-interest income.

Fair value hedges

The Credit Union's fair value hedges generally use interest rate swaps to hedge changes in the fair value of fixed-rate assets or liabilities [the hedged items] attributable to interest rate risk. Changes in the fair value of the hedged items are recorded as part of the carrying value of the hedged items and are recognized in net realized and unrealized gain or loss on derivatives. Changes in the fair value of the hedging item [interest rate swap] are also recognized in net realized and unrealized gain or loss on derivatives. If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated and the fair value adjustment on the hedged item is then amortized over the remaining term of the hedged item. If the hedged item is settled, the unamortized fair value adjustment is recognized in non-interest income immediately.

Cash flow hedges

The Credit Union's cash flow hedges use bond forwards or interest rate swaps to hedge changes in future cash flows attributable to interest rate fluctuations arising on highly probable forecasted issuances of fixed-rate loans and liabilities. The effective portion of the change in fair value of the derivative instrument is recognized in OCI until the forecasted cash flows being hedged are recognized in income in future accounting periods. When the forecasted cash flows are recognized in income, the accumulated other comprehensive income ["AOCI"] related to those cash flows is reclassified from AOCI into income. Any hedge ineffectiveness is immediately recognized in non-interest income. If the forecasted transaction is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in non-interest income. If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated. Any cumulative gain or loss recognized at that time remains in AOCI until the forecasted transaction impacts the consolidated statement of income.

[d] Members' loans

All Members' loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as measured at amortized cost.

Members' loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred, and subsequently measured at amortized cost, using the effective interest rate method net of an allowance for credit losses.

Deferred revenue consists primarily of commitment fee revenue received on commercial loans and is recognized using the effective interest rate method.

[e] Securitized loans and securitization liabilities

The Credit Union periodically securitizes mortgages and sells the securities to CMHC's sponsored entities. Mortgage loan securitization is part of the Credit Union's liquidity and funding strategy. In the absence of sales of retained interests, most transfers of pools of mortgages under the current programs do not result in derecognition of the mortgages from the Credit Union's consolidated statement of financial position. As such, these transactions result in the recognition of securitization liabilities when cash is received from the securitization entities. Such mortgages are recognized as securitized residential mortgages and continue to be accounted for as loans, as described above.

The securitization liabilities are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs and premiums or discounts are applied to the carrying amount of the liability.

[f] Property, equipment and right-of-use assets

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and amortization and any accumulated impairment losses, with the exception of land, which is not depreciated.

Asset	Basis	Rate
Buildings	Straight-line	20 years
Computer hardware	Straight-line	3–5 years
Equipment, furniture and fixtures	Straight-line	5 years
Leasehold improvements	Straight-line	Term of lease
Right of use assets – buildings	Straight-line	Term of lease

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments [including in-substance fixed payments], less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantee;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

[g] Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit ["CGU"], which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has two CGUs for which impairment testing is performed.

[h] Income taxes

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in net income, except to the extent that they relate to a business combination or items recognized directly in equity.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

[i] Members' deposits

All Members' deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and have been classified as financial liabilities.

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

[j] Subordinated debt

Subordinated debt is accounted for at amortized cost and has been classified as a financial liability. Accrued interest on subordinated debt is included in other liabilities on the consolidated statement of financial position. Interest, including capitalized transaction costs, is recognized on an accrual basis as interest expense on the consolidated statement of income.

[k] Pension plan

The Credit Union accrues its obligations under the supplementary executive retirement plan ["SERP"] and the related costs, net of plan assets, and has adopted the following policies:

[i] The cost of the SERP is valued using the projected benefit method based on service and Management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees; and
[ii] For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The Credit Union has a defined contribution pension plan. Contributions to this plan are expensed as incurred.

[l] Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

[m] Members' shares

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

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

[n] Patronage return

Patronage returns are recognized in the consolidated statement of income when declared payable by the Board of Directors.

[o] Revenue recognition

Revenue from the provision of services to Members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

[p] Intangible assets

The Credit Union capitalizes costs relating to the development of internal-use software. Costs incurred during the application development phase are capitalized when it is probable that the development will result in new or additional functionality. The types of costs capitalized during the application development phase include employee salaries and benefits as well as professional and other vendor costs arising directly from bringing the asset to its working condition. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred.

Intangible assets are amortized over their estimated useful life on the following basis:

Asset	Basis	Rate
Computer software	Straight-line	1–3 years
Banking system software	Straight-line	5–10 years

[q] Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

The carrying amounts of the Credit Union's intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit [group of units] on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other intangible assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

[r] Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. As at the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined, and the related translation differences are recognized in net income.

[s] Acquisitions

The consideration transferred related to an acquisition is measured at the fair value of the consideration transferred, which would include the fair value of any contingent consideration. Direct transaction costs of acquisition are recognized as an expense in the period in which they are incurred. Identifiable assets and liabilities acquired are measured at their fair value and recognized on the Credit Union's consolidated statement of financial position. Goodwill is measured as the excess of the consideration transferred over the net of the fair value amounts of identifiable assets acquired and liabilities assumed. To the extent the net fair value of the purchased assets and assumed liabilities exceed the consideration transferred, the excess is recognized as a gain on acquisition in the consolidated statements of income. The results of operations of acquired businesses are included in the Credit Union's consolidated financial statements beginning on the date of acquisition.

[In thousands of Canadian dollars]

5. Future changes in accounting policies

There were no accounting pronouncements applicable to the Credit Union that were issued by the IASB but not effective as at December 31, 2022.

6. Cash and cash equivalents

	2022 $	2021 $
Cash	**27,022**	119,485
Cash resources where maturities are within three months:		
Deposits and bankers' acceptances with schedule 1 banks	**11,223**	10,849
	38,245	130,334

Interest rates on deposits and bankers' acceptances range from 0.00% to 4.60% [2021 – 0.00% to 0.80%].

7. Investments and third-party mortgages

The following table provides information on the Credit Union's investments. The maximum exposure to credit risk would be the fair value as detailed below:

	2022 $	2021 $
Investment securities measured at FVTPL	**1,622**	1,582
Investment securities measured at amortized cost	**75,105**	174,531
Investment in third-party mortgages at amortized cost	**263,895**	295,925
	340,622	472,038

The Credit Union has pledged $10,000 [2021 – $10,000] of deposits and bankers' acceptances with BMO Nesbitt Burns to secure its comprehensive credit facility.

Investment securities measured at FVTPL:

	2022 $	2021 $
Central 1 Class A shares	**1,613**	1,573
Other	**9**	9
	1,622	1,582

[In thousands of Canadian dollars]

The Central 1 Class A shares 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.

Central 1 Class A shares are subject to a semi-annual rebalancing mechanism and are issued and redeemable at par value of $100 [2021 – $100].

The Credit Union is not intending to dispose of Central 1 Class A shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

Investment in third-party mortgages at amortized cost:

As part of its liquidity management program, the Credit Union invests in third-party mortgages originated by other financial institutions. The weighted average interest rate for third-party mortgages as at December 31, 2022 was 3.81% [2021 – 3.08%].

As at December 31, 2022, the Credit Union's investment in third-party mortgages was presented net of ECL allowances of $143 [2021 – $96] and the related provision for credit losses ["PCL"] was $47 [2021 – recovery of credit losses of $38]. The Credit Union's ECL allowance and related PCL on Members' loans are included in note 9.

8. Members' loans

	2022	**2021**
	$	$
Residential mortgages		
Uninsured	**4,159,747**	2,836,882
Insured by CMHC	**176,308**	232,583
Insured by Sagen or Canada Guaranty Corp.	**526,673**	548,298
	4,862,728	3,617,763
Personal loans	**128,049**	80,099
Commercial loans	**1,386,824**	1,131,093
	6,377,601	4,828,955
Unamortized mortgage fees	**28,097**	20,217
Deferred loan revenue	**(5,045)**	(3,520)
Accrued interest receivable	**16,343**	8,840
Allowance for credit losses	**(5,789)**	(6,783)
Net Members' loans	**6,411,207**	4,847,709

[a] Terms and conditions

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

[In thousands of Canadian dollars]

Variable rate loans are based on a prime rate formula, ranging from prime plus 0.20% to prime plus 9.50%. The rate is determined by the type of security offered and the Member's creditworthiness. The Credit Union's prime rate as at December 31, 2022 was 6.45% [2021 – 2.95%].

The interest rate offered on fixed rate loans being advanced as at December 31, 2022 ranges from 5.19% to 18.00%. The rate offered to a Member varies with the type of security offered and the Member's creditworthiness.
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 are not secured by real estate and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments.

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

[b] Average yields to maturity

Loans bear interest at both variable and fixed rates with the following yields as at December 31:

	2022		2021	
	Principal	**Average yield**	**Principal**	**Average yield**
	$	%	$	%
Variable rate	**976,599**	**7.60**	806,866	4.39
Fixed rate due less than 1 year	**1,431,324**	**4.55**	966,447	3.35
Fixed rate due between 1 and 5 years	**3,969,678**	**3.41**	3,055,642	3.09
	6,377,601		4,828,955	

[c] Concentration of risk

The Credit Union has no exposure to groupings of individual loans, which concentrate risk and create exposure, as no individual or related groups of Members' loans exceed 25% of regulatory capital of the Credit Union. All Members' loans are with Members whose secured assets are in Ontario, except for syndicated loans amounting to $9,908 and $11,315 as at December 31, 2022 and 2021, respectively.

[d] Credit risk

The determination of impairment losses follows an ECL model under IFRS 9 where provisions are taken upon the initial recognition of the financial asset, based on expectations of potential credit losses at the time of initial recognition. IFRS 9 introduces a three-stage approach to impairment to financial assets that are performing at the date of origination or purchase as follows:

Stage 1: A credit loss allowance is recognized at an amount equal to 12-month ECL.
Stage 2: A credit loss allowance is recognized at an amount equal to lifetime ECL.

This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the financial asset. The credit loss allowance is higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: A credit loss allowance is recognized based at an amount equal to a lifetime ECL, reflecting a probability of default of 100%.

The determination of a SICR considers many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status. The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. Stage 3 requires the recognition of lifetime losses for all credit-impaired assets.

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions, in determining whether there has been a SICR and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period, including pre-payment, extension and other options.

Commercial risk rating

Risk rating involves the categorization of individual credit facilities based on credit analysis and both economic and market conditions, into a series of graded categories based on risk. A primary function of a risk rating model is to assist in the underwriting of new loans and assessment of existing loans. As well, risk ratings assist Management in predicting changes in portfolio quality and the subsequent financial impact. Risk rating can lead to earlier response to potential deteriorating trends and a wider choice of corrective action to decrease exposure to unexpected loan losses. Finally, risk ratings are useful for loan pricing and overseeing the commercial loan portfolio exposure within acceptable levels of risk as established in policy.

The Credit Union uses a 10-point risk rating scale to measure and manage its exposure on its commercial loan portfolio. This risk rating scale aligns with equivalent public debt ratings published by rating agencies. The 10-point rating scale ranges from Substantially Risk Free (1) to Unacceptable/Impaired Risk (10). A risk rating in the range of 1 to 6 is deemed to be acceptable risk for new loans.

[In thousands of Canadian dollars]

Retail risk rating

The Credit Union uses the borrower's credit score as one benchmark to manage the risk of the retail portfolio. A credit score is one measure on how likely a person is to repay a loan. DUCA's risk ratings range across three bands: low risk, moderate risk and high risk. While DUCA generally originates retail loans with low to moderate risk, DUCA has lending programs that assist Members who are in need of credit, addressing the borrower's credit score factor. These loans are priced accordingly based on risk profile.

[e] Loan deferral

The Credit Union permitted payment deferrals to eligible Members due to loss of income. While payment of principal and interest for these Members was deferred, the Credit Union continues to accrue and recognize interest income on the loans. At December 31, 2022, a total of 4 loans with a combined loan balance of $2,258 [2021 – a total of 1 loan with a loan balance of $316] are under a payment deferral arrangement. Substantially all loans that were previously granted payment deferrals have resumed payment and remained current.

9. Allowance for credit losses

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance as at December 31, 2022:

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $
Residential mortgages	**4,706,866**	**1,193**	**143,184**	**372**	**12,678**	**318**	**4,862,728**	**1,883**
Commercial loans	**1,309,352**	**2,153**	**54,130**	**1,218**	**23,342**	**169**	**1,386,824**	**3,540**
Personal loans	**123,657**	**273**	**4,383**	**88**	**9**	**5**	**128,049**	**366**
Total	**6,139,875**	**3,619**	**201,697**	**1,678**	**36,029**	**492**	**6,377,601**	**5,789**

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance as at December 31, 2021:

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $
Residential mortgages	3,549,236	409	63,585	108	4,942	96	3,617,763	613
Commercial loans	1,018,465	2,361	91,671	2,673	20,957	898	1,131,093	5,932
Personal loans	79,341	193	752	42	6	3	80,099	238
Total	4,647,042	2,963	156,008	2,823	25,905	997	4,828,955	6,783

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2022

The following table shows the continuity of the IFRS 9 ECL allowance for all portfolios:

	2022			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Residential mortgages				
Balance, January 1, 2022	409	108	96	613
New loans originated	892	—	—	892
Financial assets derecognized	(109)	(20)	(77)	(206)
Net remeasurement	(15)	307	292	584
Transfers to Stage 1 ECL	37	(37)	—	—
Transfers to Stage 2 ECL	(18)	18	—	—
Transfers to Stage 3 ECL	(3)	(4)	7	—
Provision for (reversal of) credit losses	784	264	222	1,270
Write-offs	—	—	—	—
Recoveries on loans previously written off	—	—	—	—
Balance, December 31, 2022	1,193	372	318	1,883
Commercial loans				
Balance, January 1, 2022	2,361	2,673	898	5,932
New loans originated	764	—	—	764
Financial assets derecognized	(428)	(1,056)	(1)	(1,485)
Net remeasurement	(580)	(218)	(873)	(1,671)
Transfers to Stage 1 ECL	79	(79)	—	—
Transfers to Stage 2 ECL	(43)	43	—	—
Transfers to Stage 3 ECL	—	(145)	145	—
Provision for (reversal of) credit losses	(208)	(1,455)	(729)	(2,392)
Write-offs	—	—	—	—
Recoveries on loans previously written off	—	—	—	—
Balance, December 31, 2022	2,153	1,218	169	3,540
Personal loans				
Balance, January 1, 2022	193	42	3	238
New loans originated	109	—	—	109
Financial assets derecognized	(30)	(5)	(3)	(38)
Net remeasurement	8	43	26	77
Transfers to Stage 1 ECL	(19)	19	—	—
Transfers to Stage 2 ECL	12	(12)	—	—
Transfers to Stage 3 ECL	—	1	(1)	—
Provision for (reversal of) credit losses	80	46	22	148
Write-offs	—	—	(26)	(26)
Recoveries on loans previously written off	—	—	6	6
Balance, December 31, 2022	273	88	5	366
Total ECL allowance	3,619	1,678	492	5,789

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2022

	2021			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Residential mortgages				
Balance, January 1, 2021	716	162	71	949
New loans originated	327	—	—	327
Financial assets derecognized	(262)	(71)	(45)	(378)
Net remeasurement	(397)	45	104	(248)
Transfers to Stage 1 ECL	49	(49)	—	—
Transfers to Stage 2 ECL	(23)	23	—	—
Transfers to Stage 3 ECL	(1)	(2)	3	—
Provision for (reversal of) credit losses	(307)	(54)	62	(299)
Write-offs	—	—	(37)	(37)
Recoveries on loans previously written off	—	—	—	—
Balance, December 31, 2021	409	108	96	613
Commercial loans				
Balance, January 1, 2021	3,510	1,088	1,062	5,660
New loans originated	887	—	—	887
Financial assets derecognized	(862)	(245)	(375)	(1,482)
Net remeasurement	(976)	1,634	284	942
Transfers to Stage 1 ECL	97	(97)	—	—
Transfers to Stage 2 ECL	(293)	293	—	—
Transfers to Stage 3 ECL	(2)	—	2	—
Provision for (reversal of) credit losses	(1,149)	1,585	(89)	347
Write-offs	—	—	(75)	(75)
Recoveries on loans previously written off	—	—	—	—
Balance, December 31, 2021	2,361	2,673	898	5,932
Personal loans				
Balance, January 1, 2021	202	30	3	235
New loans originated	98	—	—	98
Financial assets derecognized	(23)	(5)	(3)	(31)
Net remeasurement	(85)	28	17	(40)
Transfers to Stage 1 ECL	11	(11)	—	—
Transfers to Stage 2 ECL	(8)	8	—	—
Transfers to Stage 3 ECL	(1)	—	1	—
Provision for (reversal of) credit losses	(8)	20	15	27
Write-offs	(1)	(8)	(29)	(38)
Recoveries on loans previously written off	—	—	14	14
Balance, December 31, 2021	193	42	3	238
Total ECL allowance	2,963	2,823	997	6,783

As at December 31, 2022, the Credit Union's ECL allowance for Members' loans was $5,789 [2021 – $6,783] and the related recovery of credit losses was $974 [2021 – PCL of $75]. As indicated in note 7, the Credit Union's investment in third-party mortgages was presented net of ECL allowances of $143 [2021 – $96] and the related provision of credit losses was $47 [2021 – recovery of credit losses of $38].

Credit risk exposure

The internal risk ratings presented in the table below are defined as follows:

Very low risk: Loans that generally have substantially below average probability of credit default, which is within the Credit Union's risk appetite levels.

Low risk: Loans that generally have below average probability of credit default, which is within the Credit Union's risk appetite levels.

Medium risk: Loans that generally have an average probability of credit default, which is within the Credit Union's risk appetite levels.

High risk: Loans that were originated within the Credit Union's risk appetite but have subsequently experienced an increase in risk of credit default, which is outside of the Credit Union's typical risk tolerance levels. The Credit Union will generally not originate loans in this category. DUCA has retail lending programs that assist Members who are in need of credit, notwithstanding the borrower's credit score. These loans are priced accordingly based on risk profile.

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2022

The following table sets out the Credit Union's credit risk exposure for all Members' loans carried at amortized cost as at December 31, 2022. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are credit-impaired.

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Residential				
Very low risk	**2,473,153**	**—**	**—**	**2,473,153**
Low risk	**1,853,846**	**—**	**—**	**1,853,846**
Moderate risk	**373,206**	**114,633**	**—**	**487,839**
High risk	**6,661**	**28,551**	**12,678**	**47,890**
	4,706,866	**143,184**	**12,678**	**4,862,728**
Commercial				
Low risk	**230,573**	**—**	**—**	**230,573**
Moderate risk	**1,078,779**	**—**	**—**	**1,078,779**
High risk	**—**	**54,130**	**23,342**	**77,472**
	1,309,352	**54,130**	**23,342**	**1,386,824**
Personal				
Very low risk	**103,465**	**—**	**—**	**103,465**
Low risk	**19,646**	**—**	**—**	**19,646**
Moderate risk	**540**	**4,316**	**—**	**4,856**
High risk	**6**	**67**	**9**	**82**
	123,657	**4,383**	**9**	**128,049**
	6,139,875	**201,697**	**36,029**	**6,377,601**

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2022

The following table sets out the Credit Union's credit risk exposure for all Members' loans carried at amortized cost as at December 31, 2021. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are credit impaired.

	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Residential				
Very low risk	1,883,743	—	—	1,883,743
Low risk	1,323,193	—	—	1,323,193
Moderate risk	331,216	48,354	—	379,570
High risk	11,084	15,231	4,942	31,257
	3,549,236	63,585	4,942	3,617,763
Commercial				
Low risk	183,208	—	—	183,208
Moderate risk	835,257	—	—	835,257
High risk	—	91,671	20,957	112,628
	1,018,465	91,671	20,957	1,131,093
Personal				
Very low risk	67,811	—	—	67,811
Low risk	10,833	—	—	10,833
Moderate risk	685	690	—	1,375
High risk	12	62	6	80
	79,341	752	6	80,099
	4,647,042	156,008	25,905	4,828,955

As at December 31, 2022, 94% of outstanding commercial loans are risk rated in acceptable range of 6 or lower [2021 – 90%] based on the Credit Union's model.

The following table shows the Credit Union's gross loan balances by security type:

	2022			
	Secured by real estate	Secured by other collateral	Unsecured	Total gross loans
	$	$	$	$
Residential	**4,862,728**	**—**	**—**	**4,862,728**
Commercial	**1,326,643**	**59,135**	**1,046**	**1,386,824**
Personal	**—**	**124,545**	**3,504**	**128,049**
Total	**6,189,371**	**183,680**	**4,550**	**6,377,601**

[In thousands of Canadian dollars]

	2021			
	Secured by real estate $	Secured by other collateral $	Unsecured $	Total gross loans $
Residential	3,617,763	—	—	3,617,763
Commercial	1,105,475	24,578	1,040	1,131,093
Personal	—	76,723	3,376	80,099
Total	4,723,238	101,301	4,416	4,828,955

The forward-looking macroeconomic scenarios described below reflect Management's best estimate of the forward-looking information as at December 31, 2022.

The base scenario assumes the following assumptions:

- Interest rates peak in Q4 2022 and are expected to remain there until Q3 2023, when inflation is believed to be under control;
- Borrowing slows and debt to income ratio growth slows;
- Home prices decline in 2023, with a Q2 2023 trough because of rising interest rates; and
- Unemployment begins to rise as the economy slows from rising interest rates and lower monetary stimulus. This peaks in Q3 2023.

In the past year, while many COVID-19 pandemic-related risks are receding and measures to contain the spread of the virus have lifted in many regions, the pandemic continues to have an impact on Canadian, U.S., and global economies including contributing to high levels of inflation, rising interest rates, and the resulting threat of recession and housing market correction. While these changing assumptions may result in current forward-looking scenarios that are different from those used by the Credit Union in its ECL measurement as at December 31, 2022, based on the information available at the end of the year, IFRS 9 does not permit the use of hindsight in measuring ECL. Accordingly, any changes in forward-looking information subsequent to December 31, 2022 will be reflected in the measurement of ECL in future periods as appropriate.

The Credit Union's ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results. Management applied experienced credit judgment to reflect the continuing impact of the uncertain environment on credit conditions and the economy.

The following table shows the key macroeconomic inputs the Credit Union uses to estimate its allowance on performing loans during the forecast period. The values shown represent the end-of-period average values for the first 12 months and then the average value for the remaining forecast period of four years.

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[In thousands of Canadian dollars]

December 31, 2022

	Benign scenario		Base scenario		Adverse scenario	
	Average value over the next 12 months	Average value over the remaining forecast period	Average value over the next 12 months	Average value over the remaining forecast period	Average value over the next 12 months	Average value over the remaining forecast period
	%	%	%	%	%	%
Canadian GDP year-over-year growth	2.9	2.0	0.9	1.8	(2.5)	1.7
Canadian unemployment rate	5.1	4.7	5.7	5.2	7.1	6.6
National Housing Price Index growth	6.3	1.3	(6.9)	1.1	(13.3)	0.5

The following table compares the probability weighted ECL [determined as the reported allowance for credit losses] against the base case ECL to illustrate the impact of applying probability weights to each of the scenarios in the determination of allowance for credit losses.

The differences presented in the following table are isolated to the measurement of ECL without considering the impact of migration between stages.

	2022	**2021**
	$	$
Probability-weighted ECL [reported allowance for credit losses]	**5,789**	6,783
Base case ECL	**5,735**	6,658
Difference	**54**	125

[In thousands of Canadian dollars]

Analysis of individual loans that are past due based on age is shown below:

	2022			
	Residential	**Commercial**	**Personal**	**Total**
	$	$	$	$
Less than 30 days	**53,419**	**12,383**	**275**	**66,077**
30–89 days	**10,463**	**1,882**	**—**	**12,345**
90–179 days	**7,032**		**—**	**7,032**
180–365 days	**4,108**	**—**	**9**	**4,117**
Over 365 days	**85**	**20,845**	**—**	**20,930**
Total loans in arrears	**75,107**	**35,110**	**284**	**110,501**
Total loans not in arrears	**4,787,621**	**1,351,714**	**127,765**	**6,267,100**
Balance, December 31, 2022	**4,862,728**	**1,386,824**	**128,049**	**6,377,601**

	2021			
	Residential	**Commercial**	**Personal**	**Total**
	$	$	$	$
Less than 30 days	40,345	9,173	265	49,783
30–89 days	8,319	3,349	214	11,882
90–179 days	—	7,061	—	7,061
180–365 days	364	26	—	390
Over 365 days	62	20,837	—	20,899
Total loans in arrears	49,090	40,446	479	90,015
Total loans not in arrears	3,568,673	1,090,647	79,620	4,738,940
Balance, December 31, 2021	3,617,763	1,131,093	80,099	4,828,955

10. Securitization activity

The Credit Union securitizes residential mortgages through the CMHC-sponsored NHA MBS program and CMB program and through Canadian bank-sponsored asset-backed commercial paper programs. These transactions do not meet the requirements for derecognition as the Credit Union retains prepayment risk and certain elements of credit risk. Accordingly, the Credit Union has retained these mortgages on its consolidated statement of financial position and has recorded offsetting liabilities for the net proceeds received as securitization liabilities, which are recorded at amortized cost. As a requirement of the various securitization programs, the Credit Union assigns all its interest in securitized mortgage pools to the securitization entities who may enforce the assignment of the mortgages should the Credit Union fail to make timely payment under the terms of the securitization programs.

[In thousands of Canadian dollars]

The following table summarizes DUCA's securitization activity:

	2022	**2021**
	$	$
Mortgages securitized	**149,977**	69,853
Net cash proceeds received	**123,447**	68,732
Outstanding balances of securitized mortgages	**446,911**	483,128
Outstanding balance of securitization liabilities	**435,614**	468,188

The average yield on mortgage-backed securities pools was 1.45% [2021 – 1.30%]. The outstanding balance of mortgage-backed securities is net of fees.

In addition to the securitization activity noted in the table above, the Credit Union has securitized mortgages that are being held in NHA MBS for liquidity purposes. The balance of securitized mortgages held in NHA MBS for liquidity purposes as at December 31, 2022 was $362,127 [2021 – $313,537].

The Credit Union securitizes and sells mortgage-backed securities of certain insured multi-unit residential mortgages with no prepayment or credit risk associated with the sold mortgage-backed securities. The Credit Union enters into certain transactions that allow the transfer of the contractual right to receive the residual cash flows from the mortgages and transfer substantially all of the risks and rewards of ownership, including credit, interest rate, prepayment and other price risks. The present value of the future cash flows is recorded on the consolidated statement of financial position under other assets. The outstanding balance for these multi-unit residential mortgages totals $1,877,528 as at December 31, 2022 [2021 – $1,122,815].

11. Other assets

	2022	**2021**
	$	$
Securitization receivables and deferred charges	**60,632**	47,277
Third-party mortgage and mortgage pool receivables	**5,334**	4,212
Prepaid expenses	**2,750**	1,837
Right-of-use assets, net	**10,296**	5,940
Other	**7,562**	547
	86,574	59,813

[In thousands of Canadian dollars]

Set out below are the carrying amounts of right-of-use assets recognized and the movement during the year:

	2022	2021
	$	$
Balance as at January 1	**5,940**	6,794
Additions	**7,256**	1,070
Depreciation	**(2,900)**	(1,924)
Balance as at December 31	**10,296**	5,940

12. Pension plan

The Credit Union has a defined contribution pension plan and a SERP for a group of former senior executives, under which costs and obligations are determined using the projected benefit method of actuarial valuation prorated on service.

On December 31, 2012, the SERP was closed to new members. Included in other assets is a net pension amount of $154 [2021 – $44] relating to the SERP.

The Credit Union contributes a percentage of employee salaries to the defined contribution plan. The amount of the expense for the year was $1,305 [2021 – $1,205].

13. Property and equipment

	Land	Buildings	Leasehold improvements	Computer hardware	Equipment, furniture and fixtures	Total
	$	$	$	$	$	$
Cost						
Balance, December 31, 2021	**190**	**408**	**7,228**	**7,208**	**9,703**	**24,737**
Additions	**—**	**—**	**6,483**	**2,323**	**1,399**	**10,205**
Balance, December 31, 2022	**190**	**408**	**13,711**	**9,531**	**11,102**	**34,942**
Accumulated depreciation and amortization						
Balance, December 31, 2021	**—**	**71**	**4,739**	**6,822**	**8,406**	**20,038**
Depreciation and amortization	**—**	**20**	**5,833**	**2,194**	**1,055**	**9,102**
Balance, December 31, 2022	**—**	**91**	**10,572**	**9,016**	**9,461**	**29,140**
Net book value						
December 31, 2022	**190**	**317**	**3,139**	**515**	**1,641**	**5,802**

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[In thousands of Canadian dollars]

December 31, 2022

	Land	Buildings	Leasehold improvements	Computer hardware	Equipment, furniture and fixtures	Total
	$	$	$	$	$	$
Cost						
Balance, December 31, 2020	296	891	6,519	7,587	9,651	24,944
Additions	—	—	781	120	92	993
Dispositions	(106)	(483)	(72)	(499)	(40)	(1,200)
Balance, December 31, 2021	190	408	7,228	7,208	9,703	24,737
Accumulated depreciation and amortization						
Balance, December 31, 2020	—	502	3,783	6,954	7,775	19,014
Depreciation and amortization	—	24	993	367	644	2,028
Dispositions	—	(455)	(37)	(499)	(13)	(1,004)
Balance, December 31, 2021	—	71	4,739	6,822	8,406	20,038
Net book value						
December 31, 2021	190	337	2,489	386	1,297	4,699

14. Members' deposits

	2022	2021
	$	$
Demand deposit accounts	**1,993,305**	1,664,364
Term deposits	**2,795,723**	2,168,782
Registered deposits	**728,373**	665,117
Foreign currency accounts	**47,348**	27,328
	5,564,749	4,525,591
Accrued interest payable	**35,412**	31,480
Unamortized broker fees	**(4,034)**	(2,215)
	5,596,127	4,554,856

[a] Terms and conditions

Demand deposit accounts include chequing accounts, savings accounts, and daily interest accounts, are due on demand and bear interest at a variable rate up to 3.25% as at December 31, 2022 [2021 – 1.50%].

[In thousands of Canadian dollars]

Term deposits bear fixed rates of interest for terms of up to seven years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2022 range from 1.25% to 4.55% [2021 – 0.30% to 2.00%].

The registered retirement savings plans accounts can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. The variable rate accounts bear interest at rates of 1.00% as at December 31, 2022 [2021 – 0.45%]. Registered retirement income funds consist of both fixed and variable rate products with terms and conditions similar to those of the registered retirement savings plans accounts described above. Members may make withdrawals from a registered retirement income fund 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 can be fixed or variable rate with terms and conditions similar to those of the registered retirement savings plans accounts described above.

Foreign currency accounts include accounts from all of the above balances.

[b] Average yields to maturity

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

	Principal	2022 yield	Principal	2021 yield
	$	%	$	%
Variable rate	**2,127,090**	**2.63**	1,795,071	0.81
Fixed rate due less than 1 year	**2,103,361**	**4.06**	1,490,568	1.74
Fixed rate due between 1 and 5 years	**1,334,298**	**3.79**	1,239,952	2.28
	5,564,749		4,525,591	

[c] Concentration of risk

The Credit Union does not have an exposure to individual or related groups of Members' deposits that exceed the Credit Union's policy of 8% of Member's deposits.

[In thousands of Canadian dollars]

15. Income taxes

The significant components of the deferred tax liability of the Credit Union are as follows:

	Balance, December 31, 2021 $	Consolidated statement of income $	Acquired during the year $	Balance, December 31, 2022 $
Allowance for credit losses	**1,071**	**(127)**	—	**944**
Broker fees	**(4,083)**	**(273)**	—	**(4,356)**
Property and equipment	**(897)**	**(341)**	**(1,106)**	**(2,344)**
Deferred revenue	**641**	**266**	—	**907**
Non-capital losses available for carryforward	**—**	**(262)**	**262**	—
Corporate Minimum Tax credit	**1,073**	**671**	—	**1,744**
Prepaid expense	**(2,883)**	**(233)**	—	**(3,116)**
Financing costs	**—**	**(7)**	—	**(7)**
Other	**181**	**80**	—	**261**
	(4,897)	**(226)**	**(844)**	**(5,967)**

	Balance, December 31, 2020 $	Consolidated statement of income $	Acquired during the year $	Balance, December 31, 2021 $
Allowance for credit losses	1,075	(4)	—	1,071
Broker fees	(3,685)	(398)	—	(4,083)
Property and equipment	(799)	(98)	—	(897)
Deferred revenue	618	23	—	641
Non-capital losses available for carryforward	824	(824)	—	—
Corporate Minimum Tax credit	1,340	(267)	—	1,073
Prepaid expense	(2,141)	(742)	—	(2,883)
Other	(209)	390	—	181
	(2,977)	(1,920)	—	(4,897)

During 2022, the Credit Union utilized nil [2021 – $5,500] of non-capital losses carried forward from the combination with Zenbanx Canada Inc.

[In thousands of Canadian dollars]

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

	2022	2021
	$	$
Current tax expense	**3,658**	3,035
Deferred tax expense	**226**	1,920
Total income tax expense	**3,884**	4,955

The difference between income tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% [2021 – 26.5%] is as follows:

	2022	2021
	$	$
Income before income taxes	**20,205**	30,657
Expected taxes based on the statutory rate	**5,354**	8,124
Credit Union deduction	**(1,677)**	(2,545)
Over (under) provision in prior years	**42**	(116)
Permanent difference	**(76)**	(227)
Other	**241**	(281)
Total income tax expense	**3,884**	4,955

16. Derivative financial instruments

The Credit Union enters into derivatives for risk management purposes, as explained in note 4 in the *Summary of significant accounting policies*. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument [being an equity instrument, commodity product, foreign currency, reference rate or index]. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of either the market or credit risk.

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[In thousands of Canadian dollars]

December 31, 2022

Total derivative financial instruments

There are no outstanding fair value hedges as at December 31, 2022.

	Carrying value assets	Carrying value liabilities	Notional amount
	$	$	$
Derivatives used as cash flow hedges			
Bond forward	**416**	**—**	**25,000**
Derivatives not in qualifying hedging relationship			
Foreign exchange contracts	**34,936**	**34,238**	**25,500 USD**

There are no outstanding cash flow and fair value hedges as at December 31, 2021.

	Carrying value assets	Carrying value liabilities	Notional amount
	$	$	$
Derivatives not in qualifying hedging relationship			
Bond forward	—	94	10,000
Interest rate swap	—	144	5,000

17. Patronage return

During the year, the Board of Directors declared a patronage return of 0% [2021 – 1%] consisting of bonus interest on Members' deposits and loan interest rebates. During 2022, the Credit Union recorded a recovery of patronage of $160 representing an adjustment to actual patronage declared in 2021 and subsequently paid in 2022.

[In thousands of Canadian dollars]

18. Members' shares

	2022			2021		
	Number of shares \#	Equity $	Liability $	Number of shares \#	Equity $	Liability $
Authorized						
Unlimited						
Membership shares	**941**	**—**	**941**	989	—	989
Investment shares:						
Unlimited Class A shares	**35,202**	**35,202**	**—**	36,493	36,493	—
Unlimited Class B shares Series 1	**32,069**	**32,069**	**—**	35,699	35,699	—
Unlimited Class B shares Series 4	**160,657**	**160,657**	**—**	161,371	161,371	—
		227,928	**941**		233,563	989

Membership shares, Class A and Class B investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32 and IFRIC 2. If they are classified as equity, they are recognized at cost. If they are classified as a liability, they are initially recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and subsequently carried at amortized cost using the effective interest rate method.

Terms and conditions

[a] Membership shares

As a condition of Membership, which is required to use the services of the Credit Union, each Member is required to hold one Membership share, which has a par value of $1. These Membership shares are redeemable at par only when a Membership is withdrawn.

Funds invested by Members in Membership shares are not insured by FSRA. The withdrawal of Membership shares is subject to the Credit Union maintaining adequate regulatory capital *[note 23]*, as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total Membership shares and the liability amount is classified as equity.

[b] Class A shares

An unlimited number of Class A non-cumulative, non-voting, non-participating bonus shares that are redeemable at the sole and absolute discretion of the Credit Union, up to a limit of 10% of the Class each year, at full face value at any time upon the death of the holder and ranging from 50% of face value in the second year after issue with annual increments in redemption value to 100% of face value in the seventh and subsequent years. The Credit Union may redeem the full amount of the shares at any point after five years from their date of issue. The par value of a Class A share is $1.

[In thousands of Canadian dollars]

Patronage returns are at the discretion of the Board of Directors.

[c] *Class B Series 1 investment shares*

The Class B Series 1 investment shares are not redeemable for five years after the date of their issuance. The holders of Class B Series 1 investment shares may, at any time after the respective non-redeemable period, make a request in writing to the Board of Directors of the Credit Union to redeem their Class B investment shares. Approval of such request is the sole and absolute discretion of the Board of Directors. In no case shall total redemptions approved in any fiscal year exceed 10% of the total Class B investment shares outstanding at the end of the previous fiscal year. The Credit Union may at any time redeem the full amount of the shares outstanding at the discretion of the Board of the Directors after the non-redeemable term ended on January 1, 2021. The par value of a Class B share is $1.

[d] *Class B Series 4 investment shares*

The Class B Series 4 investment shares are not redeemable for five years after the date of their issuance. The holders of Class B Series 4 investment shares may, at any time after the respective non-redeemable period, make a request in writing to the Board of Directors of the Credit Union to redeem their Class B investment shares. Approval of such request is the sole and absolute discretion of the Board of Directors. In no case shall total redemptions approved in any fiscal year exceed 10% of the total Class B investment shares outstanding at the end of the previous fiscal year. Redemptions are subject to the aggregate limits detailed above, and, if the approval of any regulatory body having jurisdiction over the Credit Union of that redemption is required by any applicable law, are subject to obtaining that regulatory approval. The Credit Union may at any time redeem the full amount of the shares outstanding after the non-redeemable term has ended at the discretion of the Board of Directors. The par value of a Class B share is $1.

19. Non-interest income

	2022	**2021**
	$	$
Foreign exchange fee revenue	**11,617**	385
Securitization income	**4,163**	4,436
Wealth management	**3,466**	3,011
Realized gains on derivative financial instruments	**3,454**	—
Mortgage and loan fees	**3,169**	2,168
Service charges	**1,268**	741
Unrealized gains on derivative financial instruments	**467**	6
Gain on sale of property and equipment	**—**	2,060
Gain on sale of Social Finance Inc. [“SoFi”] shares	**—**	669
Other	**539**	936
	28,143	14,412

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[In thousands of Canadian dollars]

December 31, 2022

20. Related party transactions

The Act requires disclosure of the five highest-paid officers and employees of the Credit Union where total remuneration paid during the year exceeds $150,000. Bonuses reported below are with respect to the prior year. The names, positions and remuneration paid during 2022 of those officers and employees are as follows:

2022

Name	Title	Salary	Bonus	Pension and other post-retirement benefits	Other	Total
		$	$	$	$	$
Doug Conick	President and Chief Executive Officer	**471**	**423**	**47**	**29**	**970**
Yan Xu	Chief Financial Officer	**264**	**158**	**27**	**4**	**453**
Karey Carson	Chief People and Culture Officer	**263**	**147**	**26**	**6**	**442**
Phillip Taylor	Chief Member Experience Officer	**263**	**143**	**26**	**6**	**438**
Rizwan Ahmad	Chief Risk Officer	**263**	**139**	**26**	**4**	**432**

2021

Name	Title	Salary	Bonus	Pension and other post-retirement benefits	Other	Total
		$	$	$	$	$
Doug Conick	President and Chief Executive Officer	451	343	46	36	876
Karey Carson	Chief People and Culture Officer	255	135	26	3	419
Phillip Taylor	Chief Member Experience Officer	255	133	26	3	417
Rizwan Ahmad	Chief Risk Officer	255	132	26	2	415
Yan Xu	Chief Financial Officer	257	130	26	2	415

[In thousands of Canadian dollars]

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

	2022 $	2021 $
Loans to key management personnel		
Aggregate value of loans advanced	**3,321**	3,380
Interest received on loans advanced	**60**	50
Total value of lines of credit advanced	**190**	200
Interest received on lines of credit advanced	**8**	6
Unused value of lines of credit	**37**	25
Deposits from key management personnel		
Aggregate value of term and savings deposits	**3,441**	3,173
Total interest paid on term and savings deposits	**51**	16

The Credit Union's policy for key management personnel is that the loans are approved and deposits accepted on the same terms and conditions that apply to Members for each class of loan or deposit with the exception of a policy approved by the Board of Directors, permitting up to a 2.00% interest rate discount on loans and residential first mortgages and an additional 0.25% interest rate premium on fixed term deposits granted to employees of the Credit Union.

The Directors of the Credit Union are remunerated at rates to be fixed annually at the beginning of each year by the Board of Directors, and are also entitled to be paid their travelling, director training and other expenses properly incurred by them in connection with the affairs of DUCA.

The following table outlines remuneration paid to the Directors of the Credit Union:

	2022 $	2021 $
Director remuneration paid	**355**	353

Deposit insurance

At December 31, 2022, the net annual premium paid to FSRA for insuring Members' deposits was $2,948 [2021 – $2,566].

[In thousands of Canadian dollars]

21. Financial instrument classification and fair value

The following table represents the fair values of DUCA's financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, some of DUCA's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2022	
	Book value	**Fair value**
	$	$
Amortized cost		
Cash and cash equivalents	**38,245**	**38,245**
Investments and third-party mortgages	**339,000**	**330,392**
Members' loans	**6,411,207**	**6,247,733**
Fair value through profit or loss		
Investments	**1,622**	**1,622**
Derivative financial instruments	**34,936**	**34,936**
Total financial assets	**6,825,010**	**6,652,928**
Amortized cost		
Members' deposits	**5,596,127**	**5,481,270**
Securitization liabilities	**435,614**	**421,239**
Borrowings	**362,030**	**366,048**
Securities lent or sold under repurchase agreements	**31,315**	**31,308**
Accounts payable and accrued liabilities	**24,822**	**24,822**
Subordinated debt	**74,368**	**81,065**
Fair value through profit or loss		
Derivative financial instruments	**34,238**	**34,238**
Total financial liabilities	**6,558,514**	**6,439,990**

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[In thousands of Canadian dollars]

December 31, 2022

	2021	
	Book value	**Fair value**
	$	$
Amortized cost		
Cash and cash equivalents	130,334	130,334
Investments and third-party mortgages	470,456	472,590
Members' loans	4,847,709	4,889,806
Fair value through profit or loss		
Investments	1,582	1,582
Total financial assets	5,450,081	5,494,312
Amortized cost		
Members' deposits	4,554,856	4,583,026
Securitization liabilities	468,188	469,026
Borrowings	97,105	97,322
Accounts payable and accrued liabilities	25,899	25,899
Fair value through profit or loss		
Derivative financial instruments	238	238
Total financial liabilities	5,146,286	5,175,511

The following methods and assumptions were used to estimate the fair values noted above of on-balance sheet financial instruments, which should be read in conjunction with the fair value measurement basis described in the significant accounting policy in note 4[b][v]:

[a] Investments and third-party mortgages

The estimated fair values of investments in publicly listed equity securities are determined using quoted market prices. The estimated fair values of investments in third-party mortgages are determined by discounting the expected future cash flows of these investments at current market rates for products with similar terms and credit risks.

[b] Members' loans

The estimated fair values of loans are arrived at by discounting the expected future cash flows of the loans at market rates for loans with similar terms of credit risk. Loans are classified as Level 3.

[c] Members' deposits

The fair values of deposits payable on demand, payable after notice and floating rate deposits are assumed to equal their carrying values. The estimated fair values for fixed rate term deposits are valued using the discounted cash flows discounted using market rates currently offered for deposits with similar terms and risks. Such deposit liabilities are classified as Level 3.

[d] Derivative financial instruments

The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates. Such instruments are classified as Level 2.

[e] Subordinated debt

The estimated fair values of subordinated debt are determined by discounting future repricing cash flows by the treasury bill or bond curve. Such instruments are classified as Level 2.

[f] Other assets and liabilities

The fair values of cash and cash equivalents and accounts payable and accrued liabilities are assumed to approximate their book values, due to their short-term nature.

Fair value measurements can be classified in a hierarchy in order to discern the significance of Management assumptions and the ability to observe inputs incorporated into the measurements, as follows:

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

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

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

The level in the fair value hierarchy within which the financial asset or 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 the three levels.

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2022

The following table summarizes the classification of the Credit Union's financial instruments within the fair value hierarchy as at December 31:

	2022			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Recorded at fair value				
Assets				
Central 1 Class A shares	—	—	**1,613**	**1,613**
Other investments	**9**	—	—	**9**
Derivative financial instruments	—	**34,936**	—	**34,936**
Total assets held at fair value	**9**	**34,936**	**1,613**	**36,558**
Liabilities				
Derivative financial instruments	—	**34,238**	—	**34,238**
Total liabilities held at fair value	—	**34,238**	—	**34,238**
Fair value disclosed				
Assets				
Investments and third-party mortgages	—	**75,194**	**255,198**	**330,392**
Members' loans	—	—	**6,247,733**	**6,247,733**
Total assets disclosed at fair value	—	**75,194**	**6,502,931**	**6,578,125**
Liabilities				
Members' deposits	—	—	**5,481,270**	**5,481,270**
Securitization liabilities	—	—	**421,239**	**421,239**
Borrowings	—	**366,048**	—	**366,048**
Securities lent or sold under repurchase agreements	—	**31,308**	—	**31,308**
Subordinated debt	—	**81,065**	—	**81,065**
Total liabilities disclosed at fair value	—	**478,421**	**5,902,509**	**6,382,050**

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[In thousands of Canadian dollars]

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	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Recorded at fair value				
Assets				
Central 1 Class A shares	—	—	1,573	1,573
Other investments	9	—	—	9
Total assets held at fair value	9	—	1,573	1,582
Liabilities				
Derivative financial instruments	—	238	—	238
Total liabilities held at fair value	—	238	—	238
Fair value disclosed				
Assets				
Investments and third-party mortgages	—	175,920	296,670	472,590
Members' loans	—	—	4,889,806	4,889,806
Total assets disclosed at fair value	—	175,920	5,186,476	5,362,396
Liabilities				
Members' deposits	—	—	4,583,026	4,583,026
Securitization liabilities	—	—	469,026	469,026
Borrowings	—	97,322	—	97,322
Total liabilities disclosed at fair value	—	97,322	5,052,052	5,149,374

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and 2021 and no changes or transfers in securities classified as Level 3.

Included in Level 3 are non-quoted equity investments, which are valued based on financial information provided by that entity. The valuation does not involve a valuation model and, as such, a sensitivity analysis is not disclosed.

22. Financial risk management

[a] General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies, and while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's Management. The Board of Directors receives regular reporting from the Credit Union through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

[b] Credit risk

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

Credit risk assessments 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 or other support available to secure the loan.

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

[i] Objectives, policies and processes

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

- General loan policy statements, including approval of lending policies, eligibility for loans, exceptions to policy and loan administration;
- Loan lending limits, including Board of Director's approval limits and delegation of loan lending limits;
- Loan collateral security classifications;
- Procedures outlining loan overdrafts, release or substitution of collateral and loan renegotiations; and
- Loan delinquency controls regarding procedures followed for loans in arrears.

With respect to credit risk, the Board of Directors receives monthly reports summarizing delinquent loans and loans that are on the watchlist. The Board of Directors also receives regular reporting of the allowance for credit losses.

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2022

[ii] Exposure to credit risk

The following table indicates the Credit Union's maximum exposure to credit risk relating to its portfolios as at December 31, 2022 without considering any collateral held or credit enhancements:

	Carrying value	**Maximum exposure**
	$	$
Cash and cash equivalents	**38,245**	**38,245**
Investments and third-party mortgages	**340,622**	**340,622**
Members' loans	**6,411,207**	**6,411,207**
Undisbursed loans	**—**	**489,432**
Unutilized lines of credit	**—**	**276,062**
Unutilized letters of credit	**—**	**20,983**
	6,790,074	**7,576,551**

A sizable portfolio of the loan book is secured by residential property in Southern Ontario. Therefore, the Credit Union is exposed to the risk of reduction in loan to value coverage should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

[c] Liquidity risk

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

[i] Risk measurement

The assessment of the Credit Union's liquidity position reflects Management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviours of its Members and counterparties.

[ii] Objectives, policies and procedures

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

Provisions of the Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet Member withdrawals, which includes the Liquidity Coverage Ratio [“LCR”], Net Cumulative Cash Flow [“NCCF”], and Net Stable Funding Ratio [“NSFR”].

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily 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 LCR is a measure that aims to ensure that the Credit Union has an adequate stock of unencumbered high-quality liquid assets [“HQLA”] that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the institution to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by Management. DUCA’s LCR as at December 31, 2022 was 655% [2021 – 618%] compared with a regulatory minimum of 100% and a policy minimum of 125%.

The NCCF is a liquidity metric that measures the Credit Union’s survival horizon based on its net cumulative cash flows. It identifies potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon. DUCA’s NCCF as at December 31, 2022 was coverage over 11 months compared with a policy minimum of coverage over 6 months.

The NSFR is a standard that will require credit unions to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a credit union’s regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR aims to limit over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. DUCA’s NSFR as at December 31, 2022 was 156% [2021 – 171%] compared with a regulatory minimum of 100% and a policy minimum of 110%.

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[In thousands of Canadian dollars]

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The following tables demonstrate the Credit Union's ability to pay future obligations as financial assets and liabilities mature as at December 31, 2022 and 2021:

	2022							
	Floating rate on demand $	**Within 1 month** $	**2–12 months** $	**1–3 years** $	**3–5 years** $	**Over 5 years** $	**Not specified** $	**Total** $
Assets								
Members' loans	**976,599**	**95,172**	**1,336,152**	**1,734,850**	**2,221,858**	**12,970**	**33,606**	**6,411,207**
Cash and cash equivalents	**28,245**	**—**	**10,000**	**—**	**—**	**—**	**—**	**38,245**
Investments and third-party mortgages	**—**	**3,428**	**116,953**	**114,496**	**98,044**	**3,000**	**4,701**	**340,622**
Other assets	**—**	**—**	**—**	**—**	**—**	**—**	**146,386**	**146,386**
	1,004,844	**98,600**	**1,463,105**	**1,849,346**	**2,319,902**	**15,970**	**184,693**	**6,936,460**
Liabilities and Members' equity								
Members' deposits	**2,127,090**	**94,727**	**2,008,635**	**898,036**	**299,521**	**136,740**	**31,378**	**5,596,127**
Securitization liabilities	**—**	**—**	**62,683**	**188,421**	**61,293**	**—**	**123,217**	**435,614**
Borrowings	**—**	**—**	**—**	**—**	**—**	**—**	**362,030**	**362,030**
Securities lent or sold under repurchase agreements	**—**	**—**	**—**	**—**	**—**	**—**	**31,315**	**31,315**
Other liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**140,336**	**140,336**
Equity	**—**	**—**	**—**	**—**	**—**	**—**	**371,038**	**371,038**
	2,127,090	**94,727**	**2,071,318**	**1,086,457**	**360,814**	**136,740**	**1,059,314**	**6,936,460**

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[In thousands of Canadian dollars]

December 31, 2022

	2021							
	Floating rate on demand $	Within 1 month $	2–12 months $	1–3 years $	3–5 years $	Over 5 years $	Not specified $	Total $
Assets								
Members' loans	806,866	86,946	879,501	1,316,499	1,733,543	5,600	18,754	4,847,709
Cash and cash equivalents	120,334	—	10,000	—	—	—	—	130,334
Investments and third-party mortgages	—	8,391	242,467	134,226	55,424	27,082	4,448	472,038
Other assets	—	—	—	—	—	—	71,575	71,575
	927,200	95,337	1,131,968	1,450,725	1,788,967	32,682	94,777	5,521,656
Liabilities and Members' equity								
Members' deposits	1,795,071	177,534	1,313,034	860,165	347,949	31,838	29,265	4,554,856
Securitization liabilities	—	—	49,600	226,518	171,242	—	20,828	468,188
Borrowings	—	—	—	—	—	—	97,105	97,105
Other liabilities	—	—	—	—	—	—	33,023	33,023
Equity	—	—	—	—	—	—	368,484	368,484
	1,795,071	177,534	1,362,634	1,086,683	519,191	31,838	548,705	5,521,656

[d] Market risk

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

[i] Interest rate risk

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

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

[1] Risk measurement

The Credit Union's interest rate risk position is measured monthly. Measurement of risk is based on rates charged to Members, as well as rates paid to depositors.

[In thousands of Canadian dollars]

[2] Objectives, policies and procedures

The Credit Union's major source of income is net interest margin, the difference between interest earned on investments and Members' loans and interest paid on Members' deposits. The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. Management calculates and reports monthly the value-at-risk measure of net interest margin in accordance with the Credit Union's Structural Risk Management Policy. The Credit Union can enter into interest rate swaps in order to hedge against exposure to interest rate fluctuations in accordance with the Credit Union's Interest Rate Risk Management Policy.

Key metrics involved in management of interest rate risk include the use of Earnings at Risk ["EaR"] and Economic Value of Equity at Risk ["EVEaR"]. EaR is defined as the change in the net interest income from a 100-basis point ["bps"] shock to interest rates. This exposure is measured over a 12-month period. EVEaR is defined as the difference in the change in the present value of the asset portfolio and the change in the present value of the liability portfolio resulting from a 100-bps interest rate shock.

The following table summarizes the EaR and EVEaR as follows:

	2022 $	**2021** $
EaR – up 100 bps	**990**	(2,892)
EaR – down 100 bps	**4,275**	1,938
EVEaR – up 100 bps	**(5,080)**	(16,143)
EVEaR – down 100 bps	**26,978**	11,693

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union Management and reported to FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FSRA by Credit Union regulations. For the year ended December 31, 2022, the Credit Union was in compliance with this policy.

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 three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest-sensitive have been grouped together, regardless of maturity.

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[In thousands of Canadian dollars]

December 31, 2022

	2022				
	Assets $	Yield %	Liabilities/ Members' equity $	Cost %	Asset/liability gap $
Maturity dates					
Interest-sensitive:					
0–3 months	**1,323,192**	**6.46**	**2,476,655**	**2.64**	**(1,153,463)**
4–12 months	**1,243,357**	**4.73**	**1,816,480**	**4.22**	**(573,123)**
1–2 years	**938,969**	**3.76**	**690,468**	**3.58**	**248,501**
2–5 years	**3,246,249**	**3.31**	**893,543**	**3.25**	**2,352,706**
	6,751,767		**5,877,146**		**874,621**
Non-interest sensitive	**184,693**		**1,059,314**		
	6,936,460		**6,936,460**		

	2021				
	Assets $	Yield %	Liabilities/ Members' equity $	Cost %	Asset/liability gap $
Maturity dates					
Interest-sensitive:					
0–3 months	1,186,363	3.70	2,264,783	1.09	(1,078,420)
4–12 months	968,142	3.01	1,070,456	1.55	(102,314)
1–2 years	662,752	3.67	580,749	1.79	82,003
2–5 years	2,609,622	3.15	1,056,963	2.17	1,552,659
	5,426,879		4,972,951		453,928
Non-interest sensitive	94,777		548,705		
	5,521,656		5,521,656		

Interest-sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union may utilize 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.

[ii] *Currency risk*

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

[1] Risk measurement

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

[2] Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to the lesser of $1,000 or 5% of total Member foreign currency deposits in Canadian funds.

For the year ended December 31, 2022, the Credit Union's exposure to foreign exchange risk is within policy.

[iii] Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The total investment in preferred shares and dividend-bearing equities cannot exceed the lesser of $15,000 or 1% of assets, excluding the Credit Union's investment in Central 1.

For the year ended December 31, 2022, the Credit Union's exposure to equity risk is within policy.

[e] Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. This includes responding to external events including legal or regulatory actions. The Credit Union has a number of programs that manage specific risks under the operational risk framework, including business resilience planning, disaster recovery planning, anti-money laundering and anti-terrorist financing procedures, employee hiring and retention measures and vendor and third-party relationship risk management.

23. Capital management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

On March 1, 2022, the *Credit Unions and Caisses Populaires Act, 2020* [the "New Act"] came into force, replacing the *Credit Unions and Caisses Populaires Act, 1994*. Along with the New Act, three new Credit Union Rules developed by FSRA, the Sound Business and Financial Practices Rule, the Capital Adequacy Requirements Rule, and the Liquidity Adequacy Requirements Rules, also came into force on March 1, 2022.

The Capital Adequacy Requirements Rule in particular outlined significant changes to capital requirements including [i] definition and calculation of capital and risk-weighted assets, [ii] revision in supervisory minimum ratios, [iii] introduction of a capital conservation buffer and [iv] capital reporting of subsidiaries on a consolidated basis, among other changes.

[In thousands of Canadian dollars]

Upon adoption of the Capital Adequacy Requirements Rule outlined in the New Act, the Credit Union reclassified non-redeemable Class A shares from tier 2 to tier 1 capital, which amounted to $34,110 as at December 31, 2022.

The Credit Union considers its capital to include Membership shares, Class A shares and Class B investment shares, retained earnings and subordinated debt.

The Credit Union establishes the risk-weighted equivalent value of its assets in accordance with the regulations of the New Act, which establishes the applicable percentage for each class of assets. The Credit Union's risk-weighted equivalent value of its assets as at December 31, 2022 was $3,407,020 [2021 – $2,633,928].

Regulatory capital consists of the following:

	2022	2021
	$	$
Tier I capital:		
Membership shares	**941**	989
Class A shares – non-redeemable portion	**34,110**	—
Class B shares Series 1 – non-redeemable portion	**32,066**	35,629
Class B shares Series 4 – non-redeemable portion	**160,657**	161,371
Retained earnings	**144,152**	134,921
Goodwill	**(10,055)**	(1,678)
Defined benefit pension plan assets	**(154)**	(44)
	361,717	331,188
Tier II capital:		
Subordinated debt	**75,000**	—
Class A shares – non-redeemable portion	**—**	35,921
Class A shares – redeemable portion	**1,092**	572
Class B shares Series 1 – redeemable portion	**2**	70
Collective loan provision	**5,297**	5,786
	81,391	42,349
Total regulatory capital	**443,108**	373,537

[In thousands of Canadian dollars]

	2022			2021		
	Actual %	Regulatory policy minimum %	Internal policy minimum %	Actual %	Regulatory policy minimum %	Internal policy minimum %
Leverage ratio	**6.34**	**3.00**	**4.00**	6.77	4.00	5.00
Retained earnings to risk-weighted asset ratio	**4.23**	**3.00**	**3.25**	N/A	N/A	N/A
Tier 1 capital ratio	**10.62**	**6.50**	**7.00**	12.57	N/A	N/A
Capital conservation buffer ratio	**4.12**	**2.50**	**2.50**	N/A	N/A	N/A
Total supervisory capital ratio	**13.01**	**10.50**	**11.00**	14.18	8.00	10.50

As at December 31, 2022, the Credit Union met the capital requirements of the New Act.

On March 1, 2022, the Board of Directors declared a dividend of 3.00% on the outstanding amount of the Class B Series 1 investment shares, a dividend of 4.25% on the outstanding amount of the Class B Series 4 investment shares, and a dividend of 2.00% on the outstanding amount of Class A shares to the holders of record as at December 31, 2021. The dividends were paid on March 2, 2022.

24. Commitments

[a] Credit facilities

A comprehensive credit facility is maintained with Bank of Montreal up to a maximum of $14,000 [2021 – $14,000] and is secured by bank deposit notes amounting to $10,000 [2021 – $10,000] *[notes 6 and 7]*. The Credit Union has an unused credit facility of $14,000 [2021 – $14,000] at year-end.

A line of credit is maintained with Central 1 up to a maximum of $256,450 [2021 – $235,000] and is secured by a general security agreement covering all the assets of the Credit Union. The Credit Union has an unused credit facility of $144,528 [2021 – $134,193] as at year-end, of which $85,000 [2021 – $100,000] is prescribed for the guarantee of payment on third-party municipalities, universities, school boards and hospitals deposits with the Credit Union as agreed to by Central 1 and $25,000 [2021 – $30,000] is prescribed towards letters of credit issued on behalf of the Credit Union.

A line of credit facility is maintained with Desjardins up to a maximum of $250,000 [2021 – $175,000] and is secured by a pledge of residential mortgages. The Credit Union has an unused credit facility of nil [2021 – $175,000] as at year-end.

On March 4, 2019, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with National Bank Financial Inc., which gives the Credit Union access to an uncommitted $350,000 [2021 – $350,000] credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2022, the Credit Union has an unused credit facility of $350,000 [2021 – $350,000].

[In thousands of Canadian dollars]

On May 29, 2020, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with Bank of Montreal, which gives the Credit Union access to an uncommitted $400,000 [2021 – $400,000] credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2022, the Credit Union has an unused credit facility of $368,692 [2021 – $400,000].

On July 28, 2020, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with Central 1, which gives the Credit Union access to an uncommitted credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity.

[b] Members' loans

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

	2022	2021
	$	$
Undisbursed loans	**489,432**	347,236
Unutilized lines of credit	**276,062**	351,280
Unutilized letters of credit	**20,983**	24,460
	786,477	722,976

25. Subordinated debt

Subordinated debt consists of direct unsecured obligations of the Credit Union and is subordinated in right of payment to the claims of depositors and certain other creditors. Subordinated debt is presented net of unamortized issuance costs of $632 on the consolidated statement of financial position.

Maturity date	Interest rate	Interest reset rate	Earliest par redemption date	Balance, December 31, 2022	Balance, December 31, 2021
	%	%	$	$	$
March 29, 2032	**5.869**	**CDOR plus 2.98%**	**March 29, 2027**	**75,000**	—

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2022

26. Accounts payable and accrued liabilities

	2022 $	2021 $
Lease liabilities	**11,970**	6,931
Accrued liabilities	**7,619**	6,544
Accounts payable	**5,233**	12,424
	24,822	25,899

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2022 $	2021 $
Balance as at January 1	**6,931**	7,461
Additions	**7,484**	1,070
Accretion of interest	**430**	274
Payments	**(2,875)**	(1,874)
Balance as at December 31	**11,970**	6,931

27. Intangible assets

The Credit Union's intangible assets relate to internally developed software from the implementation of core banking systems. The balances are as follows:

	2022 $	2021 $
Cost		
Balance as at January 1	**6,373**	5,935
Additions	**6,470**	438
Balance as at December 31	**12,843**	6,373
Amortization and impairment		
Balance as at January 1	**(988)**	(204)
Amortization	**(2,836)**	(784)
Balance as at December 31	**(3,824)**	(988)
Net book value		
Balance as at January 1	**5,385**	5,731
Balance as at December 31	**9,019**	5,385

[In thousands of Canadian dollars]

28. Goodwill

Goodwill acquired on business combinations is assessed for impairment annually, or more frequently, if events or circumstances occur that may result in the recoverable amount of the CGU falling below its carrying value. Goodwill was assessed for annual impairment and no impairment was determined to exist.

	2022	**2021**
	$	$
Balance as at January 1	**1,678**	1,678
Addition: Continental Currency Exchange Canada Ltd. acquisition	**8,377**	—
Balance as at December 31	**10,055**	1,678

29. Continental Currency Exchange

On April 1, 2022, the Credit Union acquired 100% of outstanding common shares of CCE, a foreign currency exchange and money transfer business. CCE provides services primarily to customers via a retail network of 19 branches across southern Ontario. The acquisition provides DUCA with additional diversified revenue sources and the ability to expand product and service offering to existing and future Members. The acquisition was accounted for as a business combination under the purchase method, and with this acquisition, CCE became a 100% owned subsidiary of the Credit Union. As at April 1, 2022, fair value of consideration paid was $12,202 and fair value of identifiable net assets acquired was $3,825, with the excess of $8,377 allocated to goodwill. Identifiable net assets acquired included tangible assets of $4,150, intangible assets of $2,157 and other financial assets of $4,709, net of liabilities of $7,191.

The results of CCE were consolidated from the acquisition date and include revenue of $11,732 and after-tax profit of $952. The revenue and after-tax profit amount would have been $14,372 and $656, respectively, if the acquisition took place as of January 1, 2022.

30. Comparative figures

Certain comparative figures have been reclassified to reflect the presentation adopted in the current year.

31. Subsequent events

Subsequent to December 31, 2022, the Credit Union received and processed redemption requests for Class B Series 1 investment shares amounting to $3,265.