MERIDIAN CREDIT UNION LIMITED

Consolidated Financial Statements

For the year ended December 31, 2023

MERIDIAN CREDIT UNION LIMITED

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

Independent auditor's report

To the Members of Meridian Credit Union Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Meridian Credit Union Limited and its subsidiaries (together, the Credit Union) as at December 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited
The Credit Union's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2023;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 13, 2024

CONSOLIDATED BALANCE SHEET

As at December 31 (thousands of Canadian dollars)	Note	2023	2022
ASSETS			
Cash		$ 36,470	$ 76,562
Interest-bearing deposits with financial institutions		955,327	1,437,245
	5	991,797	1,513,807
Debt securities	6	2,380,917	1,702,370
Loans	7.1		
Residential mortgages		13,230,187	12,436,334
Personal loans		1,450,730	1,384,108
Commercial mortgages and loans		7,415,131	7,182,632
Equipment financing	7.2	1,742,768	1,543,438
		23,838,816	22,546,512
Allowance for credit losses		(99,490)	(77,404)
		23,739,326	22,469,108
Derivative financial assets	8	57,554	93,194
Goodwill and intangible assets	9	89,094	96,692
Premises and equipment	10	87,954	89,468
Equity investments	11	57,965	53,538
Deferred tax assets	12	37,120	30,884
Other assets	13	101,960	106,606
Total assets		$ 27,543,687	$ 26,155,667
LIABILITIES			
Deposits	14		
Personal		$ 14,525,342	$ 13,231,231
Commercial and institutional		5,137,161	5,294,989
		19,662,503	18,526,220
Securitization liabilities	15	5,404,035	5,356,987
Funding facilities	16	301,580	301,325
Subordinated debt	17	175,690	175,581
Right-of-use lease liabilities	10	60,694	65,050
Derivative financial liabilities	8	10,009	5,414
Other liabilities	18	207,360	185,205
Total liabilities		25,821,871	24,615,782
MEMBERS' EQUITY			
Share capital	20	765,825	638,249
Contributed surplus		104,761	104,761
Retained earnings		855,904	810,043
Accumulated other comprehensive income (loss)		(4,674)	(13,168)
Total Members' equity		1,721,816	1,539,885
Total liabilities and Members' equity		$ 27,543,687	$ 26,155,667

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT

For the year ended December 31 (thousands of Canadian dollars)	Note		2023		2022
INTEREST INCOME					
Loans		$	1,142,789	$	829,972
Debt securities			71,132		28,502
Cash and deposits			42,271		23,080
			1,256,192		881,554
INTEREST EXPENSE					
Deposits			635,072		301,574
Securitization liabilities			168,495		104,881
Funding facilities and subordinated debt			35,386		22,331
Other			1,988		2,129
			840,941		430,915
NET INTEREST INCOME			415,251		450,639
NON-INTEREST INCOME					
Fee and other income	21		93,326		92,832
Net gain on financial instruments	22		1,330		31,117
TOTAL REVENUE			509,907		574,588
Provision for (recovery of) credit losses			30,876		(2,867)
			479,031		577,455
NON-INTEREST EXPENSES					
Salaries and employee benefits			242,887		214,972
Administration			110,048		104,234
Occupancy			10,024		9,158
Amortization	9.2		4,510		4,733
Depreciation	10		16,860		16,495
Community and social impact			4,485		3,455
			388,814		353,047
Income before income taxes			90,217		224,408
Income taxes	23		8,716		41,830
NET INCOME			81,501		182,578
Investment share dividends			34,084		27,285
NET INCOME ATTRIBUTABLE TO MEMBERSHIP SHARES		$	47,417	$	155,293

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31 (thousands of Canadian dollars)	Note	2023	2022
Net income		$ 81,501	$ 182,578
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to net income			
Actuarial losses in defined benefit pension plans and other post-retirement obligations	19	(1,901)	(6,611)
Asset ceiling adjustment on defined benefit plans	19	1,227	5,905
Unrealized losses on equity investments designated as fair value through other comprehensive income		(14)	(389)
Related income tax recovery (expense)	23	135	202
		(553)	(893)
Items that may be subsequently reclassified to net income			
Cash flow hedges - effective portion of changes in fair value	8	(29,869)	46,355
Cash flow hedges - reclassified to net income	8	8,933	(12,769)
Unrealized gains (losses) on debt securities classified as fair value through other comprehensive income		29,034	(35,411)
Related income tax expense	8, 23	(607)	(587)
		7,491	(2,412)
Other comprehensive income (loss) for the year, net of income taxes		6,938	(3,305)
Total comprehensive income for the year		$ 88,439	$ 179,273

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Note	Investment shares	Member shares	Contributed surplus	Retained earnings	Fair value reserve	Hedging reserve	Pension reserve	Total equity
Balance as at January 1, 2023		$ 637,867	$ 382	$ 104,761	$ 810,043	$ (34,497)	$ 22,343	$ (1,014)	$ 1,539,885
Dividends	20	-	-	-	(34,084)	-	-	-	(34,084)
Net Member share issuance	20	-	7	-	-	-	-	-	7
Shares issued	20	161,213	-	-	-	-	-	-	161,213
Shares redeemed	20	(61,488)	-	-	-	-	-	-	(61,488)
Shares issued as dividends	20	27,844	-	-	-	-	-	-	27,844
Transactions with owners		127,569	7	-	(34,084)	-	-	-	93,492
Net income		-	-	-	81,501	-	-	-	81,501
Other comprehensive income (loss) for the year, net of income taxes:									
Actuarial gains (losses) in defined benefit pension plans and other post-retirement obligations	19	-	-	-	(1,556)	-	-	1,014	(542)
Cash flow hedges - effective portion of changes in fair value	8	-	-	-	-	-	(24,948)	-	(24,948)
Cash flow hedges - reclassified to net income	8	-	-	-	-	-	8,751	-	8,751
Gain on investments designated as fair value through other comprehensive income		-	-	-	-	23,677	-	-	23,677
Total comprehensive income (loss) for the year		-	-	-	79,945	23,677	(16,197)	1,014	88,439
Balance as at December 31, 2023		$ 765,436	$ 389	$ 104,761	$ 855,904	$ (10,820)	$ 6,146	$ -	$ 1,721,816

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Note	Investment shares	Member shares	Contributed surplus	Retained earnings	Fair value reserve	Hedging reserve	Pension reserve	Total equity
Balance as at January 1, 2022		$ 620,075	$ 378	$ 104,761	$ 660,146	$ (5,276)	$ (4,149)	$ (5,834)	$ 1,370,101
Dividends	20	-	-	-	(27,285)	-	-	-	(27,285)
Net Member share issuance		-	4	-	-	-	-	-	4
Shares redeemed	20	(4,433)	-	-	-	-	-	-	(4,433)
Shares issued as dividends	20	22,225	-	-	-	-	-	-	22,225
Transactions with owners		17,792	4	-	(27,285)	-	-	-	(9,489)
Net income		-	-	-	182,578	-	-	-	182,578
Other comprehensive income (loss) for the year, net of income taxes:									
Actuarial gains (losses) in defined benefit pension plans and other post-retirement obligations	19	-	-	-	(5,396)	-	-	4,820	(576)
Cash flow hedges - effective portion of changes in fair value		-	-	-	-	-	35,752	-	35,752
Cash flow hedges - reclassified to net income	8	-	-	-	-	-	(9,260)	-	(9,260)
Loss on investments designated as fair value through other comprehensive income		-	-	-	-	(29,221)	-	-	(29,221)
Total comprehensive income (loss) for the year		-	-	-	177,182	(29,221)	26,492	4,820	179,273
Balance as at December 31, 2022		$ 637,867	$ 382	$ 104,761	$ 810,043	$ (34,497)	$ 22,343	$ (1,014)	$ 1,539,885

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Note	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		$ 1,196,700	$ 870,617
Interest paid		(706,979)	(389,308)
Fee and commission receipts		86,482	77,113
Other income received		17,776	30,354
Premiums paid on index-linked option contracts		(2,073)	(3,262)
Recoveries on loans previously written off	7	657	912
Payments to employees and suppliers		(361,867)	(358,918)
Derivative settlements received		52,883	15,492
Derivative settlements paid		(9,807)	(36,461)
Income taxes paid		(14,841)	(44,175)
Net cash flows from operating activities before adjustments for changes in operating assets and liabilities		258,931	162,364
Adjustments for net changes in operating assets and liabilities:			
Net change in loans		(1,088,719)	(1,498,841)
Purchase of leasing equipment		(901,404)	(938,707)
Principal payments received on equipment financing		701,785	621,777
Net change in other assets and liabilities		(5,846)	(16,371)
Net change in deposits		999,839	1,594,231
Net cash flows used in operating activities		(35,414)	(75,547)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of debt securities and equity investments		(4,415,353)	(1,111,659)
Proceeds from the sale and maturity of debt securities and equity investments		3,809,638	967,039
Dividend income		367	594
Purchase of intangible assets	9.2	(153)	(4,596)
Purchase of premises and equipment	10	(8,813)	(8,184)
Proceeds on sale of premises and equipment	10	31	3
Net cash flows used in investing activities		(614,283)	(156,803)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of securitization liabilities		675,157	1,182,127
Payments on mortgage securitization liabilities		(629,569)	(924,868)
Net change in funding facilities		15	15
Net change in subordinated debt		173	257
Payments related to right-of-use lease liabilities		(7,872)	(7,974)
Dividends paid on investment shares		(9,949)	(7,384)
Issuance of investment shares		125,597	-
Net cash from changes in Membership shares		7	4
Net change in share capital		(25,872)	(4,433)
Net cash flows from financing activities		127,687	237,744
Net decrease in cash and interest-bearing deposits		(522,010)	5,394
Cash and interest-bearing deposits, beginning of year		1,513,807	1,508,413
Cash and interest-bearing deposits, end of year [1]	5	$ 991,797	$ 1,513,807

[1] Cash and interest-bearing deposits include restricted funds in the amount of $17,285 (2022 – $36,823).

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate information

Meridian Credit Union Limited ("Meridian" or the "Credit Union") is a financial institution incorporated in Canada under the Credit Unions and Caisse Populaires Act of Ontario (the "Act"). The head and registered office is located at 75 Corporate Park Drive, St. Catherines, Ontario. It is a member of Central 1 Credit Union ("Central 1") which provides clearing, lending facilities and other services to it. More information on the Credit Union's relationship with Central 1 is provided in Note 11.

Meridian is a member-owned, community-based full-service financial institution with 89 branches and 15 business banking centres across Ontario. Meridian and its predecessors have operated in Ontario since 1942.

Meridian is regulated by the Financial Services Regulatory Authority of Ontario ("FSRA") which also insures member deposits.

Meridian conducts its lease finance business through its wholly owned subsidiary Meridian OneCap Credit Corp. ("OneCap"). Motus Bank ("Motus") is an indirect wholly owned subsidiary of Meridian incorporated under the Bank Act (Canada) and is regulated by the federal Office of the Superintendent of Financial Institutions ("OSFI"). Motus is primarily involved in deposit taking and lending using an online platform.

2 Basis of presentation

2.1 Statement of compliance

The consolidated financial statements of the Credit Union have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and legislation for Ontario's Credit Unions and Caisses Populaires. There were no modifications as required by FSRA regulations to the preparation of the consolidated financial statements.

Unless otherwise indicated, all amounts except for per share figures are expressed in thousands of Canadian dollars.

2.2 Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, net income and related disclosures. Actual results could differ from such estimates. Estimates and judgments are continually evaluated and are made based on historical experience and expectations of future events that are reasonable under the circumstances.

The economic environment has continued to evolve during the year which could affect the Credit Union's future results, liquidity and financial condition. Changing risks include inflation, short and long-term interest rates, real estate pricing, and increasing geopolitical conflicts. The effect of these risks on the Credit Union's business and Members depends on future developments that are uncertain at this time. Due to the nature of this volatility, the estimates and judgments made for the purposes of preparing the consolidated financial statements are inherently uncertain.

The items subject to the most significant application of judgment and estimates are as follows:

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities cannot be derived from active markets, the Credit Union uses valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as discount rates and prepayment rates.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Note 27.4 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments.

Allowance for expected credit losses ("ECL") on financial assets

Allowances for ECL are applied to financial assets measured at amortized cost or non-equity instruments measured at fair value through other comprehensive income ("FVTOCI"). The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of Members defaulting and the resulting losses).

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

Allowance for expected credit losses ("ECL") on financial assets (continued)

Several other significant judgments and estimates are required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for credit impairment;
- Determining the value and timing of receipts from collateral and other credit risk enhancements;
- Determining the criteria for a significant increase in credit risk ("SICR");
- Establishing appropriate levels of aggregation for products and business lines for the purposes of expected credit loss modelling;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number, design and relative weightings of forward-looking scenarios to be incorporated into the measurement of ECL.

The approach used for measuring allowances for ECL and the use of significant estimates and judgments is disclosed in more detail in note 27.1.

Impairment of non-financial assets

The Credit Union performs an assessment of its intangible assets and goodwill at each consolidated balance sheet date to determine whether an impairment loss should be recorded in the consolidated income statement. Broker and vendor relationships comprise most of the Credit Union's intangible assets.

The carrying value of broker and vendor relationships is significantly impacted by estimates about the future earnings expected from new lease originations relating to the relationship with pre-acquisition vendors and brokers. Management assesses the recoverability of the carrying value at least annually.

Management assesses the carrying amount of goodwill for impairment at least annually. The estimation of the recoverable amount for the cash-generating unit ("CGU") requires the use of significant judgment; and the models are sensitive to changes in future cash flows, discount rates, and terminal growth rates. The environment is rapidly evolving and as a result, management's economic outlook has a higher than usual degree of uncertainty, which may, in future periods, materially change the expected future cash flows of the CGU and result in an impairment charge. Actual experience may differ materially from current expectations, including the duration and severity of a potential economic contraction and the ultimate timing and extent of a future recovery.

Further details on impairment testing of goodwill and intangible assets are found in note 3.10 and note 9.1.

Recognition and derecognition of securitization arrangements

As part of its liquidity, capital and interest rate risk management programs, the Credit Union funds growth by entering into mortgage securitization arrangements. As a result of these transactions and depending on the nature of the arrangement, the Credit Union may be subject to the recognition of the funds received as securitized liabilities and the continued recognition of the securitized assets. Other securitization arrangements may meet the criteria for derecognition. Judgment is required in determining the requirements for continued recognition or derecognition of financial assets under such arrangements. Where securitization arrangements result in the derecognition of financial assets, estimation is required in determining the fair value of new assets recognized relating to residual interests and the fair value of associated liabilities.

Further details of securitization arrangements are disclosed in note 15.1.

Deferred taxes

Deferred tax assets are recognized relating to unused tax losses or deductible temporary differences to the extent it is probable that taxable income will be available against which to use them. Judgment is required in determining the amount of deferred tax assets that can be recognized or written off, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Further details on deferred income taxes are included in note 3.13 and note 12.

2 Basis of presentation (continued)

2.2 Use of estimates and judgments (continued)

Valuation of right-of-use assets and lease liabilities

The valuation of right-of-use assets and lease liabilities require assumptions about the lease term and the interest rate used for discounting future cash flows. Given that contractual terms of lease contracts often contain renewal options, judgment is required to determine the likelihood that these options will be exercised. Where implicit interest rates are not determinable from a lease contract, judgment is used to determine an appropriate discount rate that is reflective of the rate that would be incurred if the Credit Union were to purchase the assets outright.

Further details on leased assets and liabilities are included in note 3.11 and note 10.

Recognition of interests in subsidiaries, associates and joint arrangements.

The Credit Union has ownership interests in entities that give rise to control, joint control, or significant influence. These can be classified as investments in associates, subsidiaries or joint ventures. The definitions of control, joint control and significant influence as pronounced in IFRS 3, IFRS 11 and IAS 28 guide the Credit Union in making these determinations. Management balances qualitative and quantitative factors to determine the presence of control, joint control or significant influence at each reporting date to determine the appropriate classification for these interests.

2.3 Regulatory compliance

Regulations to the Act specify that certain items are required to be disclosed in the consolidated financial statements that are presented at annual meetings of Members. This information has been integrated into these consolidated financial statements and notes. When necessary, reasonable estimates and interpretations have been made in presenting this information.

Note 26 contains additional information disclosed to support regulatory compliance.

3 Summary of material accounting policies

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities, including derivative financial instruments, at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Except for the changes explained in note 4, the Credit Union has consistently applied the following accounting policies to all periods presented in the consolidated financial statements.

3.1 Basis of consolidation

The financial results of wholly-owned subsidiaries of the Credit Union are included within these consolidated financial statements. All intercompany balances and transactions have been eliminated on consolidation.

Investments in which the Credit Union exerts joint control or significant influence but not control over operating and financing decisions are accounted for using the equity method. Under equity accounting, investments are initially recorded at cost and adjusted for the Credit Union’s proportionate share of the net income or loss which is recorded in the consolidated income statement.

3.2 Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Credit Union’s functional and presentation currency.

Monetary assets and liabilities denominated in foreign currencies, primarily United States (“U.S.”) dollars, are translated into Canadian dollars at prevailing exchange rates on the consolidated balance sheet date. Income and expenses are translated at the exchange rates in effect on the date of the transaction. Exchange gains and losses arising on the translation of monetary items are included in non-interest income for the year.

3 Summary of material accounting policies (continued)

3.3 Financial instruments

Classification and measurement of financial assets

Financial assets are initially recognized at fair value, and are classified and subsequently measured at (i) amortized cost, (ii) fair value through profit or loss ("FVTPL"), or (iii) FVTOCI. The classification and measurement of financial assets is based on the type of financial asset, the business model to which it belongs, and its contractual cash flow characteristics.

Financial assets and financial liabilities, including derivative financial instruments, are recognized on the consolidated balance sheet of the Credit Union at the time the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union recognizes financial instruments at the trade date.

(a) Debt securities

Financial assets that are debt securities include loans, bonds, and securities purchased under reverse repurchase agreements. Classification and subsequent measurement of debt securities depends on: (i) the Credit Union's business model for managing the financial asset and (ii) its contractual cash flow characteristics. Equipment financing is outside the scope of IFRS 9 classification and measurement requirements and are not subject to the policies outlined below.

Business model evaluation:

The business model reflects how the Credit Union manages a portfolio of assets to generate returns. That is, whether the Credit Union's objective for the portfolio of financial assets is to generate returns through the collection of contractual cash flows, through both the collection of contractual cash flows and selling, or through active trading. Factors considered by the Credit Union in determining the business model of a portfolio of financial assets include: past experience on the collection of contractual cash flows and selling within the portfolio, how the portfolio's performance is evaluated and reported to management, and how the portfolio's risks are assessed and managed. For example, the Credit Union's business model for residential mortgages is to collect the associated contractual cash flows.

Cash flow characteristics evaluation:

Once the business model of a portfolio of financial assets is assessed, individual financial assets therein are evaluated for their cash flow characteristics and whether these represent solely payments of principal and interest ("SPPI"). In making this assessment, the Credit Union considers whether contractual cash flows are consistent with a basic lending arrangement (e.g. interest including only consideration for the time value of money, other basic lending risks, and a profit margin that is consistent with a basic lending arrangement).

Amortized cost:

Where a debt instrument is managed in a business model where returns are generated through the collection of contractual cash flows which represent SPPI, it is measured at amortized cost. Debt securities measured at amortized cost are recorded at fair value at initial recognition plus or minus directly attributable transaction costs and provisions for ECL. Interest income is recognized using the effective interest rate method and is recorded in total interest income. Impairment losses are recognized in profit or loss at each balance sheet date in accordance with the three-stage impairment model outlined in note 3.7. Upon derecognition of financial assets measured at amortized cost, any difference between disposal proceeds and the carrying value is recognized immediately in profit or loss. The Credit Union has classified its cash and interest-bearing deposits with financial institutions, receivables, loans and certain investments in debt securities as amortized cost.

FVTPL:

Where a debt instrument is managed in a business model that is held for trading or its cash flows do not represent SPPI, it is measured at FVTPL. Debt securities measured at FVTPL are recorded at fair value at initial recognition with all subsequent re-measurements being recognized in profit or loss. At the reporting date, the Credit Union had not classified any debt securities as FVTPL.

FVTOCI:

Where a debt instrument is managed in a business model where returns are generated both through the collection of contractual cash flows and through selling, and its contractual cash flows represent SPPI, it is classified as FVTOCI. Debt securities measured at FVTOCI are recorded at fair value plus directly attributable transaction costs at initial recognition. Subsequent re-measurements in fair value are recorded in other comprehensive income, except for interest recognized using the effective interest rate method or the re-measurement of ECL, both of which are recognized in profit or loss. Impairment losses are recognized in profit or loss in accordance with the three-stage impairment model outlined in note 3.7. Upon derecognition of debt securities measured at FVTOCI, cumulative fair value movements recognized in OCI are recycled to profit or loss. The Credit Union holds a portfolio of debt securities which are measured at FVTOCI.

3 Summary of material accounting policies (continued)

3.3 Financial instruments (continued)

(b) Equity investments

Equity investments are instruments that do not contain a contractual obligation to pay, evidence a residual interest in the issuer's net assets, and are considered equity from the perspective of the issuer. Examples of equity investments include common shares.

Equity investments are classified as FVTPL unless they are not held for trading purposes and an irrevocable election is made at inception to designate the asset as FVTOCI. Equity investments measured at FVTOCI are recorded at fair value at initial recognition. Subsequent re-measurements of fair value are recorded in OCI. Dividends are recorded directly in profit or loss. Upon derecognition of equity investments measured at FVTOCI, cumulative fair value movements are not recycled and remain permanently in equity. The Credit Union holds investments in preferred shares which it has elected to designate as FVTOCI. Other investments in equity instruments held by the Credit Union are private equity investments and units of limited partnerships which are classified as FVTPL.

Classification and measurement of financial assets and financial liabilities

Derivative financial instruments:

Derivative financial instruments are contracts, such as options, swaps, and forward contracts, where the value of the contract is derived from the price of an underlying variable. The most common underlying variables include stocks, bonds, commodities, currencies, interest rates and other market rates. The Credit Union periodically enters derivative contracts to manage financial risks associated with movements in interest rates and other financial indices as well as to meet the requirements to participate in the Canada Mortgage Bond Program ("CMB Program") for securitization purposes as discussed in note 15.1. The Credit Union's policy is not to use derivative financial instruments for trading or speculative purposes.

Assets or liabilities in this category are measured at fair value. Gains or losses are recognized in profit or loss in net gain (loss) on financial instruments, unless the derivative is designated as a hedging instrument. For designated hedging instruments, the recognition of the gain or loss will depend on the hedge accounting rules described below. Gains or losses on derivative financial instruments are based on changes in fair value determined by reference to active market transactions or using a valuation technique where no active market exists.

Embedded derivatives:

Certain derivatives embedded in other financial liabilities, such as the embedded option in an index-linked term deposit product, are treated as separate derivative financial instruments when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not measured at FVTPL. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

Hedge accounting:

The Credit Union documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Credit Union also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk.

In a cash flow hedge, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss in net gain (loss) on financial instruments. Amounts accumulated in OCI are reclassified to profit or loss in the periods when the hedged item affects profit or loss and are recorded within net interest income. The Credit Union uses cash flow hedges primarily to convert floating rate assets and liabilities to fixed rate.

When a hedging instrument in a cash flow hedging relationship expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in AOCI at that time remains in AOCI and is recognized in the statement of comprehensive income as the hedged item affects earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement within net gain (loss) on financial instruments. If a forecast transaction is no longer highly probable of occurring, but is still likely to occur, hedge accounting will be discontinued and the cumulative gain or loss existing in AOCI at that time remains in AOCI and is amortized to net interest income in the statement of comprehensive income at the same time the hedged item affects earnings.

3 Summary of material accounting policies (continued)

3.3 Financial instruments (continued)

In a fair value hedge, the full change in the fair value of derivatives is recognized in profit or loss. Where derivatives are designated and qualify as fair value hedges, the carrying value of the hedged item is adjusted to reflect its change in fair value since the inception of the hedge relationship. The full amount of the fair value adjustment is also taken to profit or loss to offset fair value changes on the derivative. Any difference between the change in fair value of the derivatives and fair value adjustments on the hedged items are recognized within net gain (loss) on financial instruments.

When a hedging instrument in a fair value hedging relationship expires or is sold, it no longer meets the criteria for hedge accounting, or the hedging relationship is voluntarily discontinued, any cumulative fair value adjustment is recognized in profit or loss over the remaining life of the hedged item by adjusting its effective interest rate. Where the hedged item is derecognized prior to the end of the hedging relationship, any cumulative fair value adjustment recognized is immediately recognized in profit or loss.

At the reporting date, the Credit Union had not elected to adopt the hedge accounting aspects of IFRS 9 and continues to apply hedge accounting per IAS 39. Although IFRS 9 hedge accounting has not been adopted, the Credit Union has implemented the IFRS 7 hedge accounting disclosure requirements that became effective concurrently with IFRS 9.

Classification and measurement of financial liabilities

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost, except for derivative financial liabilities which are subsequently measured at FVTPL. Financial liabilities measured at amortized cost include: deposits, funding facilities, other liabilities, securitization liabilities, and subordinated liabilities.

Obligations related to securities sold under repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated balance sheet. The cash received from the security is recognized in the consolidated balance sheet with a corresponding obligation to return it, including accrued interest. This is recognized as a liability within obligations related to securities sold under repurchase agreements, reflecting the transaction’s economic substance as a loan to the Credit Union. The difference between the sale and repurchase price is treated as interest and recognized over the life of the agreement using the effective interest method. These agreements are classified as financial liabilities at amortized cost.

Derecognition of financial instruments

Financial assets are derecognized when contractual rights to the cash flows from the asset have expired, or when substantially all the risks and rewards of ownership are transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of ownership, it assesses whether it has retained control over the transferred asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized, a gain or loss is recognized in net income for an amount equal to the difference between the carrying value of the asset and the value of the consideration received, including any new assets and / or liabilities recognized.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Reclassifications

The Credit Union reclassifies debt securities only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

3 Summary of material accounting policies (continued)

3.3 Financial instruments (continued)

Modification of financial assets measured at amortized cost

The Credit Union sometimes renegotiates or otherwise modifies the contractual cash flows of loans. When this occurs, the Credit Union assesses whether the new terms are substantially different from the original terms by considering the following factors:

- If the borrower is in financial difficulty or whether the modifications merely reduce the contractual cash flows to an amount the borrower is expected to pay
- Whether any substantial new terms are introduced, such as profit sharing or equity-based returns, that substantially affect the risk profile of the loan
- Significant extension of the loan term when the borrower is not in financial difficulty
- Significant change in interest rate
- Addition of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan

If the terms are substantially different, the Credit Union derecognizes the original financial asset, recognizes a new financial asset with a new effective interest rate. The date of renegotiation is consequently considered to be the date of initial recognition for impairment purposes. The Credit Union also assesses whether the new financial asset recognized is credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor's financial difficulties. Differences in the carrying amount are recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition. The Credit Union recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

3.4 Interest income and expense

Interest-bearing financial instruments

Interest income and expense for all interest-bearing financial instruments, except those classified as FVTPL and equipment financing, are recognized within interest income or interest expense in the consolidated income statement as they accrue using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to its fair value at inception. The effective interest rate is established at the initial recognition of the financial asset or liability and incorporates any fees or transaction costs that are integral to establishing the contract.

Equipment financing

Meridian provides financing to customers through loans and direct financing leases.

Retail loans and dealer financing loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan.

Direct financing leases, which are contracts under terms that provide for the transfer of substantially all the benefits and risks of the equipment ownership to customers, are measured at amortized cost. These leases are recorded at the aggregate minimum payments plus residual values accruing to the Credit Union less unearned finance income. Revenue is recognized in interest income.

At lease inception, the aggregate future minimum lease payments and contractual residual value of the leased asset less unearned income are recorded as equipment financing. Revenue is recognized over the lease term to approximate an equal rate of return on the outstanding net investment. Contractual residual values of finance leases represent an estimate of the values of the equipment at the end of the lease contracts. During the term of each lease, management evaluates the adequacy of its estimate of the residual value and makes allowances to the extent the fair value at lease maturity is estimated to be less than the contractual lease residual value.

Initial direct costs that relate to the origination of the equipment financing are capitalized and amortized as part of effective interest. These costs are incremental to individual leases or loans and comprise certain specific activities related to processing requests for financing, such as underwriting costs and commissions.

3 Summary of material accounting policies (continued)

3.5 Dividend income

Dividends are recognized on the ex-dividend date, which is the day on which new purchasers of the shares are no longer entitled to the next dividend. Dividends are presented in fees and other income.

3.6 Fee and commission income

Fee and commission income not directly attributable to the acquisition of financial instruments is recognized as the related performance obligation is satisfied, either over time or at a point in time.

Revenue is recognized by determining the transaction price of distinct goods or services and allocating the price to the satisfaction of each performance obligation (i.e. the delivery of each distinct good or service). The result is to recognize revenue in a manner that depicts the amount of consideration due to the transfer of each good or service.

Fees and commissions that are directly attributable to acquiring financial assets or issuing financial liabilities not measured at FVTPL are added to or deducted from the initial carrying value of the related financial instruments. Such fees and commissions are then included in the calculation of the effective interest rate and amortized through profit or loss over the term of the financial asset or financial liability. For financial instruments measured at FVTPL, transaction costs are immediately recognized in profit or loss on initial recognition.

3.7 Impairment of financial assets

At initial recognition, the Credit Union recognizes allowances for ECL on all debt securities measured at amortized cost or FVTOCI. ECL are also recognized for equipment financing, contract assets, loan commitments and financial guarantees. In the section below, the use of the term “financial asset” should be assumed to apply to all assets and exposures within the scope of the IFRS 9 impairment framework.

At each reporting date, the Credit Union measures the loss allowance for a financial asset at an amount equal to its lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition and it was not originated as credit impaired, the Credit Union measures the loss allowance for the financial asset at an amount equal to its 12-month ECL.

The Credit Union’s measurement of ECL incorporates an assessment of the following parameters:

- Probability of default (“PD”)
- Exposure at default (“EAD”)
- Loss given default (“LGD”)

The Credit Union’s measurement of ECL also reflects:

- An unbiased and probability-weighted amount determined by evaluating a range of outcomes
- The time value of money
- Information about past events, current conditions and forward-looking information

Note 27.1 includes more detailed descriptions of the Credit Union’s methodologies for determining PD, EAD and LGD. The note also includes descriptions of how the Credit Union determines a SICR, the definition of default, the approach for incorporating forward-looking information, and other information pertaining to the measurement of ECL.

A three-stage framework is used for the establishment of ECL based on changes in a financial asset’s credit quality since initial recognition. The measurement of ECL and recognition of interest revenue is dependent on the stage to which the financial asset belongs.

Stage 1 includes all financial assets that, at the reporting date, have not had a SICR since initial recognition and were not originated as credit impaired. Loss allowances at an amount equal to 12-month ECL are recognized on all financial assets in stage 1 with interest income recognized using the effective interest rate on the financial asset’s gross carrying amount.

Stage 2 includes all financial assets that, at the reporting date, have had a SICR since initial recognition, but are not credit impaired. Loss allowances at an amount equal to lifetime ECL are recognized on all financial assets in stage 2 with interest income recognized using the effective interest rate on the financial asset’s gross carrying amount.

Stage 3 includes all financial assets for which a default event has occurred (i.e. the asset has become credit impaired). Loss allowances at an amount equal to lifetime ECL are recognized on all financial assets in stage 3 with interest income recognized using the effective interest rate on the financial asset’s amortized cost carrying amount (i.e. net of the loss allowance). In determining whether a default event has occurred, the Credit Union considers evidence such as delinquency, bankruptcy, breach of covenants, or other evidence as determined by management.

3 Summary of material accounting policies (continued)

3.7 Impairment of financial assets (continued)

Stage 3 loss allowances on financial assets are assessed on an individual basis. They are measured at the amount required to reduce the carrying value of the impaired asset to its estimated realizable amount. This is generally the fair value of the underlying security of the asset, net of expected costs of realization. Expected costs of realization are determined by discounting the security at the financial asset's original effective interest rate.

Write offs

The Credit Union directly reduces the gross carrying amount of a financial asset along with the associated impairment allowance when it has no reasonable expectations of recovering the financial asset either partly or in full.

3.8 Goodwill and intangible assets

Goodwill

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGU") to which it relates.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Goodwill is subject to impairment review as described in note 3.10.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately include computer software, other than software which is an integral part of property classified as property and equipment which is included in computer hardware and software, as well as design plans which will be used in the future construction or renovation of branch locations or business banking centres. Intangible assets acquired separately are recorded at cost. Cost includes expenditures that are directly attributable to bringing the asset to its state of intended use.

Intangible assets acquired through business combinations

Intangible assets acquired through business combinations have limited lives and include broker and vendor relationships.

Broker and vendor relationships represent the fair value of future earnings expected to be generated from new lease originations with equipment vendors and brokers at the time of acquisition. This intangible is amortized as earnings are realized based on forecasted originations, anticipated annual retention rates and earnings projections over a twenty-three-year period.

Other intangible assets are amortized to income on a straight-line basis over the period during which the assets are anticipated to provide economic benefit, which currently ranges from three to ten years.

Intangible assets are subject to impairment review as described in note 3.10.

The Credit Union does not have any intangible assets with indefinite lives.

3 Summary of material accounting policies (continued)

3.9 Property and equipment

Recognition and measurement

Land is carried at cost less impairment losses. Buildings and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the computer hardware.

Depreciation

Land is not depreciated. Depreciation of other assets commences when the asset is available for use and is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	5-40 years
Furniture and office equipment	5-10 years
Computer hardware and software	3-5 years
Leasehold improvements	lease term to a maximum of 10 years

Where components of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Residual value estimates and estimates of useful life are reviewed, and adjusted if appropriate, at each consolidated balance sheet date.

Assets are subject to impairment review as described under note 3.10.

3.10 Impairment of non-financial assets

Non-financial assets that are subject to amortization or depreciation, and goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

To assess impairment, Credit Union assets are grouped at branch level, which is considered to be the lowest level or CGU for which they are separately identifiable. Meridian's wholly-owned subsidiary OneCap is considered to be the CGU for non-financial assets relating to that business. The recoverable amount of a CGU is determined based on the higher of value in use or fair value less costs to sell.

For broker and vendor relationship intangibles, current assumptions about future lease originations, retention rates and earnings projections of OneCap are used to assess whether future cash flows on leases generated through acquired brokers and vendors are in excess of the carrying value of the intangible asset.

For other non-financial assets, the recoverable amount is the higher of an asset's fair value less costs to sell and the value in use of the CGU to which the asset relates.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill is evaluated for impairment against the carrying amount of the CGU at least annually. The carrying amount of the CGU includes the carrying amounts of assets, liabilities and allocated goodwill. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any allocated goodwill and then to the other non-financial assets of the CGU proportionally based on the carrying amount of each asset. Any impairment loss is charged to profit or loss in the period when the impairment is identified.

Key assumptions used in the estimation of the recoverable amount include discount rates and growth rates used to extrapolate cash flow projections. The values assigned to the key assumptions represent management's assessment of future trends in the industry and have been based on historical data from both external and internal sources. The cash flow projections include specific estimates for five years and a terminal growth rate thereafter. Given that key assumptions are based on estimates, uncertainty exists with respect to the valuation of the recoverable amount. Details of the goodwill impairment analysis are included in note 9.1.

As at the balance sheet date, OneCap assesses for impairment triggers that have taken place since the last impairment test that may indicate further impairment has occurred.

3 Summary of material accounting policies (continued)

3.11 Leases

At inception, the Credit Union assesses whether a contract is or contains a lease. A lease arrangement conveys to the user the right to control the use of an identified asset for a period of time in exchange for consideration.

Meridian as Lessee:

The Credit Union recognizes a right-of-use ("ROU") asset and lease liability at the commencement of the lease.

The ROU asset is initially measured at cost, which comprises:

- the initial measurement of the lease liability as described below;
- any lease payments made at or before commencement date, less any lease incentives received that are not considered compensation for leasehold improvements;
- any initial direct costs incurred; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset to the condition required by the terms and conditions of the lease if there is an obligation for those costs.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and is subject to impairment testing if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if the rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally, the Credit Union uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability include the following:

- all contractual payments such as fixed payments, less any lease incentives receivable that are not considered compensation for leasehold improvements;
- variable lease payments that depend on an index or rate;
- residual value guarantees; and
- exercise price of purchase if it is reasonably certain that the option will be exercised

When the lease contains a renewal option that the Credit Union considers reasonably certain to be exercised, the cost of one renewal option period is included in the lease payments.

The lease liability is subsequently measured at amortized cost using the effective interest method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Credit Union's assessment of whether it will exercise a renewal option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

For leases with terms not exceeding twelve months and for leases of low-value assets, the Credit Union has elected not to recognize ROU assets and liabilities. The lease payments under these contracts are recognized on a straight-line basis over the lease term within non-interest expenses.

Meridian as Lessor:

When the Credit Union acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards of owning the underlying asset.

When the Credit Union is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. The classification of a sub-lease should follow from the classification of the head lease. If the head lease has been classified as an operating lease, the sub-lease will also be classified as an operating lease. Otherwise, the sub-lease will be classified by reference to the right-of-use asset arising from the head lease.

Lease classification is only reassessed if there is a lease modification. Changes in estimates or circumstances do not give rise to a new classification.

Lease payments from operating leases are recognized as income on either a straight-line basis or another systematic basis if it is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

3 Summary of material accounting policies (continued)

3.12 Provisions

Provisions are recognized when the Credit Union has a present legal or constructive obligation from past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Credit Union expects a provision to be reimbursed, the reimbursement is recognized as an asset only when the reimbursement is virtually certain. At each consolidated balance sheet date, the Credit Union assesses the adequacy of its pre-existing provisions and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Provisions are measured at the present value of the estimated expenditure required to settle the present obligation and are recorded within operating expenses on the consolidated income statement.

3.13 Income taxes

Income tax expense on the consolidated income statement comprises current and deferred income taxes. Income taxes are recognized in profit or loss, except to the extent they relate to items recognized directly in OCI, in which case they are recognized in OCI.

Current income taxes are the expected taxes refundable or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the consolidated balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are recognized using the liability method, providing for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying value of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be used.

Dividends paid by the Credit Union are treated as a reduction to retained earnings but are deductible for tax purposes. As such, these are reflected as a reduction to current tax expense.

3.14 Share capital

(a) Membership and investment shares

Where shares are redeemable at the discretion of the Credit Union's Board of Directors or where they represent a claim on the residual interest of the Credit Union's net assets, they are classified as equity.

(b) Distributions to Members

Dividends on shares classified as equity are charged to retained earnings. Members may elect to receive dividends declared on Class A shares by way of cash or newly issued fully paid equity shares of the same class. Dividends payable in cash are recorded in the period in which they are declared by the Credit Union’s Board of Directors. Dividends payable by way of newly issued shares are recorded in the period in which the shares are issued.

(c) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of income taxes, from the proceeds.

4 Changes in accounting policies

Issued standards now effective

Updates to Interbank Offered Rate (IBOR) Reform:

In August 2020, the IASB issued Phase 2 of IBOR Reform, with amendments to IFRS 9, IAS 39 and IFRS 7. The Phase 2 Amendments address issues that arise upon replacing an existing interest rate benchmark with the alternative benchmark and introduces additional disclosure requirements. The Phase 2 amendments provide two key reliefs and became effective for the Credit Union on January 1, 2021:

- If qualifying criteria are met, hedging relationships that are directly impacted by the reform would be able to continue hedge accounting upon transition to the alternative benchmark.

- For modifications to financial instruments resulting from the reform which are transacted on an economically equivalent basis, entities are allowed to reflect the benchmark change prospectively in the effective interest rate rather than as an immediate gain or loss.

The Credit Union's exposure to IBOR Reform is limited to the Canadian Dollar Offered Rate ("CDOR"). Regulators have recommended that markets start to adopt alternative risk-free rates. On May 16, 2022, the Refinitiv Benchmark Services (UK) Limited announced that all tenors of CDOR would no longer be published after June 28, 2024. The Canadian Alternative Reference Rate working group recommended a two-stage transition approach. By the end of the first stage on June 30, 2023, they expect all new derivative contracts and securities to have transitioned to the Canadian Overnight Repo Rate Average ("CORRA"), with the exception of derivatives that hedge or reduce CDOR exposures of derivatives or securities transacted before June 30, 2023, or for loans entered into before June 28, 2024. All remaining CDOR exposures should be transitioned to CORRA by June 28, 2024, marking the end of the second stage.

The Credit Union is both a holder and issuer of IBOR related instruments, which means there is exposure to financial and regulatory risks. These risks are mitigated by continually working towards meeting industry and regulatory recommended milestones, ensuring all legacy contracts have fallback clauses for new alternative reference rates, and updating hedge designations to CORRA. The management of this is supported by an organization wide team of stakeholders from the Treasury and Finance departments to meet the transition timeline.

The following table presents the Credit Union's exposures to financial instruments that have yet to transition to an alternative benchmark rate as at December 31, 2023 and are due to mature after June 28, 2024 for CDOR settings.

CDOR	2023	2022
Non-derivative liabilities (1)	1,071,428	1,022,175
Derivative notional amounts (2)	1,741,004	2,037,836

(1) All amounts are presented based on carrying value.
(2) The notional amount represents the base to which an agreed upon rate is applied in order to calculate the amount of cash to be exchanged between parties. These do not represent assets or liabilities.

5 Cash and interest-bearing deposits

	2023	2022
Cash on hand	19,185	39,739
Restricted funds	17,285	36,823
Total cash	36,470	76,562
Interest-bearing deposits with financial institutions	955,327	1,437,245
Total cash and interest-bearing deposits	991,797	1,513,807

Restricted funds represent cash reserve accounts which are held in trust as security for equipment financing securitization liabilities.

Included in interest-bearing deposits with financial institutions is $50,671 (2022 - $116,385) held as an unscheduled prepayment cash reserve, a requirement of the Credit Union's participation in the National Housing Act Mortgage-Backed Securities ("NHA MBS") program.

6 Debt securities

	2023	2022
Amortized cost:		
Government issued or guaranteed securities	4,842	4,992
Non-government securities	21,043	-
Term deposits with other financial institutions	102,150	190,150
Reverse repurchase agreements	492,527	-
Other	1,000	1,000
Accrued interest	4,061	2,759
Fair value through other comprehensive income:		
Government issued or guaranteed securities	1,590,499	1,239,162
Non-government securities	164,795	264,307
Total debt securities	2,380,917	1,702,370

7 Loans

	2023	2022
Residential mortgages	13,230,187	12,436,334
Personal loans	1,450,730	1,384,108
Commercial mortgages and loans	7,415,131	7,182,632
Equipment financing	1,742,768	1,543,438
	23,838,816	22,546,512
Allowance for credit losses	(99,490)	(77,404)
Total net loans	23,739,326	22,469,108

7.1 Loans

Residential mortgage loans are repayable in monthly instalments of blended principal and interest over a maximum term of ten years, based on a maximum original amortization period of 35 years. Open mortgages may be paid off at any time without notice or penalty and closed mortgages may be paid off at the discretion of the borrowers but are subject to penalty. Commercial loans and personal loans are generally repayable in monthly instalments of blended principal and interest over a maximum amortization period of 30 years, except for line of credit and dealer floorplan loans, which are repayable on a revolving credit basis and require minimum monthly payments. Outstanding balances on credit card loans, included in personal and commercial loans, may be repaid with any amount equal to or exceeding the minimum required payment. The minimum required payment is based on a percentage of the outstanding balance.

7.1 Loans (continued)

Movements in Loss Allowance

Allowances for credit losses are impacted by a variety of factors. The following tables describe the movement in allowances for credit losses by loan category:

Residential Mortgages	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2023	6	567	-	573
Transfers:				
Transfer from Stage 1 to Stage 2	(1)	3	-	2
Transfer from Stage 1 to Stage 3	-	-	33	33
Transfer from Stage 2 to Stage 1	1	(4)	-	(3)
New originations	1	3	-	4
Derecognized loans	-	(2)	-	(2)
Changes within each stage	(1)	(3)	-	(4)
Changes to macro-economic and other qualitative adjustments	(1)	348	-	347
Write-offs	-	-	-	-
Balance as at December 31, 2023	5	912	33	950
Movement in loss allowance	(1)	345	33	377
Recoveries	-	-	(10)	(10)
P&L charge for the period	(1)	345	23	367

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2023	1,214	9,320	829	11,363
Transfers:				
Transfer from Stage 1 to Stage 2	(155)	1,784	-	1,629
Transfer from Stage 1 to Stage 3	(12)	-	575	563
Transfer from Stage 2 to Stage 1	118	(1,402)	-	(1,284)
Transfer from Stage 2 to Stage 3	-	(480)	2,237	1,757
Transfer from Stage 3 to Stage 2	-	26	(62)	(36)
Transfer from Stage 3 to Stage 1	-	-	(15)	(15)
New originations	126	1,760	167	2,053
Derecognized loans	(74)	(724)	(102)	(900)
Changes within each stage	(5)	296	2	293
Changes to macro-economic and other qualitative adjustments	(141)	(1,899)	-	(2,040)
Write-offs	-	-	(2,704)	(2,704)
Balance as at December 31, 2023	1,071	8,681	927	10,679
Movement in loss allowance	(143)	(639)	98	(684)
Recoveries	-	-	(647)	(647)
Write-offs	-	-	2,704	2,704
P&L charge for the period	(143)	(639)	2,155	1,373

7.1 Loans (continued)

Commercial Mortgages and Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2023	7,203	32,385	11,727	51,315
Transfers:				
Transfer from Stage 1 to Stage 2	(188)	871	-	683
Transfer from Stage 1 to Stage 3	(83)	-	6,772	6,689
Transfer from Stage 2 to Stage 1	4,974	(6,894)	-	(1,920)
Transfer from Stage 2 to Stage 3	-	(793)	9,608	8,815
Transfer from Stage 3 to Stage 1	-	-	(10)	(10)
New originations	4,070	4,085	11	8,166
Derecognized loans	(868)	(6,434)	(3,453)	(10,755)
Changes within each stage	693	1,024	(2,164)	(447)
Changes to macro-economic and other qualitative adjustments	3,730	(6,093)	-	(2,363)
Write-offs	-	-	(680)	(680)
Balance as at December 31, 2023	19,531	18,151	21,811	59,493
Movement in loss allowance	12,328	(14,234)	10,084	8,178
Recoveries	-	-	(41)	(41)
Write-offs	-	-	680	680
P&L charge for the period	12,328	(14,234)	10,723	8,817

Residential Mortgages	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2022	64	206	1,014	1,284
Transfers:				
Transfer from Stage 1 to Stage 2	(5)	5	-	-
Transfer from Stage 2 to Stage 1	1	(53)	-	(52)
Transfer from Stage 2 to Stage 3	-	(1)	4	3
New originations	1	2	-	3
Derecognized loans	(8)	(41)	-	(49)
Changes within each stage	(28)	(58)	1,742	1,656
Changes to macro-economic and other qualitative adjustments	(19)	507	-	488
Write-offs	-	-	(2,760)	(2,760)
Balance as at December 31, 2022	6	567	-	573
Movement in loss allowance	(58)	361	(1,014)	(711)
Recoveries	-	-	(367)	(367)
Write-offs	-	-	2,760	2,760
P&L charge for the period	(58)	361	1,379	1,682

7.1 Loans (continued)

Personal Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2022	1,706	8,917	1,113	11,736
Transfers:				
Transfer from Stage 1 to Stage 2	(217)	2,350	-	2,133
Transfer from Stage 1 to Stage 3	(11)	-	690	679
Transfer from Stage 2 to Stage 1	182	(2,050)	-	(1,868)
Transfer from Stage 2 to Stage 3	-	(294)	1,901	1,607
Transfer from Stage 3 to Stage 2	-	14	(45)	(31)
Transfer from Stage 3 to Stage 1	-	-	(17)	(17)
New originations	248	1,511	187	1,946
Derecognized loans	(128)	(1,023)	(649)	(1,800)
Changes within each stage	(130)	302	(72)	100
Changes to macro-economic and other qualitative adjustments	(436)	(407)	-	(843)
Write-offs	-	-	(2,279)	(2,279)
Balance as at December 31, 2022	1,214	9,320	829	11,363
Movement in loss allowance	(492)	403	(284)	(373)
Recoveries	-	-	(621)	(621)
Write-offs	-	-	2,279	2,279
P&L charge for the period	(492)	403	1,374	1,285

Commercial Mortgages and Loans	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2022	10,730	33,180	12,410	56,320
Transfers:				
Transfer from Stage 1 to Stage 2	(3,411)	8,438	-	5,027
Transfer from Stage 1 to Stage 3	(11)	-	471	460
Transfer from Stage 2 to Stage 1	1,444	(15,626)	-	(14,182)
Transfer from Stage 2 to Stage 3	-	(21)	23	2
Transfer from Stage 3 to Stage 2	-	-	(685)	(685)
Transfer from Stage 3 to Stage 1	-	-	(3)	(3)
New originations	1,108	7,974	12	9,094
Derecognized loans	(2,532)	(3,235)	(1,867)	(7,634)
Changes within each stage	(1,361)	(8,354)	1,897	(7,818)
Changes to macro-economic and other qualitative adjustments	1,236	10,029	-	11,265
Write-offs	-	-	(531)	(531)
Balance as at December 31, 2022	7,203	32,385	11,727	51,315
Movement in loss allowance	(3,527)	(795)	(683)	(5,005)
Recoveries	-	-	(16)	(16)
Write-offs	-	-	531	531
P&L charge for the period	(3,527)	(795)	(168)	(4,490)

Although all loans are originated in stage 1 (except those originated as credit impaired), to the extent that loans were originated in the year and were subsequently moved to another stage, they will show on the new originations line in the stage in which they ended the year. To the extent that certain adjustments to ECL as described in note 27.1 were calculated at product level, they have been presented in the main body of the tables above and not on the other qualitative adjustments line.

7.1 Loans (continued)

	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Gross impaired loans	26,370	2,006	181,273	209,649
Related security, net of expected costs	(26,337)	(1,079)	(159,462)	(186,878)
Balance as at December 31, 2023	33	927	21,811	22,771
Interest income recognized on impaired loans				9,975

	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Gross impaired loans	5,432	2,298	72,681	80,411
Related security, net of expected costs	(5,432)	(1,469)	(60,954)	(67,855)
Balance as at December 31, 2022	-	829	11,727	12,556
Interest income recognized on impaired loans				4,504

Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of loans. The gross carrying amount of the loans below also represent the Credit Union's maximum exposure to credit risk on these loans.

Residential Mortgages	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Credit grade				
Unrated	70,930	36,210	-	107,140
A+	7,370,261	1,196,023	-	8,566,284
A	2,292,713	582,595	-	2,875,308
B	711,313	302,135	-	1,013,448
C	312,401	160,547	-	472,948
D	78,091	52,029	-	130,120
E	17,364	21,205	-	38,569
Defaulted	-	-	26,370	26,370
Gross carrying amount	10,853,073	2,350,744	26,370	13,230,187
Loss allowance	5	912	33	950
Carrying amount as at December 31, 2023	10,853,068	2,349,832	26,337	13,229,237

7.1 Loans (continued)

Personal Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	104,353	107,444	-	211,797
A+	448,028	337,865	-	785,893
A	131,469	161,443	-	292,912
B	55,954	59,666	-	115,620
C	10,416	21,499	-	31,915
D	1,891	6,270	-	8,161
E	319	2,107	-	2,426
Defaulted	-	-	2,006	2,006
Gross carrying amount	752,430	696,294	2,006	1,450,730
Loss allowance	1,071	8,681	927	10,679
Carrying amount as at December 31, 2023	751,359	687,613	1,079	1,440,051

Commercial Mortgages and Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	858	1,258	-	2,116
Very low	50	7	-	57
Low	37,418	2,828	-	40,246
Better	1,213,696	26,015	-	1,239,711
Average	2,238,116	351,049	-	2,589,165
Higher	2,198,862	1,033,108	-	3,231,970
Watch List	14	79,618	-	79,632
Distressed	66	50,895	-	50,961
Defaulted	-	-	181,273	181,273
Gross carrying amount	5,689,080	1,544,778	181,273	7,415,131
Loss allowance	19,531	18,151	21,811	59,493
Carrying amount as at December 31, 2023	5,669,549	1,526,627	159,462	7,355,638

7.1 Loans (continued)

Residential Mortgages	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	72,473	23,289	-	95,762
A+	7,593,273	296,174	-	7,889,447
A	2,424,810	371,638	-	2,796,448
B	801,770	195,831	-	997,601
C	369,484	118,765	-	488,249
D	87,845	41,675	-	129,520
E	17,168	16,707	-	33,875
Defaulted	-	-	5,432	5,432
Gross carrying amount	11,366,823	1,064,079	5,432	12,436,334
Loss allowance	6	567	-	573
Carrying amount as at December 31, 2022	11,366,817	1,063,512	5,432	12,435,761

Personal Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	108,196	59,270	-	167,466
A+	476,472	315,949	-	792,421
A	136,688	150,143	-	286,831
B	43,380	49,005	-	92,385
C	12,143	20,052	-	32,195
D	2,641	5,630	-	8,271
E	402	1,839	-	2,241
Defaulted	-	-	2,298	2,298
Gross carrying amount	779,922	601,888	2,298	1,384,108
Loss allowance	1,214	9,320	829	11,363
Carrying amount as at December 31, 2022	778,708	592,568	1,469	1,372,745

7.1 Loans (continued)

Commercial Mortgages and Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Unrated	680	415	-	1,095
Very low	146	73	-	219
Low	56,621	1,356	-	57,977
Better	855,013	39,792	-	894,805
Average	1,532,667	861,404	-	2,394,071
Higher	1,640,733	1,891,918	-	3,532,651
Watch List	-	142,796	-	142,796
Distressed	-	86,337	-	86,337
Defaulted	-	-	72,681	72,681
Gross carrying amount	4,085,860	3,024,091	72,681	7,182,632
Loss allowance	7,203	32,385	11,727	51,315
Carrying amount as at December 31, 2022	4,078,657	2,991,706	60,954	7,131,317

Loans past due but not impaired

	< 30 days	30-59 days	60-89 days
Residential mortgages	157,006	25,350	8,876
Personal loans	79,560	5,402	425
Commercial mortgages and loans	168,078	3,385	-
Total as at December 31, 2023	404,644	34,137	9,301

	< 30 days	30-59 days	60-89 days
Residential mortgages	139,538	14,954	5,438
Personal loans	64,518	5,361	758
Commercial mortgages and loans	212,628	99	24
Total as at December 31, 2022	416,684	20,414	6,220

Collateral

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair valuation of non-financial collateral is performed if there has been a significant change in the terms and conditions of the loan and/or the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loans.

The amount and type of collateral and other credit enhancements required depend on the Credit Union's assessment of counterparty credit quality and repayment capacity. Non-financial collateral is used in connection with both Commercial and Retail loan exposure. The Credit Union standards for collateral valuation, frequency of recalculation of the collateral requirement, documentation, registration and perfection procedures and monitoring are in effect. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, commercial real estate and business assets, such as accounts receivable, inventory and fixed assets. The main types of financial collateral taken by the Credit Union include cash and negotiable securities issued by governments and investment grade issuers, and assignment of life insurance. Guarantees are also taken to reduce credit exposure risk.

	2023	2022
Fair value of collateral held on assets either past due >30 days or impaired	348,079	136,637

7.2 Equipment financing

	2023	2022
Gross investment in finance leases	1,682,447	1,539,142
Unearned revenue	(149,154)	(157,854)
Unguaranteed residual values on finance leases	502	575
Net investment	1,533,795	1,381,863
Retail and dealer loans	224,638	173,896
Unamortized deferred costs and subsidies	11,046	10,506
Security deposits	(26,711)	(22,827)
Allowance for credit losses	(28,368)	(14,153)
Total equipment financing	1,714,400	1,529,285

Contractual maturities of finance leases, retail loans and dealer financing loans

The contractual maturities of finance leases and retail loans and dealer financing loans are summarized as follows:

	Finance leases	Retail and dealer loans	Total
0 to 12 months	82,150	35,687	117,837
1 to 3 years	455,886	86,214	542,100
3 to 5 years	846,572	84,272	930,844
Over 5 years	149,187	18,465	167,652
Balance as at December 31, 2023	1,533,795	224,638	1,758,433

	Finance leases	Retail and dealer loans	Total
0 to 12 months	93,599	20,300	113,899
1 to 3 years	389,499	73,347	462,846
3 to 5 years	757,040	70,295	827,335
Over 5 years	141,725	9,954	151,679
Balance as at December 31, 2022	1,381,863	173,896	1,555,759

7.2 Equipment financing (continued)

Finance leases and retail and dealer loans past due

The following table is an analysis of equipment financing receivables that are past due as at the statement of financial position date but not impaired:

	Finance leases	Retail and dealer loans	Total
30-59 days	9,951	225	10,176
60-89 days	8,651	170	8,821
Past due but not impaired as at December 31, 2023	18,602	395	18,997

	Finance leases	Retail and dealer loans	Total
< 30 days	-	56	56
30-59 days	3,168	104	3,272
60-89 days	939	58	997
Past due but not impaired as at December 31, 2022	4,107	218	4,325

7.2 Equipment financing (continued)

Movements in Loss Allowance

Allowances for credit losses are impacted by a variety of factors. The following tables describe the movement in allowances for credit losses on equipment financing:

Equipment financing	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2023	9,086	3,944	1,123	14,153
Transfers:				
Transfer from Stage 1 to Stage 2	(550)	2,617	-	2,067
Transfer from Stage 1 to Stage 3	(80)	-	8,103	8,023
Transfer from Stage 2 to Stage 1	31	(136)	-	(105)
Transfer from Stage 2 to Stage 3	-	(73)	2,036	1,963
Transfer from Stage 3 to Stage 2	-	6	(69)	(63)
Transfer from Stage 3 to Stage 1	-	-	(6)	(6)
New originations	5,892	1,697	3,216	10,805
Equipment financing paid out	(449)	(145)	(244)	(838)
Changes within each Stage	(1,064)	(499)	189	(1,374)
Macro-economic adjustments	44	302	-	346
Write-offs	-	-	(6,603)	(6,603)
Balance as at December 31, 2023	12,910	7,713	7,745	28,368
Movement in loss allowance	3,824	3,769	6,622	14,215
Recoveries	-	-	(499)	(499)
Write-offs	-	-	6,603	6,603
P&L charge for the period	3,824	3,769	12,726	20,319

Equipment financing	Stage 1	Stage 2	Stage 3	Total
Balance as at January 1, 2022	7,455	8,403	2,182	18,040
Transfers:				
Transfer from Stage 1 to Stage 2	(241)	846	-	605
Transfer from Stage 1 to Stage 3	(33)	-	2,793	2,760
Transfer from Stage 2 to Stage 1	128	(3,023)	-	(2,895)
Transfer from Stage 2 to Stage 3	-	(122)	1,248	1,126
Transfer from Stage 3 to Stage 2	-	9	(224)	(215)
Transfer from Stage 3 to Stage 1	-	-	(17)	(17)
New originations	4,253	813	346	5,412
Equipment financing paid out	(540)	(840)	(716)	(2,096)
Changes within each Stage	(3,196)	(1,878)	(595)	(5,669)
Macro-economic adjustments	1,260	(264)	-	996
Write-offs	-	-	(3,894)	(3,894)
Balance as at December 31, 2022	9,086	3,944	1,123	14,153
Movement in loss allowance	1,631	(4,459)	(1,059)	(3,887)
Recoveries	-	(221)	(1,130)	(1,351)
Write-offs	-	-	3,894	3,894
P&L charge for the period	1,631	(4,680)	1,705	(1,344)

7.2 Equipment financing (continued)

Movements in Loss Allowance (continued)

Although all equipment financing is originated in stage 1 (except those originated as credit impaired), to the extent that equipment financing receivables were originated in the year and were subsequently moved to another stage, they will show on the new originations line in the stage in which they ended the year.

Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of equipment financing. The gross carrying amount of equipment financing below also represent the Credit Union's maximum exposure to credit risk on equipment financing. The Credit Union has not purchased any credit-impaired equipment financing.

	Equipment financing			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	1,535,051	211,064	-	1,746,115
Default	-	-	13,040	13,040
Gross carrying amount	1,535,051	211,064	13,040	1,759,155
Loss allowance	(12,910)	(7,713)	(7,745)	(28,368)
Carrying amount at December 31, 2023	1,522,141	203,351	5,295	1,730,787

	Equipment financing			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	1,476,605	76,855	-	1,553,460
Default	-	-	2,299	2,299
Gross carrying amount	1,476,605	76,855	2,299	1,555,759
Loss allowance	(9,086)	(3,944)	(1,123)	(14,153)
Carrying amount at December 31, 2022	1,467,519	72,911	1,176	1,541,606

8 Derivative financial instruments

The tables below provide a summary of the Credit Union's derivative portfolio and the notional value of the financial assets or financial liabilities to which the derivatives relate.

	Maturities of derivatives (notional amount)				Fair value	
	Within 1 year	**1 to 5 years**	**More than 5 years**	**Total**	**Derivative instrument assets**	**Derivative instrument liabilities**
Year ended December 31, 2023						
Foreign exchange derivatives:						
Forward contracts	655	-	-	655	5	(1)
Equity index-linked options:						
Purchased equity options	65,331	97,211	-	162,542	17,495	-
Interest rate derivatives:						
Designated cash flow hedges	823,000	341,628	117,469	1,282,097	16,440	(2,646)
Economic hedges	225,000	761,124	687,782	1,673,906	23,614	(7,362)
Total derivative contracts as at December 31, 2023	1,113,986	1,199,963	805,251	3,119,200	57,554	(10,009)

	Maturities of derivatives (notional amount)				Fair value	
	Within 1 year	**1 to 5 years**	**More than 5 years**	**Total**	**Derivative instrument assets**	**Derivative instrument liabilities**
Year ended December 31, 2022						
Foreign exchange derivatives:						
Forward contracts	1,510	-	-	1,510	76	(81)
Equity index-linked options:						
Purchased equity options	39,950	140,114	-	180,064	19,447	-
Interest rate derivatives:						
Designated cash flow hedges	250,000	865,600	29,394	1,144,994	35,714	(1,484)
Economic hedges	25,000	506,588	651,254	1,182,842	37,957	(3,849)
Total derivative contracts as at December 31, 2022	316,460	1,512,302	680,648	2,509,410	93,194	(5,414)

The notional amounts are used as the basis for determining payments under the contracts and are not actually exchanged between the Credit Union and its counterparties. They do not represent credit exposure.

The Credit Union has credit risk which arises from the possibility that its counterparty to a derivative contract could default on their obligation to the Credit Union. However, credit risk associated with derivative contracts is normally a small fraction of the notional principal amount of the contract. Derivative contracts expose the Credit Union to credit losses where there is a favourable change in market rates from the Credit Union's perspective and the counterparty fails to perform. The Credit Union only enters derivative contracts with counterparties it has determined to be creditworthy.

Foreign exchange forward contracts

As part of its ongoing program for managing foreign currency exposure, the Credit Union enters foreign exchange forward contracts to purchase or sell U.S. dollars. These agreements function as an economic hedge against the Credit Union's net U.S. dollar denominated liability position. Gains or losses on foreign exchange forward contracts are included in non-interest income.

8 Derivative financial instruments (continued)

Equity index-linked derivatives and options

The Credit Union has $162,542 (2022 - $180,064) of commodity and equity index-linked term deposit products outstanding to its Members. These term deposits have maturities of up to five years and pay interest to the depositors, at the end of the term, based on the performance of various market indices. The Credit Union has purchased index-linked options agreements with certain counterparties to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from the counterparties payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

The purpose of the option agreements is to provide an economic hedge against market fluctuations. These option agreements have fair values that vary based on changes in commodity and equity indices. The fair value of these option agreements amounted to $17,495 as at December 31, 2023 (2022 - $19,447). The fair value of the embedded written option in the equity index-linked term deposit products amounted to $16,870 as at December 31, 2023 (2022 – $19,052) and is included as part of Members' deposits (see note 14). Although hedge accounting is not applied, these agreements continue to be effective as economic hedges.

Interest rate swaps

As part of its interest rate risk management process, the Credit Union uses interest rate swaps to maintain interest rate exposure within the preset limits defined by the Board of Directors' (the "Board") approved policy.

Designated cash flow hedges are interest rate swap agreements which qualify as hedging relationships for accounting purposes under IAS 39, Financial Instruments: Recognition and Measurement. All other interest rate swaps agreements are considered economic hedges. The Credit Union has designated certain hedging relationships involving interest rate swaps that convert variable rate deposits to fixed rate deposits or variable rate loans to fixed rate loans as cash flow hedges. The Credit Union has also designated certain hedging relationships involving interest rate swaps that convert variable rate loans to fixed rate loans. Interest rate swaps that convert variable rate notes to fixed rate notes are also designated as cash flow hedges.

Interest rate swap agreements (including forward interest rate swaps) are valued by netting discounted variable and fixed cash flows with a credit adjustment. Variable cash flows are calculated using implied interest rates as determined by current CDOR, CORRA or Canadian Dollar Overnight Indexed Swap ("CAD OIS") rates, and term relationships. Fixed cash flows are calculated based on the rates stated in the agreements. These cash flows are discounted using the relevant points on the zero interest rate curve as derived from the relevant indices. As at December 31, 2023, the fixed interest rates on the Credit Union's interest rate swaps are between 0.6% and 5.0% (2022 – 0.6% and 4.3%).

Bond forward contracts

As part of its interest rate risk management process, the Credit Union and OneCap use bond forwards to maintain their interest rate exposure on forecast debt issuances associated with securitization activity. These hedging relationships are designated as cash flow hedges. The effective portion of realized gains (losses) on these derivatives are deferred and amortized in accordance with the effective interest rate method along with the debt originated.

8 Derivative financial instruments (continued)

The following tables present the effects of derivatives in hedging relationships on the consolidated statements of income and the consolidated statements of comprehensive income:

Year ended December 31, 2023	Change in fair value of the hedged item for ineffectiveness measurement	Change in fair value of the hedging instrument for ineffectiveness measurement	Hedge ineffectiveness gain (loss)	Hedging gain (loss) recognized in OCI (before tax)	Amount reclassified from AOCI to net income (pre-tax basis)	Effect on OCI (before tax)
Cash flow hedges						
Interest rate risk						
Loans	152	(152)	-	(152)	-	(152)
Deposits	211	(204)	7	(211)	(547)	(758)
Securitization liabilities	19,934	(19,401)	533	(19,934)	7,764	(12,170)
Funding facilities	7,394	(7,236)	158	(7,394)	-	(7,394)
Subordinated debt	2,178	(1,884)	294	(2,178)	1,716	(462)
Total cash flow hedges	29,869	(28,877)	992	(29,869)	8,933	(20,936)

Year ended December 31, 2022	Change in fair value of the hedged item for ineffectiveness measurement	Change in fair value of the hedging instrument for ineffectiveness measurement	Hedge ineffectiveness gain (loss)	Hedging gain (loss) recognized in OCI (before tax)	Amount reclassified from AOCI to net income (pre-tax basis)	Effect on OCI (before tax)
Cash flow hedges						
Interest rate risk						
Loans	311	(313)	(2)	(311)	(5)	(316)
Deposits	(1,396)	2,331	935	1,396	(483)	913
Securitization liabilities	(27,983)	28,252	269	27,983	(12,842)	15,141
Funding facilities	(14,108)	14,306	198	14,108	-	14,108
Subordinated debt	(3,179)	3,518	339	3,179	561	3,740
Total cash flow hedges	(46,355)	48,094	1,739	46,355	(12,769)	33,586

8 Derivative financial instruments (continued)

The following tables provides a reconciliation of AOCI related to cash flow hedges (before tax):

Year ended December 31, 2023	Opening AOCI	Other comprehensive income (loss)	Closing AOCI	AOCI on designated hedges	AOCI on de-designated hedges
Cash flow hedges					
Interest rate risk					
Loans	(270)	(152)	(422)	(422)	-
Deposits	1,819	(758)	1,061	334	727
Securitization liabilities	10,198	(12,170)	(1,972)	2,991	(4,963)
Funding facilities	16,054	(7,394)	8,660	8,660	-
Subordinated debt	1,011	(462)	549	1,945	(1,396)
Total cash flow hedges	28,812	(20,936)	7,876	13,508	(5,632)

Year ended December 31, 2022	Opening AOCI	Other comprehensive income (loss)	Closing AOCI	AOCI on designated hedges	AOCI on de-designated hedges
Cash flow hedges					
Interest rate risk					
Loans	46	(316)	(270)	(270)	-
Deposits	906	913	1,819	484	1,335
Securitization liabilities	(4,943)	15,141	10,198	11,998	(1,800)
Funding facilities	1,946	14,108	16,054	16,054	-
Subordinated debt	(2,729)	3,740	1,011	2,893	(1,882)
Total cash flow hedges	(4,774)	33,586	28,812	31,159	(2,347)

9 Goodwill and intangible assets

	2023	2022
Goodwill	73,232	73,232
Intangible assets	15,862	23,460
Total goodwill and intangible assets	89,094	96,692

9.1 Goodwill

Goodwill arose upon the acquisition of OneCap. There have been no fundamental changes to the core business since acquisition, and as such, the whole business is regarded as the CGU for impairment testing purposes.

Annual goodwill impairment testing is performed at September 30. Management has also assessed OneCap for impairment triggers at December 31, 2023 and noted that no events have taken place subsequent to the last test that indicate an impairment has occurred.

The recoverable amount of the CGU has been determined based on a discounted value-in-use ("VIU") calculation which uses cash flow projections based on financial forecasts approved by OneCap's Board of Directors covering a five-year period. Financial forecasts incorporate actual historical performance updated to reflect current market trends, strategic decisions and goals as set by management. The discount rate is based on the rate of 10-year government bonds, adjusted for a risk premium to reflect both the equities in general and the systematic risk of the CGU.

Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. The terminal growth rate was determined based on management's estimate of the long-term compound annual growth in cash flows, consistent with the assumptions a market participant would make.

Impairment analysis for 2023

Although OneCap has seen steady growth in ability to generate cash flows, there continues to be a heightened level of uncertainty related to the economic environment. As such, Management has prepared financial forecasts under two scenarios. These scenarios and the respective weightings are as follows:

- Plan (65%) - The plan scenario is based on the financial plan set by Management, and reflects Management's planning assumption of a moderate recession in 2024.

- Downside (35%) – This scenario is more conservative and assumes slower growth. The downside scenario is considered less likely and therefore has been assigned a lower probability of 35%. Note that the plan scenario already reflects Management's planning assumption of a moderate recession in 2024 and the alternative scenario incorporates additional conservatism.

The recoverable amount was then determined by taking the weighted average of VIU of the two scenarios.

As noted above, the discount rate incorporates a risk premium reflecting both market-based equity premiums as well as entity specific risk. Significant judgment is used to determine the discount rate. Analysis indicates that an appropriate discount rate would be in the range of 9.6% to 14.6%. The mid-point of this range was used for the impairment test.

Key assumptions and the resulting VIU for each scenario are as follows:

		Undiscounted forecast cash flows for October 1, 2023 to September 30, 2028						
	Probability	Operating cash flows	Capital investment	Terminal growth rate	Discount rate	Value in use	Net assets	Buffer/ Impairment
Plan	65 %	217,222	(155,938)	2.0 %	12.10 %	247,580	220,449	27,131
Downside	35 %	189,639	(134,587)	2.0 %	12.10 %	220,162	220,449	(287)
Weighted average								17,535

Goodwill (continued)

Sensitivity analysis

The estimation of VIU involves significant judgment in the determination of inputs to the discounted cash flow model and is most sensitive to changes in future cash flow estimates, the terminal growth rate and the discount rate. The sensitivity of the VIU to key inputs and assumptions used was tested by recalculating the recoverable amount using plausible changes to those parameters. The following table summarizes the impact that these changes in these key assumptions have on the recoverable amount and the excess of recoverable amount over carrying value or the resulting impairment, keeping all other assumptions constant.

	Change to carrying value	Excess / (impairment)
Net cash flows		
Decrease in 10% in monthly net cash flows	(43,981)	(26,447)
Increase of 10% in monthly net cash flows	43,981	61,516
Terminal growth rate		
Decrease of 0.5%	(2,113)	15,421
Increase of 0.5%	2,247	19,781
Discount rate		
Decrease by 2.5% to 9.6%	97,044	114,579
Increase by 2.5% to 14.6%	(56,965)	(39,431)
Decrease by 1.0% to 11.1%	32,139	49,674
Increase by 1.0% to 13.1%	(26,064)	(8,529)
Scenario weighting		
-10% Plan, +10% Downside	(2,742)	14,793
+10% Plan, -10% Downside	2,742	20,276

Impairment analysis for 2022

Key assumptions and the resulting recoverable amount for the 2022 impairment test were as follows:

	Undiscounted forecast cash flows for October 1, 2022 to September 30, 2027							
	Probability	Operating cash flows	Capital investment	Terminal growth rate	Discount rate	Value in use	Net assets	Buffer/ Impairment
Plan	65 %	163,444	(116,752)	2.0 %	11.15 %	229,850	212,567	17,283
Downside	35 %	148,015	(104,852)	2.0 %	11.15 %	209,251	212,567	(3,316)
Weighted average								10,073

9.2 Intangible assets

	Broker and vendor relationships	Software	Other	Total
Year ended December 31, 2023				
As at January 1, 2023, net carrying value	15,987	7,335	138	23,460
Additions	-	153	-	153
Amortization	(2,665)	(1,757)	(88)	(4,510)
Disposals	-	(3,241)	-	(3,241)
As at December 31, 2023, net carrying value	13,322	2,490	50	15,862
As at December 31, 2023				
Cost	51,300	7,863	615	59,778
Accumulated amortization	(37,978)	(5,373)	(565)	(43,916)
Net carrying value	13,322	2,490	50	15,862

	Broker and vendor relationships	Software	Other	Total
Year ended December 31, 2022				
As at January 1, 2022, net carrying value	19,227	4,082	288	23,597
Additions	-	4,596	-	4,596
Amortization	(3,240)	(1,343)	(150)	(4,733)
As at December 31, 2022, net carrying value	15,987	7,335	138	23,460
As at December 31, 2022				
Cost	51,300	26,384	1,312	78,996
Accumulated amortization	(35,313)	(19,049)	(1,174)	(55,536)
Net carrying value	15,987	7,335	138	23,460

10 Premises and equipment

	2023	2022
Property and equipment	33,138	30,392
Right-of-use leased assets	54,816	59,076
Total premises and equipment	87,954	89,468

Property and equipment	Land	Building and improvements	Furniture and office equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2023						
As at January 1, 2023, net carrying value	2,337	6,047	6,468	5,382	10,158	30,392
Additions	-	1,704	64	8,984	1,302	12,054
Disposals	-	(4)	(2)	(339)	(10)	(355)
Depreciation	-	(832)	(1,913)	(3,528)	(2,680)	(8,953)
As at December 31, 2023, net carrying value	2,337	6,915	4,617	10,499	8,770	33,138
As at December 31, 2023						
Cost	2,337	19,534	18,283	24,355	27,653	92,162
Accumulated depreciation	-	(12,619)	(13,666)	(13,856)	(18,883)	(59,024)
Net carrying value	2,337	6,915	4,617	10,499	8,770	33,138

Property and equipment	Land	Building and improvements	Furniture and office equipment	Computer hardware and software	Leasehold improvements	Total
Year ended December 31, 2022						
As at January 1, 2022, net carrying value	2,337	6,107	6,881	3,849	11,579	30,753
Additions	-	791	1,842	4,526	1,146	8,305
Disposals	-	-	(120)	(17)	(3)	(140)
Depreciation	-	(851)	(2,135)	(2,976)	(2,564)	(8,526)
As at December 31, 2022, net carrying value	2,337	6,047	6,468	5,382	10,158	30,392
As at December 31, 2022						
Cost	2,337	25,511	39,099	50,244	41,685	158,876
Accumulated depreciation	-	(19,464)	(32,631)	(44,862)	(31,527)	(128,484)
Net carrying value	2,337	6,047	6,468	5,382	10,158	30,392

10 Premises and equipment (continued)

Right-of-use leased assets	Property
Year ended December 31, 2023	
As at January 1, 2023, net carrying value	59,076
Additions	3,647
Depreciation	(7,907)
As at December 31, 2023, net carrying value	54,816
As at December 31, 2023	
Cost	94,309
Accumulated depreciation	(39,493)
Net carrying value	54,816

Right-of-use leased assets	Property
Year ended December 31, 2022	
As at January 1, 2022, net carrying value	62,651
Additions	4,394
Depreciation	(7,969)
As at December 31, 2022, net carrying value	59,076
As at December 31, 2022	
Cost	90,955
Accumulated depreciation	(31,879)
Net carrying value	59,076

11 Equity investments

	2023	2022
Fair value through profit or loss:		
Central 1 shares	22,253	22,117
Real estate participations	12,651	13,091
Private equity funds	17,054	12,145
Other	267	285
Fair value through other comprehensive income:		
Preferred shares	5,217	5,231
Joint venture	523	669
Total equity investments	57,965	53,538

Central 1:

Central 1 Credit Union ("Central 1"), as a credit union central, provides access to the Canadian payment clearing and settlement system through its membership in the Canadian Payments Association and acts as a liquidity provider for its members. Membership in Central 1 is restricted to credit unions and cooperative associations.

Meridian, as a credit union, is a member of Central 1. Central 1 provides Meridian payment clearing and settlement, liquidity facilities, custody and other services.

As a member of Central 1, Meridian is required to maintain an investment in Central 1 shares. These shares are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

Meridian is not intending to voluntarily dispose of any Central 1 shares as the services supplied by Central 1 are integral 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.

Shares in Central 1 are measured at fair value. There is no secondary market for these shares. Fair value is considered to approximate par value or redemption value based on the terms of the shares. Meridian monitors this investment for any indication that adjustment to the carrying value is required. Any change in fair value would be recognized through profit or loss.

Real estate participations:

Meridian has invested in several residential real estate development projects in Canada, primarily through limited partnership interests. Meridian has committed an additional $10.9 million to fund completion of these projects.

Private equity funds:

Meridian holds portfolio investments in several private equity funds managed by external asset managers. These funds make debt and equity investments in emerging, small and mid-sized private companies in Canada and the United States. Meridian has committed an additional $22.5 million to these funds.

Preferred shares:

Meridian invests in publicly traded preferred shares of Canadian financial institutions. These investments are classified as fair value through other comprehensive income.

Other:

Other comprises equity investments in affiliated cooperative and other entities that complement and support the credit union system.

Joint venture:

The joint venture investment is accounted for using the equity method.

12 Deferred taxes

	2023	2022
Deferred tax assets	64,053	65,712
Deferred tax liabilities	26,933	34,828
Net deferred tax assets	37,120	30,884

The movement in the deferred tax asset is as follows:

		Recognized in			
	January 1, 2023	Profit or loss	OCI	Members' equity	December 31, 2023
Non-capital losses available for carryforward[1]	3,794	4,211	-	-	8,005
Allowance for credit losses	13,550	3,378	-	-	16,928
Premises and equipment	(8,867)	(81)	-	-	(8,948)
Goodwill and intangible assets	(3,498)	(343)	-	-	(3,841)
Equipment financing	29,176	(8,298)	-	-	20,878
Derivative	(14,797)	4,117	4,737	-	(5,943)
Other	11,526	(1,732)	133	114	10,041
Total	30,884	1,252	4,870	114	37,120

		Recognized in			
	January 1, 2022	Profit or loss	OCI	Members' equity	December 31, 2022
Non-capital losses available for carryforward	5,270	(1,476)	-	-	3,794
Allowance for credit losses	15,273	(1,723)	-	-	13,550
Premises and equipment	(9,420)	553	-	-	(8,867)
Goodwill and intangible assets	(3,228)	(270)	-	-	(3,498)
Equipment financing	35,179	(6,003)	-	-	29,176
Derivative	(2,230)	(5,471)	(7,096)	-	(14,797)
Other	12,348	(953)	131	-	11,526
Total	53,192	(15,343)	(6,965)	-	30,884

[1] In 2023, a subsidiary of the Credit Union derecognized deferred tax assets related to non-capital loss carry forwards. These non-capital loss carry forwards expire as follows: $6,367 - 2040, $7,066 - 2041, $6,314 - 2042, $4,437 - 2043, $3,148 - 2044.

13 Other assets

	2023	2022
Receivables	15,487	29,773
Employee discounts[1]	26,300	28,200
Deferred expenses	42,627	32,723
Other	17,546	15,911
Total other assets	101,960	106,607

[1] Employees are offered discounted rates on loans and mortgages that are recognized as an asset and amortized into salaries and employee benefits expense over the term of the products.

14 Deposits

	2023	2022
Personal	14,525,342	13,231,231
Commercial and institutional	5,137,161	5,294,989
Total deposits	19,662,503	18,526,220

	2023	2022
Demand deposits	7,198,464	8,239,426
Term deposits	8,515,834	6,755,336
Registered plans	3,948,205	3,531,458
Total deposits	19,662,503	18,526,220

Term deposits include equity index-linked deposits and the embedded derivatives as described in note 8.

15 Securitization liabilities

	2023	2022
Mortgage securitization liabilities	4,005,030	4,090,997
Equipment finance securitization liabilities	1,399,005	1,265,990
	5,404,035	5,356,987

15.1 Mortgage securitization liabilities

	2023	2022
Mortgage backed securities	3,525,481	3,618,798
Asset-backed commercial paper	479,549	472,199
Total mortgage securitization liabilities	4,005,030	4,090,997

Mortgage backed securities:

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters arrangements to fund growth by entering into mortgage securitization arrangements. These arrangements allow the Credit Union to transfer fully insured residential mortgages to unrelated third parties, generally through the transfer of these assets to multi-seller conduits which issue securities to investors.

These transactions are derecognized from the consolidated balance sheet when the transaction meets the derecognition criteria described in note 3.3. In instances where these criteria are not met, the Credit Union does not derecognize the asset and instead records a securitization liability with respect to any consideration received.

Under the securitization vehicle the Credit Union packages insured mortgage loan receivables into NHA MBS and in turn sells the MBS to Canada Housing Trust ("CHT") directly through the Canada Mortgage Bond ("CMB") Program. CHT is financed through the issuance of government-guaranteed mortgage bonds, which are sold to third-party investors. Proceeds from the issuances are used by CHT to purchase the government-guaranteed MBS from approved issuers.

The Credit Union engages a third-party financial institution to manage the reinvestment risk associated with the CMB program. All mortgages securitized by the Credit Union are fully insured prior to sale. As such, they pose minimal to no credit risk to the Credit Union immediately before or any time after the securitization transaction. The Credit Union remains exposed to prepayment risk on securitized mortgages that are open to prepayment. As such, it has not transferred materially all the risks and rewards of the assets and continues to recognize them on its balance sheet along with a securitization liability. Interest income and expense is recognized on the assets and liabilities respectively using the effective interest rate method.

15.1 Mortgage securitization liabilities (continued)

The Credit Union also securitizes some mortgages that are closed to prepayment. Where these are also securitized using the structure which outsources replacement asset requirements to a third party, residual prepayment and reinvestment risk is immaterial. As such, it has been determined that on such securitization structures, materially all the risks and rewards on the assets have been transferred. Therefore, the assets are derecognized and no liability is recognized. A gain on sale is recorded upon the derecognition of the assets, which is calculated by comparing the fair value of the assets at the point of sale versus the consideration received. An asset relating to the Credit Union's retained interest in the securitized mortgages is recognized at fair value and is subsequently measured at amortized cost. The Credit Union's retained interest in securitized mortgages is presented in other assets, with the associated income recognized in net gains or losses on financial instruments.

On arrangements where derecognition is not achieved costs incurred on securitization transactions are amortized over the life of the issue as part of mortgage securitization cost of funds included within interest expense – funding and securitization liabilities.

Active management of the securitization program and the reinvestment portfolio helps to minimize exposure and ensure that sufficient assets are maintained to meet reinvestment requirements.

The following table summarizes the carrying and fair values of assets of the Credit Union that have been securitized and sold by the Credit Union to third parties, but not derecognized, as well as the carrying and fair values of the corresponding mortgage securitization liabilities:

	2023		2022	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Securitized mortgages sold via CMB Program	1,889,130	1,761,695	1,679,587	1,580,318
Sold MBS to third parties	1,688,398	1,561,990	2,004,153	1,876,234
Unscheduled principal payment reserve (included in interest-bearing deposits with financial institutions)	50,671	50,671	116,385	116,385
Total designated assets	3,628,199	3,374,356	3,800,125	3,572,937
Mortgage securitization liabilities	(3,525,481)	(3,441,919)	(3,618,798)	(3,502,848)
Net amount	102,718	(67,563)	181,327	70,089

Asset-backed commercial paper:

In accordance with the Mortgage Loan Co-Ownership and Servicing Agreement made as of August 30, 2022, the Credit Union transfers undivided co-ownership interests of certain eligible conventional mortgages into a co-ownership asset portfolio. Co-owners are the Credit Union as the seller of interests and Mercury Receivables Trust (the "Trust") as the purchaser. Interests are purchased by the Trust through the issuance of asset-backed commercial paper ("ABCP") to investors, collateralized by the eligible conventional mortgages transferred to the co-ownership asset portfolio. The principal and interest on the ABCP outstanding is paid monthly from collections on the co-ownership asset portfolio.

The carrying value of mortgages that are pledged as collateral for the ABCP at December 31, 2023 is $526,316 (2022 - $526,316). In addition, the Credit Union has cash reserves of $8,139 (2022 - $7,500) held as collateral for the notes as disclosed in note 5.

15.2 Equipment finance securitization liabilities

	2023	2022
Variable-rate notes	1,158,660	1,074,568
Fixed-rate notes	240,345	191,422
Total equipment finance securitization liabilities	1,399,005	1,265,990

To raise funding for its equipment financing portfolio, the Credit Union sells lease contracts to a consolidated special purpose entity. Through the special purpose entity, the Credit Union enters securitized borrowing agreements with investors.

Variable-rate notes:

In accordance with a Note Purchase Agreement, The Credit Union sells variable rate equipment contract backed notes to investors. The notes are collateralized by a specific portfolio of loan and lease contracts secured by new and used small and medium ticket equipment originated in Canada. The principal and interest are paid monthly from collections on the Portfolio of Assets. The Note Purchase Agreement has a commitment expiration date of October 1, 2024 (2022 - October 31, 2023).

The carrying value of equipment financing receivables that are pledged as collateral for the notes at December 31, 2023 is $1,188,342 (2022 - $1,034,736). In addition, The Credit Union has cash reserves of $3,695 (2022 - $24,986) held as collateral for the notes as disclosed in note 5.

Fixed-rate notes:

In accordance with a Note Purchase Agreement, The Credit Union sells fixed rate equipment contract backed notes to investors. The notes are collateralized by a specific portfolio of loan and lease contracts secured by equipment originated in Canada. No recourse provisions exist that allow the holders of notes issued or loans advanced in such securitization transactions to put those notes or loans back to the Credit Union and the Credit Union does not guarantee any notes issued or loans advanced in such securitization transactions. Therefore its exposure under such programs is limited. The principal and interest on the fixed rate notes are paid monthly from collections on the Portfolio of Assets. The Note Purchase Agreement has a commitment expiration date of May 20, 2025.

The carrying value of equipment financing receivables that are pledged as collateral for the notes at December 31, 2023 is $240,345 (2022 - $190,930). In addition, the company has cash reserves of $5,460 (2022 - $4,337) held as collateral for the notes as disclosed in note 5.

16 Funding facilities

		2023		2022	
	Maturity	Authorized	Balance	Authorized	Balance
Term funding					
Term funding	2024	300,000	300,000	300,000	300,000
Accrued interest		-	1,580	-	1,325
Total term facilities		300,000	301,580	300,000	301,325

		2023		2022	
	Maturity	Authorized	Drawn	Authorized	Drawn
Credit and contingency facilities					
Secured					
Revolving credit	2024	475,000	-	440,000	-
Total secured		475,000	-	440,000	-
Unsecured					
Revolving credit	2024	359,395	-	359,722	-
Contingent credit[1]	2024	422,000	134,978	422,000	262,223
Total unsecured		781,395	134,978	781,722	262,223
Total credit and contingency facilities		1,256,395	134,978	1,221,722	262,223

[1] The unsecured contingent facility is used to provide letters of credit and guarantees to Members and therefore the amounts drawn are off-balance sheet.

Term facility

The term funding facility is provided by a major Canadian bank, at variable rates, secured by uninsured residential mortgages. The term facility was for a five-year term and matures in 2024.

Secured facilities

The revolving credit facilities are provided by three major Canadian financial institutions, at variable rates, secured by uninsured residential mortgages or equipment leases. These facilities mature in 2024.

Unsecured facilities

Central 1, as a credit union central, provides access to the payment clearing and settlement system and also acts as a liquidity provider to its members. Members are required to maintain an equity investment in Central 1. As part of that relationship, Central 1 provides various unsecured credit facilities, described below, which are subject to annual review and renewal. The Central 1 credit facilities are secured by a General Security Arrangement.

Revolving credit facilities

Central 1 provides various lines of credit and short-term credit facilities to Meridian for cash and liquidity management purposes.

Contingent credit facilities

Central 1 provides various contingent credit facilities in the form of letters of credit or guarantee.

17 Subordinated debt

Series	Redemption date	Maturity date	Basis	Interest rate	2023	2022
2019	December 13, 2024	December 13, 2029	Variable	8.94 %	49,911	49,947
2020 Series A	February 21, 2025	February 21, 2030	Fixed	4.87 %	75,761	75,670
2020 Series B	April 23, 2025	April 23, 2030	Fixed	3.90 %	50,018	49,964
Total subordinated debt					175,690	175,581

Each series of subordinated debt has a term to maturity of ten years. The Credit Union has the option to redeem after five years.

The 2019 series notes have a variable rate of interest which at December 2023 was 8.94% (2022: 8.16%).

The 2020 series notes have fixed rate of interest for five years, after which they bear a variable interest rate.

18 Other liabilities

	2023	2022
Accounts payable and accrued liabilities	155,342	134,792
Pension and other employee obligations	49,523	48,842
Cheques and other items in transit	2,495	1,571
Total other liabilities	207,360	185,205

19 Pension and other employee obligations

The Credit Union provides several pension and other retirement benefits to its current and retired employees. These plans include the following:

Defined Contribution Pension Plan ("DC") and Group Registered Retirement Savings Plan ("RRSP")

Employees are required to contribute 3% of their salary to the DC Plan. Each year, the Credit Union contributes from 3% to 7% of an employee's salary to the DC Plan based on their years of continuous service. Employees are also permitted to contribute additional amounts, up to 7% of their salary, to a Group RRSP.

Contributory Defined Benefit Pension Plans ("DB")

The Credit Union previously had two contributory defined benefit pension plans which were both frozen and closed to new members several years ago. Wind-ups of these plans were declared with an effective date of October 31, 2021 and were subsequently approved by the Financial Services Regulatory Authority in September 2022 and January 2023. In April 2023, Meridian transacted with an insurance company to assume payment of pension obligations through an annuity buy-out. The remaining obligations were settled through payment of commuted value lump sums.

Non-contributory Defined Benefit Supplemental Executive Retirement Plan 1

This plan is a defined benefit retirement plan which provides benefits to certain designated employees who are former members of one of the contributory DB Plans, which are now wound-up. Under the contributory DB Plan, benefits were restricted to the maximum permitted under the Income Tax Act (Canada). This Supplemental Plan provides additional benefits. The Credit Union has established a trust fund, pursuant to a trust agreement between the Credit Union and the trustee, for the purpose of providing security for the benefits accrued under the Supplemental Plan. Members are not required or permitted to make contributions to this plan.

Supplemental Employee Retirement Plan 2

This plan mirrors the structure of the Defined Contribution Pension Plan and contains employer pension contributions to all DC Plan members who exceed the maximum permitted under the Income Tax Act (Canada). Plan members accrue contributions and investment returns on a notional basis paid out to employees upon termination or retirement. Members are not required or permitted to make contributions to this plan.

19 Pension and other employee obligations (continued)

Post-Employment Benefits

The Credit Union provides health and dental care benefits for eligible retired employees through various plans. Each plan has its own membership and eligibility criteria and offers unique benefits. Only one plan remains open to new entrants who are at least 55 years of age with a minimum of 10 years of service. The plan provides healthcare coverage only and ceases at age 65.

Additionally, the Credit Union provides a retirement service award program which covers all permanent employees who work at least 15 hours per week. Employees who are at least 55 years of age with a minimum of 10 years of service receive a service lump sum payment of $0.2 per year of service upon retirement.

	2023	2022
Consolidated balance sheet obligations for:		
Pension benefit plans	1,557	2,406
Post-employment benefits	6,934	6,396
	8,491	8,802
The amounts recognized in the consolidated balance sheet are determined as follows:		
Present value of funded obligations	-	49,193
Fair value of plan assets	-	(48,301)
Funded plans' deficit	-	892
Present value of unfunded obligations	8,491	7,654
Net liability recognized in the consolidated balance sheet	8,491	8,546
Consolidated income statement charged to salaries and employee benefits for:		
Defined benefit pension plans	3,210	534
Defined contribution pension plan	9,206	8,134
Total pension plans	12,416	8,668
Post-employment benefits	561	549
	12,977	9,217
Amounts included in other comprehensive income:		
Re-measurement gain (loss):		
Pension benefit plans	(1,499)	(8,112)
Post-employment benefits	(402)	1,501
	(1,901)	(6,611)
Asset ceiling adjustment:		
Pension benefit plans	1,227	5,905
	(674)	(706)

20 Membership and investment shares

Authorized share capital:

The authorized share capital of Meridian consists of:
(a) an unlimited number of Membership shares;
(b) an unlimited number of Class A shares, issuable in series; and
(c) an unlimited number of Class B shares, issuable in series.

Class A shares rank in priority to Membership shares and Class B shares in the payment of dividends and in the event of the liquidation, dissolution or winding up of the Credit Union.

Class B shares rank in priority to Membership shares in the payment of dividends and in the event of the liquidation, dissolution or winding up of the Credit Union. There are no Class B shares outstanding.

Membership shares are entitled to the remaining property of the Credit Union in the event of liquidation, dissolution or winding-up.

Membership shares

Membership shares have a par value and redemption value of $1 each. Membership shares are voting participating, non-transferable, redeemable shares.

Membership in the Credit Union requires each Member to own one Membership share. Membership shares are voting shares, but Members are restricted to one vote regardless of the number of Membership shares held by the Member.

Membership shares are entitled to receive dividends as and when declared by the Board in their sole discretion. As a Credit Union, dividends on Membership shares are taxed as interest, and not as dividends.

Membership shares are redeemable at par value on withdrawal from Membership in the Credit Union and subject to applicable law.

Investment shares

Class A Special shares (“Class A shares”) have a par value and redemption value of $1 each. Class A shares are non-participating, redeemable and non-cumulative special shares (except for the Series 96 which is cumulative).

Transfer and redemption privileges:

Class A shares are redeemable at the sole and absolute discretion of the Board of Directors and subject to applicable law. No redemptions may occur until the fifth anniversary of the issue date of the particular Series, except upon death or expulsion from membership.

Total redemptions of a series of Class A shares in any fiscal year may not exceed 10% of the total outstanding Class A shares of that series at the end of the previous fiscal year.

Class A shares may not be transferred except to another Member of Meridian, subject to the approval of the Board and Applicable Law.

Dividends:

The holders of Class A shares are entitled to receive dividends, if, as and when declared by the Board in its absolute discretion, in cash or additional shares. The dividend rate and payment date vary by series, as described below. As a Credit Union, dividends on Class A shares are taxed as interest, and not as dividends.

For all series of Class A shares, the Board will set a minimum dividend rate for the next ensuing five-year period based on the criteria set forth for each series. The current minimum dividend rates and reset mechanisms are set out below. The dividend rates can be higher than the minimum rate, except for the Series 96 shares.

20 Membership and investment shares (continued)

50th Anniversary Series

Dividends, if as and when declared by the Board, are payable on January 1 of the following fiscal year.

The dividend rate is the greater of:
- the Minimum Dividend Rate set by the Board every five years; and
- the average chartered bank prime rate during the fiscal year for which the dividends are declared as published by the Bank of Canada.

The Minimum Dividend Rate shall not be set at less than the average chartered bank five-year GIC rate published by the Bank of Canada for the first week of October at each reset year.

The Minimum Dividend Rate for the five-year period beginning on January 1, 2021 and ending on December 31, 2025 was set at 4.00%.

Series 96

Dividends, if as and when declared by the Board, are payable on September 26 of each year. Series 96 shares are entitled to a cumulative dividend, if the dividends otherwise due are not paid in full.

The dividend rate is fixed to the Dividend Rate set by the Board every five years.

The Dividend Rate shall not be set at less than 1.00% above the average chartered bank five-year GIC rate published by the Bank of Canada for the week immediately preceding each reset date.

The Dividend Rate for the five-year period beginning on September 27, 2021 and ending on September 26, 2026 was set at 4.00%.

Series 98

Dividends, if as and when declared by the Board, are payable on January 1 of the following fiscal year.

The dividend rate is not less than the Minimum Dividend Rate set by the Board every five years.

The Minimum Dividend Rate for the five-year period beginning on January 1, 2021 and ending on December 31, 2025 was set at 4.00%.

Series 01

Dividends, if as and when declared by the Board, are payable on December 12 of each year.

The dividend rate is not less than the Minimum Dividend Rate set by the Board every five years.

The Minimum Dividend Rate shall not be set at less than 1.00% above the average chartered bank five-year GIC rate published by the Bank of Canada thirty days immediately preceding each reset date.

The Minimum Dividend Rate for the five-year period beginning on December 13, 2021 and ending on December 12, 2026 was set at 4.45%.

Series 09

Dividends, if as and when declared by the Board, are payable on January 1 of the following fiscal year.

The dividend rate is not less than the Minimum Dividend Rate set by the Board every five years.

The Minimum Dividend Rate shall not be set at less than 1.25% above the yield on the Government of Canada five-year bond published by the Bank of Canada for the month immediately preceding the final Board meeting at each reset year.

The Minimum Dividend Rate for the five-year period beginning on January 1, 2020 and ending on December 31, 2024 was set at 4.00%.

20 Membership and investment shares (continued)

Series 15

Dividends, if as and when declared by the Board, are payable on January 1 of the following fiscal year.

The dividend rate is not less than the Minimum Dividend Rate set by the Board every five years.

The Minimum Dividend Rate shall not be set at less than 1.25% above the yield on the Government of Canada five-year bond published by the Bank of Canada for the month immediately preceding the final Board meeting at each reset year.

The Minimum Dividend Rate for the five-year period beginning on January 1, 2020 and ending on December 31, 2024 was set at 4.00%.

Series 17

Dividends, if as and when declared by the Board, are payable on January 1 of the following fiscal year.

The dividend rate is not less than the Minimum Dividend Rate set by the Board every five years.

The Minimum Dividend Rate shall not be set at less than 3.00% above the yield on the Government of Canada five-year bond published by the Bank of Canada for the month immediately preceding the final Board meeting at each reset year.

The Minimum Dividend Rate for the five-year period beginning on January 1, 2022 and ending on December 31, 2026 was set at 4.45%.

Series 23

Dividends, if as and when declared by the Board, are payable on October 1 of each year.

The dividend rate is not less than the Minimum Dividend Rate set by the Board every five years.

The Minimum Dividend Rate shall not be set at less than 2.00% above the yield on the Government of Canada five-year bond published by the Bank of Canada for the month immediately preceding the third quarter Board meeting at each reset year.

The Minimum Dividend Rate for the period beginning on November 25, 2023 and ending on September 30, 2028 was set at 6.50%.

Issued and outstanding Membership shares and investment shares as at December 31 are as follows:

	2022	Issued[1]	Redeemed[1]	Dividend reinvested	2023
Class A shares					
50th Anniversary	79,346	-	(6,938)	2,826	75,234
Series 96	53,329	-	(26,280)	2,026	29,075
Series 98	4,759	-	(115)	223	4,867
Series 01	73,144	-	(15,208)	4,050	61,986
Series 09	89,316	-	(4,162)	3,985	89,139
Series 15	145,256	-	(5,577)	6,417	146,096
Series 17	192,717	-	(3,208)	8,317	197,826
Series 23	-	161,213	-	-	161,213
Investment shares	637,867	161,213	(61,488)	27,844	765,436
Membership shares	382	7	-	-	389
Share capital	638,249	161,220	(61,488)	27,844	765,825

[1] Included in the $161,213 of Series 23 shares issued are $35,616 of shares converted from other Class A series and reflected in the amount of redeemed shares. Issued Membership shares are presented net.

20 Membership and investment shares (continued)

	2021	Issued	Redeemed	Dividend reinvested	2022
Class A shares					
50th Anniversary	77,328	-	(731)	2,749	79,346
Series 96	54,048	-	(2,589)	1,870	53,329
Series 98	4,618	-	(27)	168	4,759
Series 01	69,991	-	-	3,153	73,144
Series 09	86,588	-	(244)	2,972	89,316
Series 15	141,302	-	(839)	4,793	145,256
Series 17	186,200	-	(3)	6,520	192,717
Investment shares	620,075	-	(4,433)	22,225	637,867
Membership shares	378	4	-	-	382
Share capital	620,453	4	(4,433)	22,225	638,249

Payment of dividends is at the sole discretion of the Board.

2023	**Dividend rate**		**Dividend**		
Dividends	**Minimum**	**Actual**	**Paid in cash**	**Paid in shares**	**Total**
Series					
50th Anniversary	4.00 %	6.94 %	686	2,826	3,512
Series 96	4.00 %	4.00 %	161	2,026	2,187
Series 98	4.00 %	6.50 %	36	224	260
Series 01	4.45 %	6.50 %	582	4,049	4,631
Series 09	4.00 %	6.50 %	860	3,985	4,845
Series 15	4.00 %	6.50 %	1,619	6,417	8,036
Series 17	4.45 %	6.50 %	2,296	8,317	10,613
Total			6,240	27,844	34,084

2022	**Dividend rate**		**Dividend**		
Dividends	**Minimum**	**Actual**	**Paid in cash**	**Paid in shares**	**Total**
Series					
50th Anniversary	4.00 %	4.11 %	436	2,748	3,184
Series 96	4.00 %	4.00 %	294	1,869	2,163
Series 98	4.00 %	5.25 %	26	168	194
Series 01	4.45 %	5.25 %	522	3,154	3,676
Series 09	4.00 %	5.25 %	717	2,972	3,689
Series 15	4.00 %	5.25 %	1,226	4,794	6,020
Series 17	4.45 %	5.25 %	1,839	6,520	8,359
Total			5,060	22,225	27,285

21 Fee and other income

	2023	2022
Loan and lease servicing fees	17,962	16,273
Wealth management revenue	30,692	29,824
Account service fees	21,626	20,166
Insurance commissions	3,894	6,382
Foreign exchange	9,042	7,546
Other	10,110	12,641
Total fee and other income	93,326	92,832

22 Net gain on financial instruments

	2023	2022
Unrealized gain (loss) on derivatives	(18,080)	24,594
Realized gain on derivatives	22,536	4,436
Hedge ineffectiveness	992	1,739
Unrealized gain (loss) on investments	(2,712)	348
Realized loss on investments	(1,406)	-
Net gain on financial instruments	1,330	31,117

23 Income tax expense

	2023	2022
Current income tax expense	9,968	26,487
Future income tax expense (recovery)	(1,252)	15,343
Total income tax expense	8,716	41,830

Note 12 provides information on the Credit Union's deferred tax assets and liabilities, including amounts recognized directly in OCI.

The tax on the Credit Union's consolidated operating earnings before income taxes differs from the amount that would arise using the Canadian federal and provincial statutorily enacted tax rates as follows:

	2023		2022	
	Tax provision	% of Pre-tax income	Tax provision	% of Pre-tax income
Income before taxes	90,217	n/a	224,408	n/a
Income tax expense at statutory rates	23,937	26.5 %	59,411	26.5 %
Credit union rate reduction	(8,730)	(9.7)%	(16,422)	(7.3)%
Deductible dividend payments[1]	(7,220)	(8.0)%	(5,853)	(2.6)%
Deferred tax asset allowance	878	1.0 %	6,409	2.9 %
Other items	(149)	(0.1)%	(1,715)	(0.9)%
Income tax expense	8,716	9.7 %	41,830	18.6 %
Other comprehensive income (loss) for the year, before tax	7,410	n/a	(2,920)	n/a
Income tax expense, recognized directly in other comprehensive income	472	6.4 %	385	(13.2)%

[1] The Credit Union pays dividends on investment shares which are deductible for income tax purposes.

The amount of income taxes relating to each component of income or OCI can be summarized as follows:

	2023		
	Before income taxes	Income tax expense	Net of income taxes
Net loss on cash flow hedges	(29,869)	4,921	(24,948)
Net loss on cash flow hedges transferred to net income	8,933	(182)	8,751
Actuarial loss in defined benefit pension plans	(674)	132	(542)
Unrealized gains on FVOCI financial assets	29,020	(5,343)	23,677
Other comprehensive income for the year ended December 31, 2023	7,410	(472)	6,938

23 Income tax expense (continued)

	2022		
	Before income taxes	**Income tax expense**	**Net of income taxes**
Net gain on cash flow hedges	46,355	(10,602)	35,753
Net gain on cash flow hedges transferred to net income	(12,769)	3,508	(9,261)
Actuarial loss in defined benefit pension plans	(706)	130	(576)
Unrealized losses on FVOCI financial assets	(35,800)	6,579	(29,221)
Other comprehensive income for the year ended December 31, 2022	(2,920)	(385)	(3,305)

24 Related party transactions

The Credit Union's related parties include its subsidiaries, joint venture, key management personnel and their close family members as well as any entities that are controlled, and jointly controlled or significantly influenced by them. Unless otherwise noted, transactions with related parties include no special terms and conditions and no guarantees were given to or received from the related parties. Outstanding balances are usually settled in cash.

(a) Joint Venture

The joint venture is a related party of the Credit Union.

(b) Key management personnel

Key management personnel include all members of the Board, officers of the Credit Union and members of the Executive Leadership Team of the Credit Union.

Transactions with related parties

Compensation

The compensation paid or payable to key management personnel for director or employee services is shown below:

	2023	**2022**
Salaries, retainers, per diems and other short-term employee benefits	5,837	5,011
Termination benefits	-	2,119
Post-employment benefits	190	199
Total compensation	6,027	7,329

Related party balances and transactions are detailed below:

Loans advanced to related parties

	2023	**2022**
Loan balance as at January 1	5,737	6,715
Change in loan balances during the year	561	(978)
Loan balance as at December 31	6,298	5,737
Total interest revenue earned on loans	213	164

24 Related party transactions (continued)

Revolving credit facilities granted to related parties

	2023	2022
Total value of facilities approved as at January 1	4,985	3,265
Increase in limits granted	725	4,322
Total value of facilities approved at December 31	5,710	7,587
Balance outstanding	(2,786)	(2,602)
Net balance available on facilities as at December 31	2,924	4,985
Total interest revenue earned on revolving credit facilities	125	74

Deposit balances held for related parties

	2023	2022
Deposit balance as at January 1	14,632	20,855
Net change in deposits during the year	(279)	(6,223)
Deposit balance as at December 31	14,353	14,632
Total interest expense on deposits	511	226

Other transactions with related parties

Sales/purchases of goods and services

Key management personnel and parties related to them provided $nil (2022 - $nil) of goods and services to the Credit Union.

Shares and dividends

As at December 31, 2023 related parties hold share capital valued at $368 (2022 - $40). During the year, dividends of $2 (2022 - $4) were paid on these shares.

Guarantees and commitments

Commitments on undrawn credit facilities and letters of credit in the amount of $2,924 (2022 - $4,985) have been issued to related parties.

Restricted party transactions

The Credit Union uses the definition of restricted party contained in the Act. A restricted party includes a person who is, or has been within the preceding twelve months, a director, officer or auditor of the Credit Union, any corporation in which the person owns more than 10% of the voting shares, his or her spouse, their dependent relatives who live in the same household as the person, and any corporation controlled by such spouse or dependent relative.

As at December 31, 2023 the aggregate value of loans issued to restricted parties was $8,241 (2022 - $8,605). These loans have been advanced on the same terms and conditions as have been accorded to all Members of the Credit Union, unless the restricted party is an employee, in which case they received the standard employee discount. There was no allowance for impaired loans required in respect of these loans.

Directors received $1,130 (2022 - $1,111) for annual retainer and per diem and $66 (2022 - $74) for reimbursement of travel and out-of-pocket expenses.

25 Contingent liabilities and commitments

(a) Legal proceedings

The Credit Union is subject to litigation from time to time in the normal course of business. The Credit Union enters legal proceedings primarily relating to the recovery of delinquent loans. As a result, various counterclaims or proceedings have been or may be instituted against the Credit Union. The disposition of the matters that are pending or asserted is not expected by management to have a material effect on the financial position of the Credit Union or on its results of operations.

(b) NHA MBS commitments

The Credit Union is required, as an issuer of NHA MBS, to remit the NHA MBS principal and interest amounts due on outstanding securities to Computershare in the following month, who distributes payments to NHA MBS investors on behalf of CMHC. The total NHA MBS principal and interest amounts due as at December 31, 2023 on NHA MBS that Meridian retains ownership of, either directly or through participation in the CMB Program, are $59,609 (2022 - $62,502).

The Credit Union is required as an issuer of NHA MBS, to fund an additional unscheduled prepayment cash reserve, calculated based on the outstanding principal balance of all outstanding NHA MBS as at December 31, 2023. As at December 31, 2023 the expected amount of the cash reserve required for 2023 is $31,647 (2022 - $50,671).

(c) Commitments for loans

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its Members. Such commitments, which are not included in the consolidated balance sheet, include documentary and commercial letters of credit, which require the Credit Union to honour drafts presented by third parties on completion of specific activities; and commitments to extend credit, which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to certain conditions.

These credit arrangements are subject to the Credit Union’s normal credit standards, financial controls and monitoring procedures and collateral may be obtained where appropriate. The contract amounts for these commitments set out in the table below represent the Credit Union's maximum exposure to credit risk should the contracts be fully drawn, the counterparty default and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn on, the contract amounts do not necessarily represent future cash requirements.

	2023	2022
Undrawn overdrafts and credit facilities	3,663,473	3,545,444
Standby and commercial letters of credit	203,905	220,010
Loans approved but not funded:		
Residential mortgages	29,424	60,864
Personal loans	93	219
Commercial loans	1,345,875	1,775,663
Total loan commitments as at December 31	5,242,770	5,602,200

(d) Guarantees

In the normal course of business, the Credit Union enters into agreements that may contain features which meet the definition of a guarantee under IFRS. The maximum potential amount of future payments represents the amounts that could be lost to the Credit Union under guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

The Credit Union provided a guarantee on behalf of motusbank on payments due to CMHC and CHT relating to its participation in mortgage securitization programs, up to a maximum of $200,000 CAD plus interest. As at December 31, 2023, motusbank's mortgage securitization liability balance including interest is $23,632 (2022 - $27,532).

25 Contingent liabilities and commitments (continued)

(e) Meridian's Commitment to Communities

As part of Meridian's Commitment to Communities program, the Credit Union has entered several contracts resulting in commitments for contributions and sponsorships. These primarily relate to arts, recreation and community facilities across Ontario.

Future payments for all contributions and sponsorship contracts are as follows:

	2023	2022
Within 1 year	2,722	2,797
1 to 5 years	13,713	13,609
Over 5 years	12,550	15,376
Total	28,985	31,782

Total payments made during 2023 were $2,792 (2022 - $2,199) of which $2,690 (2022 - $1,979) are included on the consolidated income statement within administration expenses.

(f) Equity investments

The Credit Union made equity investments in six Limited Partnerships focused on real estate development, and seven Limited partnerships focused on strategic private equity investments. Meridian has invested $31,894 (2022 - $25,236) and has committed to invest up to another $33,435 (2022 - $37,940) within the next six years. To the extent that the General Partners are unable to arrange outside funds to meet the requirements of the business of the Partnerships, the Credit Union may also be required to pay any unfunded portion of its committed amount after the expected commitment period, or return any distributions from the partnerships received to date (No such distributions have yet been received). The related investments are recognized on the consolidated balance sheet in investments in equity instruments, details of which can be found in note 11.

26 Supplementary regulatory information

The Act and FSRA regulations require certain supplementary information be provided in the audited financial statements.

Remuneration of officers and employees

The Act requires credit unions to disclose the total remuneration paid during the year to the five highest paid officers and employees whose total cash-based remuneration for the year exceeded $150. The table below provides this information for the current year:

	Salaries	Bonuses	Benefits	Total
Jay-Ann Gilfoy, President & Chief Executive Officer	572	963	105	1,640
Bill Maurin, former President & Chief Executive Officer	331	1,040	91	1,462
Wade Stayzer, Chief Operating Officer	356	416	89	861
Sunny Sodhi, Chief Legal & Corporate Affairs Officer	314	364	87	765
John Trivieri, Chief Risk Officer	311	256	88	655

Deposit insurance

The annual premium paid to FSRA and CDIC for insuring deposits during the year ended December 31, 2023 was $15,264 (2022 - $13,203). The premium rates are based on relative risk to the insurance fund as measured by an overall composite risk score encompassing financial and other risk based factors.

Central 1 fees

The total fees paid to Central 1 amounted to $2,208 (2022 - $2,297) and are included within non-interest expense on the consolidated income statement. These fees were in respect of banking, clearing, and other services.

27 Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established the Risk Committee and charged it with the responsibility for, among other things, the development and monitoring of risk management policies. The Risk Committee reports regularly to the Board on its activities.

27.1 Credit risk

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of a Credit Union. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create and execute a methodological approach to credit risk assessment to better understand, select and manage exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk and foster a culture of accountability, independence and balance. The responsibility for credit risk management is organization wide in scope, and is managed through the following infrastructure:

(i) approval by the Board, of the Credit Risk Management Policy including, but not limited to, the following six areas:
   a. credit risk assessment, including policies related to credit risk analysis, monitoring risk rating and scoring;
   b. credit risk mitigation, including credit structuring, collateral and guarantees;
   c. credit risk approval, including credit risk limits and exceptions;
   d. credit processes focusing on documentation and administration (supported by robust loan origination system for all lines of business);
   e. credit reviews and ongoing portfolio monitoring, focusing on monitoring financial performance, covenant compliance and any other signs of deteriorating performance;
   f. credit portfolio management, including sectoral, geographic, and overall risk concentration limits, risk quantification and trending;

(ii) approval by the Vice Presidents of Credit Management of the discretionary limits of lending officers throughout the Credit Union;

(iii) credit adjudication subject to compliance with established policies, exposure guidelines and discretionary limits, as well as adherence to established standards of credit assessment. A Credit Management Committee ("CMC") has been established and is charged with the high-level oversight of the Retail, Small Business, Commercial and Credit Card portfolios, including sectoral exposure and geographic concentration, delinquencies, and risk attributes. The CMC reviews portfolio metrics on a regular basis and will consider appropriate responses to changes therein;

(iv) credit department oversight of the following:
   a. the establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board-approved policies governing industry risk and large exposures;
   b. the development and implementation of credit risk models and policies for establishing borrower and security risk ratings to quantify and monitor the level of risk and facilitate management of Commercial credit business;
   c. approval of the scoring techniques and standards used in extending, monitoring and reporting of mortgages, personal loans and lines of credit as well as business related credit products; and
   d. implementation of an ongoing monitoring process of the key risk parameters used in our credit risk models.

The Board has delegated to the CEO the authority to establish a lending hierarchy. As such, a procedure for the delegation of lending authority has been developed and is in active use. The Credit Union employs persons who are trained in managing its credit granting activities. Staff may be delegated individual authorities based on experience and background. Designated staff whose primary job accountabilities are to manage the quality and risk of the Credit Union's portfolio are granted the authority to use judgment and discretion consistent with policy, in discharging their duties.

Management has the responsibility to:

i. systematically identify, quantify, control and report on existing and potential credit risks and environmental risks in the loan portfolio;
ii. prudently manage the exposure to default and loss arising from those risks;
iii. employ and train, as necessary, personnel who can implement risk measurement and credit management techniques, as required by policy; and
iv. meet the requirements as established by regulators

Measuring, monitoring and reporting activities on risk position and exposure are maintained, and compliance and audit responsibilities are in place and adhered to. Both the Board and the Board's Risk Committee receive regular summary performance measurements of the credit portfolio.

The Credit Union's credit risk portfolio is primarily classified as "Retail", "Small Business", "Commercial", "Credit Card" or "Equipment Financing", and a different risk measurement process is employed for each portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

27 Financial risk management (continued)

27.1 Credit risk (continued)

For the purpose of credit management, credit exposure is assessed along these two dimensions: probability of default, which is an estimate of the probability that an obligor with a certain borrower risk rating will default within a one-year time horizon, and loss given default, which represents the portion of credit exposure at default expected to be lost when an obligor defaults.

The Credit Union follows a formal loan granting process that addresses appropriate security documentation, its registration, the need and use of credit bureau reports and other searches, situations where co-signers or guarantors may be or will be required, the use of wage assignments and the use of accredited appraisers, lawyers and other professionals.

The Credit Union's credit risk portfolio is diversified with the objective of spreading risk. Diversification is assessed using different measures in each portfolio. In the Retail portfolio, diversification areas include authorized loan types, forms of security, geographic concentrations, and sectoral groupings or such other objective criteria that the Board may set from time to time. In the Small Business and Commercial loan portfolio, diversification is achieved through establishing credit exposure limits for specific industry sectors, individual borrowers and borrower groups (multiple borrowers grouped together based on shared security or the same income source). Industry rating models and detailed industry analysis are key elements of this process. Where several industry segments are affected by common risk factors, an exposure limit may be assigned to those segments in aggregate. Management regularly reviews the above parameters to ensure that acceptable diversification is maintained. The top five industry sectors represent approximately 66% (2022 - 69%) of the total Commercial loan portfolio.

Equipment Financing is diversified based on both geography (within Canada) and the asset classes being leased to obligors. Diversification within the portfolio is reviewed on a regular basis. The top five asset classes represent 89% (2022 – 90%) of the portfolio.

Credit scoring is the primary risk rating system for assessing Retail exposure risk. Retail exposure is managed on a pooled basis, where each pool consists of exposures that possess similar homogeneous characteristics. The Retail credit segment is composed of many Members, and includes residential mortgages, secured and unsecured loans and lines of credit, and credit cards. Requests for Retail credit are generally processed using automated credit and behavioural decisioning tools. Standard evaluation criteria may include but are not limited to: gross debt service ratio, total debt service ratio, and loan to value ratio. Within this framework, adjudication occurs within designated approval limits. Retail exposures are assessed on a pooled basis and measured against an internal benchmark of acceptable risk penetration levels within each pool. Internal benchmarks are established using "Equifax Beacon score". Equifax Inc. is a global service provider of this credit score, which is a mathematical model used to predict how likely a person is to repay a loan. The score is based on information contained in an individual's credit report. This information is obtained from credit lenders from which the consumers have borrowed in the past and/or are currently borrowing from. The benchmark is measured monthly to ensure that the risk of the portfolio is managed on an ongoing basis. The risk ratings of the portfolio range from A+, which represents very low risk, to E, which represents the highest risk.

The Small Business and Commercial credit risk rating model is premised on a comprehensive assessment of the borrower's risk of default, through measurement of industry, business, management and financial risk factors along with the risk of loss given default based on assessment of security composition and relative historical recovery experience. The model includes a standard set of industry-specific questions and answers that align to an implied level of risk. Questions are given varied weightings and an overall borrower risk rating is derived from a cumulative weighting of the answers. The Commercial loan portfolio stratified by risk rating is reviewed monthly.

Key performance indicators for Meridian's credit card portfolio are reported through operational management and the Credit Management Committee on a monthly basis. Consumer card adjudication is completed through a combination of decision engines and manual review. Business card adjudication is managed through a business loan origination system and existing credit granting practices.

Equipment Financing credit risk is assessed using either a credit scoring system or a credit risk rating model depending on the size of the financing. Smaller financings are assessed using a credit scoring system similar to the Credit Union's Retail assessment process. A robust credit risk rating is determined for larger financing arrangements.

Except as noted, the carrying value of financial assets recorded in the consolidated financial statements, which is net of expected credit losses, represents the Credit Union's maximum exposure to credit risk. The Credit Union is also exposed to credit risk through transactions which are not recognized in the consolidated balance sheet, such as granting financial guarantees and extending loan commitments. Refer to note 25 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to notes 7.1 and 7.2 for a description of the nature of the security held against loans as at the consolidated balance sheet date.

27 Financial risk management (continued)

27.1 Credit risk (continued)

The credit quality of the portfolio continues to be actively monitored using a wide array of tools and techniques, with real-time insights and sound financial advice provided to Members to help them maintain their financial well-being.

Expected credit loss measurement:

IFRS 9 outlines a three-stage model for the impairment of in-scope financial assets and other off-balance sheet exposures as outlined in note 3. Throughout the discussion below, the term "financial asset" should be assumed to apply to all exposures covered by the IFRS 9 impairment model.

- A financial asset that is not credit impaired on initial recognition starts in 'stage 1' and continues to be monitored for changes in credit risk. Financial assets in stage 1 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over the next 12 months.
- If a SICR since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet considered credit impaired. Financial assets in stage 2 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over their residual expected life.
- If the financial instrument is credit impaired, it is moved to 'stage 3'. Like stage 2, financial assets in stage 3 have a loss allowance measured at an amount equal to ECL resulting from defaults possible over their residual expected life. However, when a financial asset is moved to stage 3, a more detailed analysis incorporating specific characteristics of the loan (e.g. security) is undertaken. A pervasive concept in measuring ECL in accordance with IFRS 9 is that entities should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired at initial recognition. Their ECL is always measured on a lifetime basis (stage 3).

For the purposes of expected credit loss modelling, the Credit Union has segregated in-scope financial assets into groupings consistent with internal credit risk management practices. For the Credit Union, loans have been segmented into the following portfolios: Retail, Commercial, Small Business and Credit Card. Separate models have been developed for loans in motusbank and equipment financing in OneCap. Within each portfolio, financial assets have been further segregated into product groupings with similar contractual features.

The key judgments and assumptions adopted by the Credit Union in addressing the requirements of the standard are discussed below:

Significant increase in credit risk:

The Credit Union assesses a range of both qualitative and quantitative factors when determining if there has been a SICR since initial recognition. A SICR is deemed to have occurred if any of the following criteria have been met:

- The loan is 30 days past due
- External credit metrics, including rating agency and credit bureau scores, have deteriorated by an amount considered by management to be significant
- Internal metrics, such as credit utilization, etc. may be considered collectively or in isolation for the purpose of determining whether a SICR has occurred.
- The industry of the borrower is considered highly exposed to the uncertainties of the current economic environment.
- Judgment is applied in making this assessment.

The external credit metrics used in this assessment vary across the Credit Union's portfolios. Wherever possible, the thresholds set have been aligned with those that would drive lending decisions such as loan approvals, limits, pricing, etc. Due to transactional volume, the staging decision for Retail, Credit Card and Equipment Financing portfolios relies primarily on external metrics. However, robust internal credit risk assessments are performed more regularly for Commercial and Small Business Members. These include annual reviews as well as other 'early warning' triggers and are considered in the staging decision for loans in those portfolios.

The Credit Union has not applied the low credit risk exemption for any financial instruments in the year ended December 2023 or 2022.

27 Financial risk management (continued)

27.1 Credit risk (continued)

Definition of default and credit-impaired assets:

The Credit Union's definition of default and credit impairment is consistent across credit management and accounting policies, with a financial instrument considered to be credit impaired when it meets any of the following criteria:

- The loan is 90 days past due
- The Member has filed for bankruptcy or consumer proposal in the current month or the bankruptcy is expected to result in the member not meeting the contractual terms of the loan
- The borrower has failed to meet the terms under which a loan has been granted (e.g. breach of financial covenants) and legal action has commenced
- Based on other objective evidence, the Member's internal risk rating has been set to 'Impaired' and Credit Recovery has taken over responsibility for the file

The definition of default has been applied consistently across all of the Credit Union's portfolios as well as in all aspects of the expected credit loss calculation (e.g. probability of default, exposure at default and loss given default).

Measuring ECL – Explanation of inputs, assumptions and estimation techniques:

Allowances for ECL are measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is credit impaired. ECL are the discounted product of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD").

Probability of default:

The PD represents the likelihood of a Member defaulting on its financial obligation, either over the next 12 months or the remaining lifetime (depending on the stage to which the financial asset belongs).

The approach for calculating PD will vary depending on the portfolio. Internal credit risk metrics, external credit bureau scores, as well as delinquency are used to measure a Member's level of credit risk. These indicators are converted into a 12-month PD using models based either on internal loss history or industry data.

When required, 12-month PDs are converted to lifetime PDs by extrapolating them over the loan's residual expected life using the relationship between time and default. This is supported by vintage loss analyses prepared for each product. For term facilities, residual expected life is based on contractual maturity. For revolving products, this is estimated based on the historical average time to close for similar products.

Exposure at default:

The EAD represents the amount the Credit Union expects to be owed at the time of default. For example, on revolving facilities, the Credit Union considers the amount that is expected to be drawn leading up to default. On term facilities, the Credit Union considers the amount it expects to be paid down leading up to default.

Twelve-month and lifetime EADs are determined based on the historical average payment or drawdown profile for similar products.

Loss given default:

The LGD represents what the Credit Union expects to lose on a defaulted exposure. LGD will vary by the type of counterparty, type and seniority of claim and availability of other credit support. However, for ECL modelling purposes, the Credit Union has grouped products with similar risk characteristics pertaining to collateral. The LGD is expressed as a percentage of EAD.

These inputs are combined to project ECL over either the next 12 months or the entire lifetime of a credit exposure. The expected credit loss is discounted back to present using the instrument's effective interest rate.

Assumptions underlying the ECL calculation and modelling inputs are monitored and reviewed at least annually.

27 Financial risk management (continued)

27.1 Credit risk (continued)

Forward-looking information incorporated into the ECL models:

The modelling approach discussed above is with respect to the estimation of 'point-in-time' ECL. These represent an estimation of losses expected under prevailing macroeconomic conditions. IFRS requires entities to assess ECL on a forward-looking basis. The Credit Union has chosen to incorporate this requirement as an overlay to the point-in-time model outputs. This overlay is part of the standard procedures for ECL modelling and has been applied at the portfolio rather than product or ECL input level.

The Credit Union has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. The relationship between historical credit losses and range of macroeconomic variables have been assessed for each of the Credit Union's portfolios to determine directional correlation and statistical strength. Those macroeconomic variables that were demonstrated to be correlated to credit losses were incorporated into multivariate linear regression models. Models have been used to estimate loss levels under various alternative economic scenarios as measured by the chosen macroeconomic variables. Adjustment factors have been calculated by assessing the relative size of losses implied by the model under current conditions versus the alternative forward-looking scenarios. These factors are applied to point-in-time ECL to estimate ECL under alternative economic scenarios.

Six forward-looking scenarios have been considered:

i. Baseline
ii. 4th percentile upside scenario
iii. 10th percentile upside scenario
iv. 75th percentile downside scenario
v. 90th percentile downside scenario
vi. 96th percentile downside scenario

Each of these scenarios has been informed by Moody's Canada Macroeconomic Outlook. Moody's estimates high-level probability bands for each scenario which have been overlaid with management judgment to arrive at the weightings assigned to each scenario for the macroeconomic overlay. The other scenarios have been re-weighted in accordance with this change. Interest rate scenarios are based on expectations of ten-year Government of Canada bond yields..

27 Financial risk management (continued)

27.1 Credit risk (continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at December 31, 2023 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for portfolios depending on their geographic footprint.

		2023	2024	2025	2026	2027	2028
Real GDP	Baseline	0.6%	1.1%	1.6%	2.0%	2.1-2.2%	2.1%
Growth	4th percentile upside	0.6%	4.3-4.4%	3.0%	2.6%	2.2-2.3%	2.2%
	10th percentile upside	0.6%	3.0-3.1%	2.4%	2.1%	2.3%	2.1-2.2%
	75th percentile downside	0.6%	(1.1)-(1.2)%	1.8%	2.3-2.4%	2.2-2.3%	2.3%
	90th percentile downside	0.6%	(2.4)-(2.5)%	0.5-0.6%	2.3-2.4%	3.1%	2.5%
	96th percentile downside	0.6%	(4.2)-(4.5)%	(0.7)-(0.9)%	2.6-2.7%	3.5-3.6%	2.8-2.9%
Unemployment	Baseline	5.4-5.6%	6.2-6.4%	6.2-6.4%	6.1-6.2%	6.0-6.1%	6.0-6.1%
	4th percentile upside	5.4-5.6%	4.7-5.0%	3.8-4.0%	4.3-4.4%	4.7-4.8%	5.1-5.2%
	10th percentile upside	5.4-5.6%	5.4-5.7%	4.9-5.1%	5.1-5.2%	5.3-5.4%	5.5-5.6%
	75th percentile downside	5.4-5.6%	7.4-7.5%	7.7%	7.1-7.2%	6.6-6.8%	6.3-6.5%
	90th percentile downside	5.4-5.6%	8.4-8.5%	9.5%	8.3%	7.3-7.4%	6.7%
	96th percentile downside	5.4-5.6%	9.8-9.9%	11.6-11.7%	10.2-10.3%	8.6-8.7%	7.5-7.6%
Interest Rates	Baseline	3.4%	4.1%	4.0%	4.2%	4.2%	4.2%
	4th percentile upside	3.4%	4.3%	4.4%	4.3%	4.3%	4.3%
	10th percentile upside	3.4%	4.2%	4.2%	4.2%	4.2%	4.2%
	75th percentile downside	3.4%	2.6%	3.0%	4.0%	4.2%	4.2%
	90th percentile downside	3.4%	2.3%	2.4%	3.5%	3.9%	4.1%
	96th percentile downside	3.4%	2.1%	2.1%	2.9%	3.5%	4.0%

The weightings assigned to each scenario were as follows:

Baseline:	46%
4th percentile upside:	7%
10th percentile upside:	10%
75th percentile downside:	20%
90th percentile downside:	10%
96th percentile downside:	7%

27 Financial risk management (continued)

27.1 Credit risk (continued)

The most significant period-end assumptions used for the ECL estimate as at December 31, 2022 are set out below. The ranges (where relevant) capture variability between Ontario versus national economic forecasts used for portfolios depending on their geographic footprint.

		2022	2023	2024	2025	2026	2027
Real GDP	Baseline	2.0-2.2%	0.0-0.4%	2.3-2.6%	2.0-2.2%	2.0-2.1%	2.0-2.1%
Growth	4th percentile upside	2.0-2.2%	3.8-4.2%	3.6-4.0%	2.0-2.1%	1.9-2.0%	1.9-2.0%
	10th percentile upside	2.0-2.2%	2.2-2.6%	2.9-3.3%	1.9-2.1%	2.1-2.2%	2.0-2.1%
	75th percentile downside	2.0-2.2%	(2.3)-(1.9)%	2.5-2.8%	2.4-2.5%	2.1-2.2%	2.1-2.2%
	90th percentile downside	2.0-2.2%	(3.9)-(3.5)%	1.3-1.7%	2.3-2.5%	2.8-3.0%	2.4-2.5%
	96th percentile downside	2.0-2.2%	(6.0)-(5.7)%	(0.1)-0.2%	2.7-2.9%	3.3-3.5%	2.6-2.8%
Unemployment	Baseline	5.3-5.7%	6.0-6.1%	6.1-6.2%	5.9-6.1%	5.7-6.0%	5.6-6.0%
	4th percentile upside	5.3-5.7%	4.6%	3.6-3.8%	4.0-4.3%	4.4-4.7%	4.7-5.1%
	10th percentile upside	5.3-5.7%	5.3%	4.8-5.0%	4.8-5.1%	5.0-5.3%	5.1-5.5%
	75th percentile downside	5.3-5.7%	7.3-7.4%	7.7%	6.9-7.1%	6.3-6.6%	5.9-6.3%
	90th percentile downside	5.3-5.7%	8.3-8.5%	9.5-9.6%	8.1-8.2%	7.0-7.3%	6.2-6.6%
	96th percentile downside	5.3-5.7%	9.7-9.9%	11.7-11.9%	10.1-10.2%	8.3-8.7%	7.0-7.5%
Interest Rates	Baseline	3.0%	4.8%	4.4%	4.0%	4.0%	3.9%
	4th percentile upside	3.0%	4.5%	4.2%	3.9%	4.0%	3.9%
	10th percentile upside	3.0%	4.6%	4.3%	4.0%	4.0%	3.9%
	75th percentile downside	3.0%	3.8%	3.5%	3.8%	3.9%	3.9%
	90th percentile downside	3.0%	3.3%	3.0%	3.6%	3.9%	3.9%
	96th percentile downside	3.0%	3.1%	2.7%	3.1%	3.6%	3.9%

For 2022, the weightings assigned to each scenario were as follows:

Baseline:	46%
4th percentile upside:	7%
10th percentile upside:	10%
75th percentile downside:	20%
90th percentile downside:	10%
96th percentile downside:	7%

Models used to calculate the macroeconomic overlay adjustments, as well as the scenario design and weightings, are reviewed at least annually. Additional qualitative adjustments have been taken for the Commercial, Small Business and Credit Card portfolios due to low levels of historical impairments.

27 Financial risk management (continued)

27.1 Credit risk (continued)

Given the sensitivity of allowances for ECL to estimates of future economic conditions the multiple forward-looking scenarios and probability assigned to each, an analysis has been undertaken to understand the impact of alternative scenarios and weightings. Moving the following economic metrics up or down 50 basis points results in the following changes in the allowance:

Economic scenario sensitivity	2023	2022
Real GDP growth		
Increase 50 bps	(1,019)	(900)
Decrease 50 bps	1,019	900
Unemployment		
Increase 50 bps	5,192	1,503
Decrease 50 bps	(4,792)	(1,503)
Interest rates		
Increase 50 bps	691	788
Decrease 50 bps	(691)	(788)

Probability weightings	2023	2022
75th percentile downside scenario +10% weighting	3,354	1,022
75th percentile downside scenario -10% weighting	(1,762)	(2,553)
96th percentile downside scenario weighted 100%	19,969	24,718
4th percentile upside scenario weighted 100%	(20,885)	(18,992)

Economic related overlays:

Given new and emerging economic uncertainties relating to inflation, interest rates, the housing market, and the impacts of a slowing economy, management continues to apply other adjustments and overlays to ensure these are adequately reflected in allowances for ECL. To the extent these adjustments were applied at the product level, they have been included within the separate line items in the movements in allowance tables in note 7.1.

27.2 Market risk

(a) Interest rate risk

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when it enters into banking transactions with its Members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is repriced when interest rates change, when there is cash flow from final maturity, normal amortization, or when Members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively Members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. Overall responsibility for asset and liability management rests with the Board. As such, the Board receives regular reports on risk exposures and performance against approved limits. The Board delegates the responsibility to manage the interest rate risk on a day-to-day basis to the Asset and Liability Committee ("ALCO"), which meets no less frequently than monthly. ALCO is chaired by the CFO and includes other senior executives.

27 Financial risk management (continued)

27.2 Market risk (continued)

The key elements of the Credit Union's interest rate risk management framework include:

i. guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of asset cash flows in relation to liability cash flows;

ii. guidelines and limits on the use of derivative financial instruments to hedge against a risk of loss from interest rate changes; and

iii. requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

Valuations of all asset and liability positions, as well as off-balance sheet exposures, are performed no less frequently than monthly. The Credit Union's objective is to establish and maintain a balance sheet and off-balance sheet structure that will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying values of interest sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates or mature, and are summed to show the interest rate sensitivity gap. Amounts relating to non-interest sensitive assets and liabilities are also disclosed for the purpose of tying back to the total carrying value of each line item. Loans are adjusted for prepayment and redemption estimates which reflect expected repayments on other than contractual maturity dates. The prepayment rate applied to the portfolio is based on experience and current economic conditions. The average rates presented represent the weighted average effective yield based on the earlier of contractual repricing or maturity dates. Further information related to the derivative financial instruments used to manage interest rate risk is included in note 8.

27 Financial risk management (continued)

27.2 Market risk (continued)

	December 31, 2023					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Assets						
Cash and interest-bearing deposits	959,744	-	-	-	32,053	991,797
Yield	5.05 %	-	-	-	-	4.89 %
Debt securities	9,245	955,743	1,394,952	9,616	11,361	2,380,917
Yield	5.06 %	4.61 %	3.93 %	3.71 %	-	4.19 %
Loans	5,017,171	6,139,043	12,374,294	79,987	128,831	23,739,326
Yield	8.14 %	4.28 %	3.91 %	5.83 %	-	4.96 %
Derivative financial assets	57,554	-	-	-	-	57,554
Yield	-	-	-	-	-	-
Equity investments	-	122	5,095	-	52,748	57,965
Yield	-	-	-	-	-	-
Other assets	-	1,966	6,496	1,756	305,910	316,128
Yield	-	1.04 %	1.04 %	1.11 %	-	0.04 %
Total assets	6,043,714	7,096,874	13,780,837	91,359	530,903	27,543,687
Liabilities and Members' equity						
Deposits	5,964,543	7,914,794	3,473,840	3,097	2,306,229	19,662,503
Yield	3.22 %	4.84 %	4.75 %	5.10 %	-	3.77 %
Securitization liabilities	1,164,200	915,092	3,387,428	2,813	(65,498)	5,404,035
Yield	5.32 %	1.91 %	2.22 %	-	-	2.21 %
Funding facilities	299,987	-	-	-	1,593	301,580
Yield	6.25 %	-	-	-	-	6.22 %
Subordinated debt	50,000	-	125,000	-	690	175,690
Yield	8.89 %	-	4.59 %	-	-	5.80 %
Right-of-use lease liabilities	-	8,000	28,060	24,634	-	60,694
Yield	-	3.41 %	3.56 %	3.82 %	-	3.64 %
Derivative financial liabilities	10,009	-	-	-	-	10,009
Yield	-	-	-	-	-	-
Other liabilities and Members' equity	-	392	1,494	550	1,926,740	1,929,176
Yield	-	1.04 %	1.04 %	1.12 %	-	-
Total liabilities and Members' equity	7,488,739	8,838,278	7,015,822	31,094	4,169,754	27,543,687
Fixed pay swaps	1,746,191	(693,308)	(1,034,882)	(18,001)	-	-
Yield	5.42 %	2.44 %	3.13 %	3.76 %	-	-
Fixed receive swaps	(1,157,000)	657,000	500,000	-	-	-
Yield	5.06 %	4.54 %	3.31 %	-	-	-
Total derivatives	589,191	(36,308)	(534,882)	(18,001)	-	-
Interest sensitivity position	(855,834)	(1,777,712)	6,230,133	42,264	(3,638,851)	-

27 Financial risk management (continued)

	December 31, 2022					
	Variable	Less than 1 year	1 to 5 years	Over 5 years	Non-Interest sensitive	Total
Assets						
Cash and interest-bearing deposits	1,505,994	-	-	-	7,813	1,513,807
Yield	4.23 %	-	-	-	-	4.21 %
Debt securities	-	604,779	1,045,508	43,304	8,779	1,702,370
Yield	-	4.08 %	3.98 %	3.98 %	-	3.99 %
Loans	5,274,633	6,177,736	10,938,186	72,931	5,622	22,469,108
Yield	7.31 %	3.82 %	3.31 %	5.45 %	-	4.46 %
Derivative financial assets	93,194	-	-	-	-	93,194
Yield	-	-	-	-	-	-
Equity investments	-	-	5,231	-	48,307	53,538
Yield	-	-	-	-	-	-
Other assets	-	1,990	7,012	3,168	311,480	323,650
Yield	-	1.03 %	1.04 %	1.05 %	-	0.05 %
Total assets	6,873,821	6,784,505	11,995,937	119,403	382,001	26,155,667
Liabilities and Members' equity						
Deposits	6,915,162	6,291,038	2,959,462	3,455	2,357,103	18,526,220
Yield	2.71 %	3.23 %	4.00 %	5.39 %	-	2.75 %
Securitization liabilities	1,575,312	954,902	2,912,082	853	(86,162)	5,356,987
Yield	5.12 %	1.73 %	1.81 %	3.03 %	-	2.25 %
Funding facilities	300,000	-	-	-	1,325	301,325
Yield	5.46 %	-	-	-	-	5.44 %
Subordinated debt	50,000	-	125,000	-	581	175,581
Yield	8.11 %	-	4.60 %	-	-	5.59 %
Right-of-use lease liabilities	-	8,140	30,134	26,776	-	65,050
Yield	-	3.02 %	3.13 %	3.25 %	-	3.17 %
Derivative financial liabilities	5,414	-	-	-	-	5,414
Yield	-	-	-	-	-	-
Other liabilities and Members' equity	-	398	1,524	913	1,722,255	1,725,090
Yield	-	1.03 %	1.03 %	1.09 %	-	-
Total liabilities and Members' equity	8,845,888	7,254,478	6,028,202	31,997	3,995,102	26,155,667
Fixed pay swaps	1,778,711	(382,734)	(1,374,909)	(21,068)	-	-
Yield	4.40 %	1.76 %	1.58 %	1.41 %	-	-
Fixed receive swaps	(507,000)	200,000	307,000	-	-	-
Yield	3.54 %	4.24 %	3.08 %	-	-	-
Total derivatives	1,271,711	(182,734)	(1,067,909)	(21,068)	-	-
Interest sensitivity position	(700,356)	(652,707)	4,899,826	66,338	(3,613,101)	-

27 Financial risk management (continued)

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and financial liabilities to standard interest rate shock scenarios. The key metrics used to monitor this sensitivity are Earnings at Risk ("EaR") and Economic Value of Equity at Risk ("EVaR"). EaR is defined as the change in our net interest income from a predetermined shock to interest rates measured over a 12 month period. EVaR is defined as the change in the present value of the Credit Union's asset portfolio resulting from a predetermined shock versus the change in the present value of the Credit Union's liability portfolio resulting from the same predetermined interest rate shock. The Credit Union completes various static and dynamic interest rate shock scenarios throughout the year, including a 100 basis point ("bps") rate shock. The estimated impact of a 100 bps rate shock on these metrics is presented below.

	2023	2022
EaR: 100 bps exposure	(16,931)	(14,920)
EVaR: 100 bps exposure	(2.93)%	(1.34)%

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Credit Union is exposed to foreign currency risk as a result of its Members' activities in foreign currency denominated deposits and cash transactions. The Credit Union's foreign currency risk is subject to formal risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits are designed to ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variances from approved limits. The activities that expose the Credit Union to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar. U.S. dollar denominated liabilities are hedged through a combination of U.S. dollar investments and forward rate agreements to buy U.S. dollars and net exposure as measured daily is limited to 1% of prior year ending Members' equity. The Credit Union uses forward foreign currency derivative financial instruments to neutralize its exposure to foreign exchange contracts with Members. As at December 31, 2023 and December 31, 2022, the Credit Union's exposure to a 10% change in the foreign currency exchange rate, which is reasonably possible, is insignificant.

(c) Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. The Credit Union's other price risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits assist in ensuring, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. As at December 31, 2023 and December 31, 2022, the Credit Union has limited investments subject to other price risk and this exposure is insignificant.

27 Financial risk management (continued)

27.3 Liquidity risk

Liquidity risk arises in the course of managing the Credit Union's financial assets and financial liabilities. It is the risk that the Credit Union is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund its consolidated balance sheet under both normal and stressed market environments. The Credit Union's liquidity risk is subject to formal risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits assist in ensuring, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Act as well as FSRA's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. ALCO provides management oversight of liquidity risk through its monthly meetings.

The key elements of the Credit Union's liquidity risk management framework include:

- limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding;
- a methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds;
- prudence tests of quality and diversity where investments bear credit risk;
- parameters to limit term extension risk;
- implementation of deposit concentration limits in order to assist in ensuring diversification and stability of deposit funding; and
- requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

Under FSRA regulations, the Credit Union will establish and maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and all other obligations as they come due. The liquid asset ratio measures the Credit Union's liquid assets as a percentage of total assets and is used by the Credit Union to monitor its liquidity position, in addition to Liquidity Coverage Ratio and Net Cumulative Cash Flows metrics. As at December 31, 2023, the Credit Union's liquid asset ratio was 15.25% (2022 – 13.08%).

The table below sets out the period in which the Credit Union's non-derivative financial assets and financial liabilities will mature and be eligible for renegotiation or withdrawal. These cash flows are not discounted and include both the contractual cash flows pertaining to the Credit Union's consolidated balance sheet assets and liabilities and the future contractual cash flows that they will generate. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies, as set out in note 25.

27 Financial risk management (continued)

27.3 Liquidity risk (continued)

	December 31, 2023						
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and interest-bearing deposits	991,797	-	-	-	-	-	991,797
Debt securities	510,373	512,573	770,117	752,976	10,137	1,150	2,557,326
Loans	1,823,473	7,846,458	11,269,445	5,353,877	116,795	10,860	26,420,908
Equity investments	83	327	570	326	-	57,442	58,748
Other assets	22,050	1,941	3,413	2,943	2,215	-	32,562
Total financial assets	3,347,776	8,361,299	12,043,545	6,110,122	129,147	69,452	30,061,341
Financial liabilities							
Deposits	8,760,487	7,283,194	2,728,955	1,500,817	5,796	-	20,279,249
Securitization liabilities	40,105	1,101,769	2,895,360	1,520,283	250,820	-	5,808,337
Funding facilities	1,593	301,587	-	-	-	-	303,180
Subordinated debt	1,068	9,882	135,342	9,028	54,513	-	209,833
Right-of-use lease liabilities	827	9,107	18,065	15,329	26,830	-	70,158
Other liabilities	196,388	380	797	751	555	-	198,871
Total financial liabilities	9,000,468	8,705,919	5,778,519	3,046,208	338,514	-	26,869,628
Net	(5,652,692)	(344,620)	6,265,026	3,063,914	(209,367)	69,452	3,191,713

27 Financial risk management (continued)

27.3 Liquidity risk (continued)

	December 31, 2022						
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Not specified	Total
Financial assets							
Cash and interest-bearing deposits	1,513,807	-	-	-	-	-	1,513,807
Debt securities	129,938	505,836	727,368	468,301	52,393	9,929	1,893,765
Loans	1,772,194	8,570,245	9,168,837	4,980,782	113,451	11,701	24,617,210
Equity investments	81	251	655	652	-	52,869	54,508
Other assets	29,960	1,906	3,895	3,030	3,643	-	42,434
Total financial assets	3,445,980	9,078,238	9,900,755	5,452,765	169,487	74,499	28,121,724
Financial liabilities							
Deposits	9,773,360	5,980,277	2,435,906	737,470	4,563	-	18,931,576
Securitization liabilities	108,434	1,369,493	2,579,027	1,406,331	230,475	-	5,693,760
Funding facilities	1,406	15,339	303,389	-	-	-	320,134
Subordinated debt	2,047	7,793	141,265	8,237	59,941	-	219,283
Right-of-use lease liabilities	828	9,155	19,516	15,666	28,919	-	74,084
Other liabilities	173,592	390	819	774	925	-	176,500
Total financial liabilities	10,059,667	7,382,447	5,479,922	2,168,478	324,823	-	25,415,337
Net	(6,613,687)	1,695,791	4,420,833	3,284,287	(155,336)	74,499	2,706,387

27 Financial risk management (continued)

The table below sets out the undiscounted contractual cash flows of the Credit Union's derivative financial assets and liabilities:

	December 31, 2023					
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	7,668	7,399	2,594	-	17,661
Gross-settled foreign exchange forward contracts						
Purchase of foreign currency	-	(656)	-	-	-	(656)
Sale of foreign currency	-	660	-	-	-	660
Interest rate swaps						
Fixed pay swaps	2,576	42,039	9,682	(2,054)	(92)	52,151
Fixed receive swaps	(965)	(10,782)	(19,657)	-	-	(31,404)
Bond forwards	-	45	-	-	-	45
Total	1,611	38,974	(2,576)	540	(92)	38,457

	December 31, 2022					
	Less than 1 month	2 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Equity index-linked options	-	8,186	8,457	3,032	-	19,675
Gross-settled foreign exchange forward contracts						
Purchase of foreign currency	(474)	(955)	-	-	-	(1,429)
Sale of foreign currency	475	958	-	-	-	1,433
Interest rate swaps						
Fixed pay swaps	(122)	(7,054)	(18,734)	(15,777)	(678)	(42,365)
Fixed receive swaps	994	38,396	36,057	6,402	564	82,413
Total	873	39,531	25,780	(6,343)	(114)	59,727

Derivative financial assets and liabilities reflect interest rate swaps that will be settled on a net basis and foreign exchange forward contracts and index-linked equity options that will be settled on a gross basis (see note 8).

The gross cash flows disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial assets and liabilities held for risk management purposes and which are infrequently terminated before contractual maturity. The future cash flows on derivative instruments may differ from the amount in the above table as interest rates, exchange rate and equity market indices change. Cash outflows relating to the embedded written option in equity index-linked deposits are included with deposits in the previous table for non-derivative financial assets and liabilities.

27.4 Fair value

The following table represents the fair values of the Credit Union's financial assets and financial liabilities for each classification of financial instruments. The fair values for short-term financial assets and financial liabilities approximate carrying value. These include accrued interest receivable, accounts payable, accrued liabilities and accrued interest payable. The fair values disclosed do not include the value of liabilities 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, many of the Credit Union'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.

27 Financial risk management (continued)

27.4 Fair value (continued)

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.

	December 31, 2023			December 31, 2022		
	Carrying value	Fair value	Fair value differences	Carrying value	Fair value	Fair value difference
Financial assets at FVTPL:						
Derivative instruments						
Equity index-linked options	17,495	17,495	-	19,447	19,447	-
Interest rate swaps assets	40,009	40,009	-	72,636	72,636	-
Bond forwards	45	45	-	1,035	1,035	-
Foreign exchange contracts	5	5	-	76	76	-
Equity investments	52,225	52,225	-	47,638	47,638	-
Financial assets at FVTOCI:						
Debt securities	1,755,294	1,755,294	-	1,503,469	1,503,469	-
Equity investments	5,217	5,217	-	5,231	5,231	-
Amortized cost:						
Cash and interest-bearing deposits	991,797	991,797	-	1,513,807	1,513,807	-
Debt securities	625,623	625,645	22	198,901	198,016	(885)
Loans	23,739,326	22,967,809	(771,517)	22,469,108	21,953,210	(515,898)
Other assets	27,511	26,922	(589)	36,936	36,090	(846)
Total financial assets	27,254,547	26,482,463	(772,084)	25,868,284	25,350,655	(517,629)
Financial liabilities at FVTPL:						
Derivative instruments						
Interest rate swaps	10,008	10,008	-	5,333	5,333	-
Foreign exchange contracts	1	1	-	81	81	-
Other liabilities:						
Deposits	19,662,503	19,676,462	13,959	18,526,220	18,404,889	(121,331)
Securitization liabilities	5,404,035	5,298,769	(105,266)	5,356,987	5,231,579	(125,408)
Funding facilities	301,580	301,580	-	301,325	301,325	-
Subordinated debt	175,690	171,484	(4,206)	175,581	169,958	(5,623)
Other liabilities	198,703	198,543	(160)	176,320	176,091	(229)
Total financial liabilities	25,752,520	25,656,847	(95,673)	24,541,847	24,289,256	(252,591)

27 Financial risk management (continued)

Interest rate sensitivity is the main cause of changes in the fair values of the Credit Union's financial instruments. Except for financial assets and financial liabilities recorded at FVTPL and FVTOCI, the carrying values of the above financial instruments are not adjusted to reflect the fair value.

The following methods and assumptions were used to estimate the fair value of financial instruments:

i. The fair value of cash and cash equivalents, excluding short-term deposits with original maturities of 100 days or less, are assumed to approximate their carrying values, due to their short-term nature. The fair value of short-term deposits with original maturities of 100 days or more are based on fair market values, which are derived from valuation models and a credit valuation adjustment is applied to account for counterparty risk.
ii. The fair value of investments in debt instruments is determined either by discounting the expected future cash flows on these investments at current market rates and applying a credit valuation adjustment for counterparty risk, or by taking the fair values provided in investor statements
iii. The fair value of equity investments are determined using discounted cash flow models, by referencing market prices, or by taking fair values provided in investor statements. For some equity investments, particularly real estate participations, changes in fair value are unobservable in the early stages of the projects as cash flow generation has not yet begun. In such cases, the Credit Union reviews information available to investors to determine if there are material changes in circumstances from when the original investment was made and the extent to which these may impact the fair value of the investment.
iv. The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to carrying value. The interest rates on these loans and deposits reprice on a periodic basis with market fluctuation. Repricing of uninsured floating rate deposits incorporates a spread that accounts for the Credit Union's own credit risk. Impairment allowances, which are included in the carrying value of variable rate loans, are assumed to capture changes in credit spreads.
v. The fair value of other assets are assumed to approximate their carrying values when short-term in nature. In some instances, other valuation techniques may be applied.
vi. The estimated fair value of fixed rate deposits and Member entitlements is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. A credit valuation adjustment is applied when determining the current market rates used to calculate the fair value of uninsured fixed rate deposits to account for counterparty and the Credit Union's own credit risk.
vii. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows of these loans at current market rates for products with similar terms and credit risks. Historical prepayment experience is considered along with current market conditions in determining expected future cash flows. In determining the adjustment for credit risk, consideration is given to market conditions, the value of underlying security and other indicators of the borrower's creditworthiness.
viii. The estimated fair value of derivative instruments is determined through valuation models based on the derivative notional amounts, maturity dates and rates and a credit valuation adjustment is applied to account for counterparty and the Credit Union's own credit risk.
ix. The fair values of payables and other liabilities are assumed to approximate their carrying values when short-term in nature. In some instances, other valuation techniques may be applied.

Fair values are determined based on a three-level fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels of the hierarchy are as follow:

Level 1 - Unadjusted quoted prices in active markets for identical financial assets and financial liabilities;
Level 2 - Inputs other than quoted prices that are observable for the financial asset or financial liability either directly or indirectly;
Level 3 - Inputs that are not based on observable market data.

27 Financial risk management (continued)

The following table illustrates the classification of the Credit Union's financial instruments within the fair value hierarchy.

	Fair value as at December 31, 2023		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	17,495	-
Interest rate swaps	-	40,009	-
Bond forwards	-	45	-
Foreign exchange contracts	-	5	-
Debt securities	-	1,755,294	-
Equity investments	5,217	22,519	29,706
Total financial assets	5,217	1,835,367	29,706
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(16,870)	-
Derivative financial liabilities:			
Interest rate swaps	-	(10,008)	-
Foreign exchange contracts	-	(1)	-
Total financial liabilities	-	(26,879)	-
Fair values disclosed			
Cash and interest-bearing deposits	991,797	-	-
Debt securities	-	625,645	-
Loans	-	-	22,967,809
Other assets	-	26,922	-
Deposits	-	(19,659,592)	-
Securitization liabilities	-	(5,298,769)	-
Funding facilities	-	(301,580)	-
Subordinated debt	-	(171,484)	-
Other liabilities	-	(198,543)	-

27 Financial risk management (continued)

	Fair value as at December 31, 2022		
	Level 1	Level 2	Level 3
Recurring measurements			
Financial assets			
Derivative financial assets:			
Equity index-linked options	-	19,447	-
Interest rate swaps	-	72,636	-
Bond forwards	-	1,035	-
Foreign exchange contracts	-	76	-
Debt securities	-	1,503,469	-
Equity investments	5,231	22,402	25,236
Total financial assets	5,231	1,619,065	25,236
Financial liabilities			
Embedded derivatives in index-linked deposits	-	(19,052)	-
Derivative financial liabilities:			
Interest rate swaps	-	(5,333)	-
Foreign exchange contracts	-	(81)	-
Total financial liabilities	-	(24,466)	-
Fair values disclosed			
Cash and interest-bearing deposits	1,513,807	-	-
Debt securities	-	198,016	-
Loans	-	-	21,953,210
Other assets	-	36,090	-
Deposits	-	(18,385,837)	-
Securitization liabilities	-	(5,231,579)	-
Funding facilities	-	(301,325)	-
Subordinated debt	-	(169,958)	-
Other liabilities	-	(176,091)	-

The fair values of cash, interest-bearing deposits, other assets, and other liabilities approximate their carrying values due to their short-term nature.

There have been no transfers between levels of the fair value hierarchy during the year.

27 Financial risk management (continued)

27.5 Capital management

The Credit Union maintains policies and procedures relative to capital management to ensure the capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are:

- to ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the entity and to support the current and planned operations and portfolio growth;
- to provide a safety net for the variety of risks to which the entity is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values;
- to provide confidence to Members, depositors, creditors and regulatory agencies;
- to form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement; and
- to establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with FSRA's standards of Sound Business and Financial Practices.

The Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. In 2022, FSRA introduced new capital rules and capital ratio requirements under the Act. New key capital metrics in 2022 include the Tier 1 capital ratio and total supervisory capital ratio. Under the new regulations, the Credit Union is also required to calculate regulatory capital and capital ratios on a consolidated basis. Regulatory capital is calculated as a percentage of exposure (adjusted net assets) and of risk weighted assets. Risk weighted assets are calculated by applying risk weightings, as prescribed by the Act, to various asset categories, operational, and interest rate risk criteria. The prescribed risk weights are dependent on the degree of risk inherent in the asset.

Tier 1 capital, otherwise known as core capital, is the highest quality. It is comprised of retained earnings, contributed surplus, accumulated other comprehensive income (excluding cash flow hedge gain or loss reserve), membership shares, investment shares (excluding the series 96 Class A shares), and regulatory deductions. Only 90% of 50th "Anniversary", series 98, series 01, series 09, series 15 and series 17 are allowable as Tier 1 capital due to specific features of these shares. Tier 1 capital as at December 31, 2023 was $1,574,186 (2022 - $1,330,208).

Tier 2 capital, otherwise known as supplementary capital, contributes to the overall strength of a financial institution as a going concern, but is of a lesser quality than Tier 1 capital relative to both permanence and freedom from charges. It is comprised of the series 96 Class A shares and the 10% portion of the "50th Anniversary", series 98, series 01, series 09, series 15 and series 17 Class A shares that are not admissible as Tier 1 capital. It also includes subordinated debt, the eligible portion of stage 1 and 2 expected credit loss allowances, and regulatory deductions. Tier 2 capital as at December 31, 2023 was $311,071 (2022 - $350,368).

27 Financial risk management (continued)

27.5 Capital management (continued)

The Act requires credit unions to maintain a minimum leverage ratio of 3%, a total capital ratio of 8%, a total supervisory capital ratio of 10.5% and a Tier 1 capital ratio of 6.5%. Furthermore, the regulation requires credit unions to target a capital conservation buffer of 2.5% on top of the Tier 1 capital ratio and total capital ratio minimum requirements. The Credit Union has a stated policy that it will always maintain capital equal to the regulatory requirements plus a prudent cushion. These internal limits are increased by the Board in tandem with significant increasing risk detected in the economic environment of the Credit Union. The Credit Union is in compliance with the Act as indicated by the capital requirements in the table below:

	2023	2022
Regulatory capital	1,885,256	1,680,576
Leverage ratio		
Actual	6.73 %	6.26 %
Minimum	3.00 %	3.00 %
Total capital ratio		
Actual	13.28 %	12.06 %
Minimum	8.00 %	8.00 %
Minimum total supervisory capital ratio	10.50 %	10.50 %
Tier 1 capital ratio		
Actual	11.09 %	9.54 %
Minimum	6.50 %	6.50 %
Minimum plus conservation buffer	9.00 %	9.00 %

28 Reconciliation of liabilities arising from financing activities

	2023	2022
Issuance of securitization liabilities	675,157	1,182,127
Payments on mortgage securitization liabilities	(629,569)	(924,868)
Net change in funding facilities	15	15
Net change in subordinated debt	173	257
Payments related to right-of-use lease liabilities	(7,872)	(7,974)
Net cash from changes in liabilities	37,904	249,557
Dividends paid on investment shares	(9,949)	(7,384)
Net change in share capital	(25,872)	(4,433)
Issuance of investment shares	125,597	-
Net change in Membership shares	7	4
Cash provided by financing activities	127,687	237,744

	January 1, 2023	Cash Flow	Non-Cash Changes		December 31, 2023
			Changes in Accrued Interest	Amortization of Deferred Amounts	
Funding facilities	301,325	15	240	-	301,580
Securitization liabilities	5,356,987	45,589	1,454	5	5,404,035
Total	5,658,312	45,604	1,694	5	5,705,615

	January 1, 2022	Cash Flow	Non-Cash Changes		December 31, 2022
			Changes in Accrued Interest	Amortization of Deferred Amounts	
Funding facilities	300,287	15	1,023	-	301,325
Securitization liabilities	5,095,425	257,259	4,372	(69)	5,356,987
Total	5,395,712	257,274	5,395	(69)	5,658,312

29 Comparative information

Certain comparative information has been revised to conform to the presentation adopted in these current year financial statements and accompanying notes.

30 Authorization of consolidated financial statements

The consolidated financial statements for the year ended December 31, 2023 were approved by the Board of Directors on March 13, 2024.

Approved on behalf of the Board:

Karen Farbridge
Chair, Board of Directors

Bruce West
Chair, Audit & Finance Committee