

STOUGHTON CREDIT UNION LIMITED

STOUGHTON, SASKATCHEWAN

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2023

MANAGEMENT'S RESPONSIBILITY COMMUNICATION

To the Members,

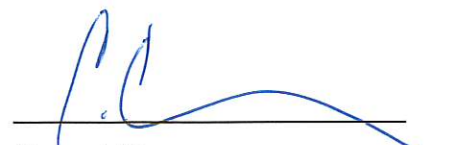
Stoughton Credit Union Limited

Management has responsibility for preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial statements to members lies with the Board of Directors. An Audit Committee of Directors is appointed by the Board to review financial statements in detail with management and to report to the Board of Directors prior to their approval of the financial statements for publication.

Independent auditors appointed by the members audit the financial statements and meet separately with both the Audit Committee and management to review their findings. The independent auditors report directly to the members and their report follows. The independent auditors have full and free access to the Audit Committee to discuss their audit and their findings as to the integrity of the Credit Union's financial reporting and the adequacy of the system of internal controls.


Chair, Audit Committee
General Manager

INDEPENDENT AUDITORS' REPORT

**To the Members,
Stoughton Credit Union Limited**

Opinion

We have audited the financial statements of **Stoughton Credit Union Limited**, which comprise the statement of financial position as at December 31, 2023, and the statements of members equity, comprehensive income, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the financial statements, management is responsible for assessing 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.

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INDEPENDENT AUDITORS' REPORT continued

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

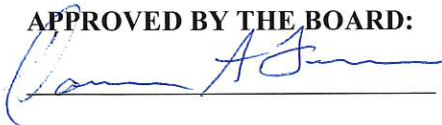
March 13, 2024
Regina, Saskatchewan

VIRTUS GROUP LLP
Chartered Professional Accountants

STOUGHTON CREDIT UNION LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023
(with comparative figures for 2022)

ASSETS		
	<u>2023</u>	<u>2022</u>
Cash and cash equivalents (Note 4)	\$ 18,547,851	\$ 12,124,356
Investments (Note 5)	60,282,516	54,508,960
Loans receivable (Note 6)	65,810,367	65,614,770
Other assets (Note 7)	3,107	1,677,672
Property and equipment (Note 8)	<u>2,601,903</u>	<u>2,582,018</u>
	<u><u>\$ 147,245,744</u></u>	<u><u>\$ 136,507,776</u></u>
LIABILITIES		
Deposits (Note 9)	\$ 133,451,767	\$ 123,941,168
Other liabilities (Note 11)	393,196	268,245
Shares (Note 12)	<u>8,305</u>	<u>8,315</u>
	133,853,268	124,217,728
MEMBERS' EQUITY		
Retained earnings	13,392,476	12,290,048
Accumulated other comprehensive income	<u>-</u>	<u>-</u>
	<u><u>\$ 147,245,744</u></u>	<u><u>\$ 136,507,776</u></u>

APPROVED BY THE BOARD:

 Director

 Director

"See Accompanying Notes"

STOUGHTON CREDIT UNION LIMITED
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

	<u>2023</u>	<u>2022</u>
RETAINED EARNINGS		
Retained earnings - beginning of year	\$ 12,290,048	\$ 9,790,620
Net income	<u>1,102,428</u>	<u>2,499,428</u>
Retained earnings - end of year	<u>\$ 13,392,476</u>	<u>\$ 12,290,048</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Accumulated other comprehensive income - beginning of year	\$ -	\$ -
Other comprehensive income	<u>-</u>	<u>-</u>
Accumulated other comprehensive income - end of year	<u>\$ -</u>	<u>\$ -</u>
TOTAL EQUITY	<u><u>\$ 13,392,476</u></u>	<u><u>\$ 12,290,048</u></u>

"See Accompanying Notes"

STOUGHTON CREDIT UNION LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

	<u>2023</u>	<u>2022</u>
Interest revenue		
Loan	\$ 3,097,329	\$ 2,914,402
Investment	2,723,069	1,181,459
	<u>5,820,398</u>	<u>4,095,861</u>
Interest expense		
Member deposits	2,603,255	1,324,784
Patronage allocation	112,661	78,750
	<u>2,715,916</u>	<u>1,403,534</u>
Net interest	3,104,482	2,692,327
Provision for credit losses (recoveries)	<u>(148,070)</u>	<u>30,595</u>
Net interest after provision for credit losses (recoveries)	<u>3,252,552</u>	<u>2,661,732</u>
Other income	<u>316,201</u>	<u>1,929,095</u>
Operating expenses		
General business	783,914	652,768
Occupancy	163,040	142,927
Organizational	62,319	41,804
Personnel	1,044,998	916,501
Security	124,489	112,536
	<u>2,178,760</u>	<u>1,866,536</u>
Income before income taxes	1,389,993	2,724,291
Income taxes (Note 17)		
Current	218,465	181,663
Deferred	69,100	43,200
	<u>287,565</u>	<u>224,863</u>
Net income before other comprehensive income	<u>1,102,428</u>	<u>2,499,428</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Comprehensive income	<u>\$ 1,102,428</u>	<u>\$ 2,499,428</u>

"See Accompanying Notes"

STOUGHTON CREDIT UNION LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

	<u>2023</u>	<u>2022</u>
Cash provided by (used in) operating activities:		
Comprehensive income	\$ 1,102,428	\$ 2,499,428
Items not involving cash:		
- Amortization	105,312	99,478
- Provision for credit losses (recoveries)	(148,070)	30,595
Net change in other assets and other liabilities	162,732	37,146
	<u>1,222,402</u>	<u>2,666,647</u>
Cash provided by (used in) investing activities:		
Investments	(5,773,556)	3,773,102
Loans receivable	(47,527)	(5,506,061)
SaskCentral dividend receivable	1,636,783	(1,636,783)
Property and equipment	(125,197)	(50,602)
	<u>(4,309,497)</u>	<u>(3,420,344)</u>
Cash provided by (used in) financing activities:		
Deposits	9,510,600	(3,903,349)
Shares	(10)	(150)
	<u>9,510,590</u>	<u>(3,903,499)</u>
Increase (decrease) in cash	6,423,495	(4,657,196)
Cash position - beginning of year	<u>12,124,356</u>	<u>16,781,552</u>
Cash position - end of year	<u>\$ 18,547,851</u>	<u>\$ 12,124,356</u>

"See Accompanying Notes"

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

1. Incorporation and governing legislation

Stoughton Credit Union Limited is a for profit corporation governed by *The Credit Union Act, 1998* in the Province of Saskatchewan, Canada. The Credit Union's registered office is located at 304 Main Street, Stoughton, Saskatchewan. The Credit Union provides financial services to customers through two branches in Stoughton, Kisbey and the surrounding area.

In accordance with *The Credit Union Act, 1998*, Credit Union Deposit Guarantee Corporation (CUDGC) regulates all credit unions in Saskatchewan. CUDGC establishes Standards of Sound Business Practices, provides regulatory guidance and guarantees the repayment of all deposits, including accrued interest. If a credit union is not in compliance with the standards or regulatory guidance, CUDGC has the authority to take necessary action, which may include reducing or restricting the credit union's authorities and limits, taking preventative actions, issuing a compliance order, placing the credit union under supervision or administration, or issuing an amalgamation order.

2. Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with Part I of the CPA Canada Handbook - International Financial Reporting Standards (IFRS). The financial statements comply with IFRS adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on March 13, 2024.

The financial statements have been prepared on the historical cost basis, except for certain investments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Credit Union takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value, but are not fair value, such as value in use on impairment.

The Credit Union follows a fair value hierarchy to categorize the inputs used to measure fair value into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these financial statements.

Use of estimates and judgements

The preparation of the financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant uses of judgements and estimates are as follows:

(i) Valuation of Financial Instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described further in Note 2. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include consideration of liquidity and other risks affecting the specific instrument.

(ii) Allowances for Credit Losses

Specific allowances are applied to financial assets evaluated individually for impairment. In particular, management judgement is required to estimate the amount and timing of cash flows the Credit Union expects to receive. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

The expected credit loss model requires the recognition of twelve months of expected credit losses for performing loans, and of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk requires experienced judgement and considers a number of different factors that vary by product and risk segment. Some of these factors are based on forecasts of future economic conditions. The recognized expected credit losses are determined using these estimates, which may be materially different from actual credit losses realized.

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies continued

Financial instruments

All financial instruments are initially recognized at fair value plus transaction costs, except in the case of financial assets and liabilities classified as fair value through profit or loss (where transaction costs are expensed). The classification of financial assets at initial recognition depends on the entity's business model for managing financial assets and the contractual cash flow characteristics of the instrument. The Credit Union uses settlement date accounting for regular way contracts when recording financial asset transactions. All financial instruments are classified as fair value through profit or loss, amortized cost or fair value through other comprehensive income.

The business model used by the Credit Union is a key consideration for the classification of financial assets. The two primary models are to hold financial assets to collect contractual cash flows, or to hold financial assets to collect contractual cash flows and sell financial assets. The Credit Union's business model is to hold financial assets to collect contractual cash flows.

Embedded derivatives are not separated from the host contract, with the contract treated as one instrument at initial recognition. The classification is determined based on an assessment of the contractual cash flow characteristics and the business model under which it is managed.

Fair value through profit or loss

Financial assets and liabilities are classified as fair value through profit or loss (FVTPL) when the instruments are:

- Held for trading purposes,
- Part of a managed portfolio with a pattern of short term profit taking,
- Non trading financial assets that do not consist solely of payments of principal and interest (SPPI), or
- Voluntarily designated as such.

Equity instruments are measured at FVTPL unless the asset is not held for trading purposes and an irrevocable election to classify as fair value through other comprehensive income is made.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized immediately in profit or loss.

The Credit Union has classified the following financial assets and liabilities as FVTPL:

Apex I, II & III Investment Funds
Cash
MDL Real Estate Income Fund Limited Partnership
National Consulting Limited common shares
Other investments
SaskCentral shares

The Credit Union has not voluntarily designated any financial instruments as FVTPL.

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies continued

Amortized cost

Financial assets classified as amortized cost are debt financial instruments with contractual cash flows that consist solely of payments of principal and interest (SPPI) and are managed on a hold to collect basis. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset, and a profit margin. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

All financial liabilities are classified as amortized cost unless it has been classified as fair value through profit or loss.

The Credit Union has classified the following financial assets and liabilities at amortized cost:

SaskCentral investments
Financial institution guaranteed investment certificates
Loans receivable
Accrued interest
Deposits
Other liabilities

Fair value through other comprehensive income

Financial assets are classified as fair value through other comprehensive income (FVOCI) when the financial assets:

- Are held within a business model that is to hold to collect contractual cash flows and sell financial assets,
- Have contractual terms that give rise, on specified dates, to cash flows that are SPPI, and
- Are not designated as held for trading.

The Credit Union has not classified any financial assets as FVOCI.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies continued

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments except those classified as at FVTPL.

Financial asset impairment

The Credit Union assesses financial assets, other than those recorded at FVTPL, for indicators of impairment at each reporting period.

Loans receivable

The Credit Union uses the expected credit loss (ECL) impairment model to measure the loss allowance on loans receivable, in the following categories:

- Stage 1 – the expected losses for the next 12 months on performing financial assets,
- Stage 2 – the expected lifetime losses on performing financial assets that have experienced a significant increase in credit risk since origination, and
- Stage 3 – the expected lifetime losses on credit impaired financial assets.

Stage 1 assets consist of performing loans with credit risk that has not increased significantly since origination. Stage 2 assets consist of performing loans with credit risk that has increased significantly since origination. Stage 3 assets consist of high risk, non performing or doubtful loans, where it is not expected that the principal and interest will be collected in full. Stage 1 and Stage 2 performing loans are included in the analysis without consideration of collateral value. Stage 3 doubtful loans are included in the analysis at the balance outstanding less any collateral value and consideration of collection costs. Individual loan assets move between stages as credit risk increases or decreases.

In determining the expected credit losses, Management assesses each loan asset and assigns a risk rating of Stage 1 Remote/Low Risk, Stage 2 Moderate Risk or Stage 3 Higher Risk. Management also estimates the probability of default and expected loss ratio for each risk rating category, considering a number of factors, such as product type and terms, local, provincial and national economic factors, historical loss experience and delinquency trends. Certain factors are based on forecasts of future economic conditions, such as housing starts, unemployment and interest rates. Loan assets which were modified, but not derecognized, during the period are specifically assessed to determine if there has been a significant increase in credit risk by comparing the risk of default at the origination of the loan to the risk of default at the reporting date.

The probability of default and the expected loss ratio are applied to the loan assets classified in each stage to estimate the expected credit loss.

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies continued

At each reporting period, the Credit Union performs the analysis to estimate the loan allowance. Changes in the loan allowance are recognized in the provision for credit losses on the statement of comprehensive income as they occur.

When a loan is impaired, any collateral has been realized, and there is no expectation of recovery, the loan is written off. Records about written off loans are maintained in case future recoveries are received. Loan allowances on loans written off in the period are reversed in the period the loan is written off. Recoveries on loans written off are recognized as revenue in the period the amount is received.

Investments and other financial assets

The Credit Union uses the expected credit loss impairment model to measure the loss impairment on investments and other financial assets. Management assesses each individual asset and determines whether there has been a significant increase in credit risk since origination and the probability of default. The factors considered include significant financial difficulty of the issuer or counterparty, disappearance of an active market for the security, prolonged decline in the fair value of a security, as well as local, provincial and national economic factors.

At each reporting period, the Credit Union analyzes individual investments and other financial assets to estimate the expected credit loss. Changes in the estimated credit loss are recognized in investment revenue for investments, and in other revenue for other financial assets on the statement of comprehensive income as they occur.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid securities with a maturity date within 90 days of the year end date. They are subject to insignificant risk of changes in fair value and are used to manage short term cash commitments.

Investments

Investments are initially measured at fair value. For investments not classified as FVTPL, incremental transaction costs are added to the initial measurement. Subsequent measurement is determined based on the classification of the instrument.

Loans receivable

Loans are initially measured at fair value plus transaction costs and subsequently at amortized cost using the effective interest method, less any loan allowances. A loan is classified as impaired (doubtful) when there is no longer reasonable assurance that the principal and interest will be collected in full.

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies continued

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses. Property and equipment are amortized over their estimated useful lives using the following rates and methods, with the exception of land which is not amortized:

Building	5% straight-line
Computer & communications equipment and programs	5% - 33 1/3% straight-line
Furnishings, equipment	15% - 33 1/3% straight-line

The estimated useful lives, residual values and depreciation methods are reviewed at each year end and adjusted if appropriate.

Gains and losses on the disposal or retirement of property and equipment are determined as the difference between the proceeds and the carrying amount of the asset and are recorded in the statement of comprehensive income in the year of disposal.

Membership shares

Shares are classified as financial liabilities in accordance with their terms. Shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

Impairment of tangible and intangible assets other than goodwill

At least annually, the Credit Union reviews its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of a group of assets (or cash generating unit) to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies continued

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the Credit Union estimates future cash flows it expects to derive from the asset or group of assets along with the expectations about possible variations in the amount and timing of those cash flows. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or group of assets (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. The related impairment loss is recognized in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of the recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or group of assets in prior years. A reversal of an impairment loss is recognized in the statement of comprehensive income as they occur.

Loan interest revenue

Loan and lease interest revenue is recognized on the accrual basis using the effective interest rate method for all loans not classified as impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for credit losses as an adjustment of the specific allowance.

Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees, are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

Investment interest revenue

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Other income

Other revenue is recognized in the fiscal period in which the related service is provided.

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

3. Summary of significant accounting policies continued

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities measured at historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date the fair value was determined. Translation gains and losses are included in profit or loss, except for instruments classified as fair value through other comprehensive income, which are recognized in other comprehensive income.

Income taxes

Income tax expense is comprised of current and deferred taxes which are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for tax purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the period of change, except when they relate to items recognized directly in other comprehensive income. The Credit Union is taxed at an effective rate of 9.5% on taxable earnings eligible for that rate and at 27% on the excess balance.

Deferred taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or for different tax entities where the Credit Union intends to settle its current tax assets and liabilities on a net basis or simultaneously.

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3. Summary of significant accounting policies continued

Future accounting and reporting changes

The Canadian Accounting Standards Board (AcSB) has issued new and amended IFRS standards under Part I of the CPA Canada Handbook which are not yet effective. None of the new or amended standards are expected to impact the Credit Union.

4. Cash and cash equivalents

	<u>2023</u>	<u>2022</u>
Cash balances	\$ 2,577,901	\$ 924,356
SaskCentral deposits with maturities < 90 days	15,969,950	11,200,000
	<u>\$ 18,547,851</u>	<u>\$ 12,124,356</u>

5. Investments

	<u>2023</u>	<u>2022</u>
Fair value through profit or loss:		
Apex I, II & III Investment Funds	\$ 398,252	\$ 423,637
MDL Real Estate Income Fund Limited Partnership	161,958	125,292
National Consulting Limited common shares	20,000	20,000
Other investments	220	220
SaskCentral shares	437,024	882,647
	<u>1,017,454</u>	<u>1,451,796</u>
Amortized cost:		
Accrued interest	735,543	364,859
Financial institution guaranteed investment certificates	7,500,000	3,004,100
SaskCentral investments	51,029,519	49,688,205
	<u>59,265,062</u>	<u>53,057,164</u>
	<u>\$ 60,282,516</u>	<u>\$ 54,508,960</u>

At December 31, 2023, the market value of investments classified as amortized cost is \$59,309,431 (2022 - \$52,294,993).

At December 31, 2023, \$15,214,000 (2022 - \$17,326,363) of investments are expected to be recovered more than 12 months after the reporting date.

The Credit Union has an investment in the MDL Real Estate Income Fund Limited Partnership. As a participant, the Credit Union is required to provide cash injections upon request. At the end of the year, the Credit Union's commitment to outstanding cash calls was \$88,042 (2022 - \$124,708).

Pursuant to Regulation 18(1)(a), credit unions must maintain 8.65% of total liabilities, using a prescribed formula, in specified liquidity deposits in SaskCentral, in addition to liquidity required to meet their normal cash flow requirements. As of December 31, 2023, the Credit Union met the requirement.

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6. Loans receivable

	2023				
	Allowances				
	Performing	Impaired	Individual	Collective	Net
Government guaranteed	\$ 5,337,112	\$ -	\$ -	\$ -	\$ 5,337,112
Conventional mortgages					
- Residential & farm	25,757,560	-	-	(18,339)	25,739,221
Personal loans	1,881,830	-	-	(7,871)	1,873,959
Finance lease	9,539,406	-	-	-	9,539,406
Lines of credit and overdrafts	1,980,890	-	-	-	1,980,890
Non-personal loans	19,885,615	1,126,213	(10,494)	(127,429)	20,873,905
Accrued interest	465,874	-	-	-	465,874
	<u>\$ 64,848,287</u>	<u>\$ 1,126,213</u>	<u>\$ (10,494)</u>	<u>\$ (153,639)</u>	<u>\$ 65,810,367</u>
	2022				
	Allowances				
	Performing	Impaired	Individual	Collective	Net
Government guaranteed	\$ 5,336,586	\$ -	\$ -	\$ -	\$ 5,336,586
Conventional mortgages					
- Residential & farm	25,836,653	-	-	(22,558)	25,814,095
Personal loans	1,890,358	-	(1,224)	(8,240)	1,880,894
Finance lease	9,170,039	-	-	-	9,170,039
Lines of credit and overdrafts	1,521,871	-	-	-	1,521,871
Non-personal loans	21,314,180	529,064	(199,461)	(276,467)	21,367,316
Accrued interest	523,969	-	-	-	523,969
	<u>\$ 65,593,656</u>	<u>\$ 529,064</u>	<u>\$ (200,685)</u>	<u>\$ (307,265)</u>	<u>\$ 65,614,770</u>

At December 31, 2023, \$53,810,367 (2022 - \$55,574,769) of loans are expected to be recovered more than 12 months after the reporting date.

During the year, the Credit Union administered the advancement and repayment of funds under the Canada Emergency Business Account Program (CEBA) on behalf of the Government of Canada. As the program administrator, the CEBA loans outstanding are not assets of the Credit Union and thus are not recognized in the financial statements. At December 31, 2022, the CEBA loans outstanding totaled \$966,000 (2022 - \$1,679,400).

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6. Loans receivable continued

The following table discloses the reconciliation of the allowance for expected credit losses on loans:

	<u>2023</u>	<u>2022</u>
Allowance for expected credit losses - January 1	\$ 507,950	\$ 1,959,282
Change in expected 12 month credit losses	(153,626)	29,018
Change in lifetime credit losses related to:		
Assets where credit risk has increased significantly	-	-
Assets that are credit impaired	(190,191)	(1,480,350)
Allowance for expected credit losses - December 31	<u>\$ 164,133</u>	<u>\$ 507,950</u>

The aging of loans, including those past due but not impaired and those that were individually impaired, as at December 31, 2023 was:

	<u>2023</u>		<u>2022</u>	
	<u>Performing</u>	<u>Impaired</u>	<u>Performing</u>	<u>Impaired</u>
Current	\$ 265,757	\$ -	\$ 478,547	\$ -
31 - 90 days	187,804	-	111,558	-
91+ days	-	1,126,213	529,064	529,064
Total	<u>\$ 453,561</u>	<u>\$ 1,126,213</u>	<u>\$ 1,119,169</u>	<u>\$ 529,064</u>

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees. At December 31, 2023, total credit impaired loans were \$1,126,213 (2022 - \$529,064), which are secured by an estimated collateral value of \$1,141,215 (2022 - \$400,000). The allowance for expected credit losses on credit impaired loans is \$10,494 (2022 - \$200,685).

7. Other assets

	<u>2023</u>	<u>2022</u>
Deferred income tax assets	\$ -	\$ 34,300
Prepaid expenses	3,107	6,589
SaskCentral dividend receivable	-	1,636,783
	<u>\$ 3,107</u>	<u>\$ 1,677,672</u>

Other assets are expected to be recovered within the next 12 months, except for deferred income tax assets (see Note 17).

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8. Property and equipment

	Land, building	Computer equipment	Furnishings, equipment	Total
Cost				
Balance at January 1, 2022	\$2,591,214	\$ 248,598	\$ 699,276	\$3,539,088
Additions	2,002	48,600	-	50,602
Disposals	-	-	-	-
Balance at December 31, 2022	\$2,593,216	\$ 297,198	\$ 699,276	\$3,589,690
Additions	-	65,668	59,530	125,198
Disposals	-	-	-	-
Balance at December 31, 2023	<u>\$2,593,216</u>	<u>\$ 362,866</u>	<u>\$ 758,806</u>	<u>\$3,714,888</u>
Depreciation and impairment losses				
Balance at January 1, 2022	\$ 108,778	\$ 196,883	\$ 602,533	\$ 908,194
Depreciation expense	62,431	22,805	14,242	99,478
Balance at December 31, 2022	\$ 171,209	\$ 219,688	\$ 616,775	\$1,007,672
Depreciation expense	62,799	26,641	15,873	105,313
Balance at December 31, 2023	<u>\$ 234,008</u>	<u>\$ 246,329</u>	<u>\$ 632,648</u>	<u>\$1,112,985</u>
Net book value				
Balance at December 31, 2022	\$2,422,007	\$ 77,510	\$ 82,501	\$2,582,018
Balance at December 31, 2023	2,359,208	116,537	126,158	2,601,903

9. Deposits

	<u>2023</u>	<u>2022</u>
Chequing	\$ 40,746,452	\$ 46,439,057
Savings	28,727,422	23,631,656
Term deposits	54,045,670	46,122,710
Registered accounts	8,462,424	6,978,801
Other	276,884	198,433
Accrued interest	1,192,915	570,511
	<u>\$ 133,451,767</u>	<u>\$ 123,941,168</u>

At December 31, 2023, \$29,604,886 (2022 - \$27,120,859) of deposits are expected to be settled more than 12 months after the reporting date.

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10. Loans payable

The Credit Union has an authorized line of credit with SaskCentral in the amount of \$2,100,000. This line of credit bears interest at 6.70% and is secured by an assignment of book debts and funds on deposit. At the end of the year, the amount outstanding was \$NIL (2022 - \$NIL).

11. Other liabilities

	<u>2023</u>	<u>2022</u>
Accounts payable	\$ 311,529	\$ 181,239
Deferred income tax liability	34,800	-
Income taxes payable	46,867	87,006
	<u>\$ 393,196</u>	<u>\$ 268,245</u>

Other liabilities are expected to be settled within the next 12 months, except for deferred income tax liability (see Note 17).

12. Membership shares

Membership shares are as provided for by *The Credit Union Act, 1998* and administered according to the terms of the Credit Union bylaws which sets out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of \$5 per share. These accounts are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

The value of outstanding membership shares consists of:

	<u>2023</u>	<u>2022</u>
Issued at January 1	\$ 8,315	\$ 8,465
Net Change	(10)	(150)
Issued at December 31	<u>\$ 8,305</u>	<u>\$ 8,315</u>

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13. Capital management

Credit Union Deposit Guarantee Corporation (CUDGC) prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require Credit Unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

Tier 1 capital is defined as a Credit Union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting the tier 1 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus and accumulated other comprehensive income. Deductions from common equity tier 1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own-use property. Additional tier 1 capital consists of qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of risk weighted assets, subordinated indebtedness, and qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the Credit Union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio. All items deducted from capital are excluded from total assets.

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13. Capital management continued

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's Board policy for 2023:

	<u>Regulatory Standards</u>	<u>Board Minimum</u>
Total eligible capital to risk-weighted assets	8%	12%
Total tier 1 capital to risk-weighted assets	6%	10%
Common equity tier 1 capital to risk-weighted assets	4.50%	7.25%
Minimum leverage ratio	5%	6%

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	<u>2023</u>	<u>2022</u>
Eligible capital:		
Common equity tier 1 capital	\$ 13,378,000	\$ 12,376,000
Additional tier 1 capital	-	-
Total tier 1 capital	13,378,000	12,376,000
Total tier 2 capital	162,000	316,000
Total eligible capital	<u>\$ 13,540,000</u>	<u>\$ 12,692,000</u>
Risk-weighted assets	<u>\$ 69,617,000</u>	<u>\$ 68,074,000</u>
Total eligible capital to risk-weighted assets	19.45%	18.64%
Total tier 1 capital to risk-weighted assets	19.22%	18.18%
Common equity tier 1 capital to risk-weighted assets	19.22%	18.18%
Leverage ratio	9.15%	9.26%

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14. Related party transactions

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the Credit Union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

Loans receivable:

At December 31, 2023, certain members of the board of directors and key management personnel were indebted to the Credit Union for amounts totaling \$3,977,502 (2022 - \$4,236,625). These loans were granted under the same lending policies applicable to other members, and are included in loans receivable on the statement of financial position.

Deposit accounts:

Directors and key management personnel may hold deposit accounts. These accounts are maintained under the same terms and conditions applicable to other members, and are included in member deposits on the statement of financial position.

Remuneration:

Compensation provided to directors and key management personnel, consisting of salaries, honoraria, and benefits, totaled \$258,126 (2022 - \$252,983).

15. Classification and fair value of financial instruments

The following table summarizes the carrying amount and fair values of the Credit Union's financial instruments.

	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 18,547,851	\$ 18,547,851	\$ 12,124,356	\$ 12,124,356
Investments	60,282,516	60,326,886	54,508,960	53,746,788
Loans	65,810,367	*Note	65,614,769	*Note
Accounts receivable	-	-	1,636,783	1,636,783
FINANCIAL LIABILITIES				
Deposits	133,451,767	*Note	123,941,168	*Note
Other liabilities	358,396	358,396	268,245	268,245

*Note: The fair value of loans and deposits has not been reported as the carrying amounts are a reasonable approximation of fair value.

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15. Classification and fair value of financial instruments continued

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

The fair values of short term financial instruments including cash and cash equivalents, other assets, and other liabilities are approximately equal to their book values due to their short term nature.

Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.

For variable interest rate loans that re-price frequently, fair values approximate book values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.

The fair values of deposits with unspecified maturity terms are approximately equal to their carrying values. Fair values for other deposits and loans payable with specified maturity terms is estimated using discounted cash flow calculations at market interest rates for similar groups of deposits.

The fair values of derivative financial instruments are estimated by reference to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amount that the Credit Union would receive or pay to terminate the contracts at the reporting date.

The following table provides an analysis of financial instruments measured at fair value at the end of the reporting period, by the fair value hierarchy into which the fair value measurement is categorized:

	2023			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Cash and cash equivalents	\$8,547,851	\$ -	\$ -	\$18,547,851
Investments	-	-	1,017,455	1,017,455

	2022			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Cash and cash equivalents	\$12,124,356	\$ -	\$ -	\$12,124,356
Investments	-	-	1,451,795	1,451,795

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16. Financial instrument risk management

Credit risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans, receivables and investments.

Credit risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards with which the Credit Union must comply. The Credit Union's Board has established lending policies and procedures which outline the minimum standards and criteria for granting credit to borrowers. Certain types of lending are subject to an annual review process to ensure that standards continue to be met. Accounts which are deemed to be of higher than average risk are monitored more frequently. Policy and procedures also specify the type of assets which may be taken as collateral and the techniques for valuation. There have been no changes to the collateral policy or procedures during the period.

The Credit Union has established credit limits for individual borrowers to manage overall credit risk of the portfolio and establish parameters for credit diversification. The maximum aggregate credit per member is limited to 25% of capital and the maximum unsecured lending limit is \$40,000. The established portfolio mix for 2023 is:

	<u>Board policy</u>	<u>Actual</u>
Consumer	50%	26%
Agriculture	50%	44%
Commercial	50%	25%
Other	10%	5%

Except as otherwise noted below, the carrying amount of the financial assets recognized in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held. During the period, \$194,725 (2022 - \$NIL) of loans were written off and but still subject to enforcement activity. At December 31, 2023, the Credit Union held \$NIL (2022 - \$NIL) in assets pledged as security on loans.

The following table discloses the Credit Union's exposure to credit risk by risk rating grades:

	<u>Loans</u>	<u>Investments</u>
Stage 1 Remote / Low Risk	\$ 64,496,350	\$ 76,752,466
Stage 2 Moderate Risk	187,804	-
Stage 3 Higher Risk	1,126,213	-
Total	<u>\$ 65,810,367</u>	<u>\$ 76,752,466</u>

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16. Financial instrument risk management continued

In addition, in the normal course of business, the Credit Union has entered into various commitments to extend credit that are not reported on the statement of financial position, including guarantees and letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event that a customer can not meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer, but the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The amounts reported below represent the maximum credit exposure for commitments to extend credit. Many of these contracts expire without being drawn upon, thereby reducing the Credit Union's credit risk from the maximum commitment. As many commitments will expire or terminate without being funded, the amounts shown on the table below do not necessarily represent future cash requirements.

	<u>2023</u>	<u>2022</u>
Undrawn lines of credit	\$ 4,659,755	\$ 5,511,813
Undrawn loans	705,279	481,734

Liquidity risk

Liquidity risk is the risk of financial loss to the Credit Union in the event that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply. The Credit Union's primary liquidity risk policies and procedures include policies for minimum liquidity holdings, monthly monitoring, and access to additional short term financing.

The Credit Union enters into transactions to purchase goods and services on credit and/or borrow funds for which repayment is required at various maturity dates, including processing the financial transactions of borrowers and depositors. Liquidity risk is measured by reviewing the Credit Union's future cash flows for the possibility of a negative net cash flow. The contractual maturities of financial liabilities can be found within the table under interest rate risk below.

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16. Financial instrument risk management continued

Market risk

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

Market risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply. The Credit Union's primary market risk policies and procedures include policies for maximum mismatch levels, monthly monitoring and adjusting product mix to address match position.

The primary market risk that the Credit Union is exposed to is interest rate risk. Interest rate risk is the potential adverse impact on the earnings due to changes in interest rates. The Credit Union's exposure to interest rate risk arises primarily from timing differences in the re-pricing of assets and liabilities, including financial assets and liabilities with fixed and floating rates. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off balance sheet instruments scheduled to mature or re-price on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that re-price in specific time periods.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter balancing positions. The Credit Union did not use interest rate swaps in the current year.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual re-pricing/maturity dates. Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, represent the weighted average effective yield.

2023						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non- interest sensitive Total
ASSETS						
Total assets	\$ 18,952,059	\$ 19,946,574	\$ 42,074,583	\$ 60,888,229	-	\$ 5,561,044 \$147,422,489
LIABILITIES						
Total liabilities	45,104,878	9,005,870	23,481,214	29,604,886	-	40,225,641 147,422,489
On-balance sheet gap	\$ (26,152,819)	\$ 10,940,704	\$ 18,593,369	\$ 31,283,343	-	\$ (34,664,597) \$ -

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16. Financial instrument risk management continued

	2022					
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive
On-balance sheet gap	\$ (25,929,339)\$	2,042,497	\$ 29,490,582	\$ 27,949,755	\$ -	\$ (33,553,495)\$

The above tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

A 1% change in interest rates with all other variables held constant would result in a change in the Credit Union's profit for the year ended December 31, 2023 of \$113,898 (2022 - \$128,953). The Credit Union uses Static Gap reports to simulate the effect of a change in the market rate of interest.

17. Income taxes

Income tax expense is comprised of:

	2023	2022
Current tax expense		
Current period	\$ 218,465	\$ 181,663
	218,465	181,663
Deferred tax expense		
Origination and reversal of temporary differences	69,100	43,200
	69,100	43,200
Total income tax expense	<u>\$ 287,565</u>	<u>\$ 224,863</u>

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2023	2022
Income before provision for income taxes	\$ 1,389,993	\$ 2,724,291
Combined federal and provincial tax rate	27.00 %	27.00 %
Income tax expense at statutory rate	375,298	735,559
Adjusted for the effect of:		
Non-deductible expenses	609	586
Small business deduction	(88,827)	(67,039)
Non-taxable income	-	(441,931)
Other differences	485	(2,312)
	<u>\$ 287,565</u>	<u>\$ 224,863</u>

STOUGHTON CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

17. Income taxes continued

Deferred income tax assets and liabilities recognized are attributable to the following:

	<u>2023</u>	<u>2022</u>
Deferred tax assets		
Loans	\$ 41,800	\$ 88,400
	<u>\$ 41,800</u>	<u>\$ 88,400</u>
Deferred income tax liabilities		
Property and equipment	\$ 76,600	\$ 54,100
	<u>\$ 76,600</u>	<u>\$ 54,100</u>
Net deferred income taxes	<u>\$ (34,800)</u>	<u>\$ 34,300</u>
	<u>2023</u>	<u>2022</u>
Deferred tax assets - to be recovered within 12 months	\$ 41,800	\$ 88,400
Deferred income tax liabilities - to be recovered after more than 12 months	76,600	54,100
Net deferred tax assets	<u>\$ (34,800)</u>	<u>\$ 34,300</u>

18. Employee future benefits

The Credit Union's employee future benefit program consists of a defined contribution pension plan. Credit Union contributions to the defined contribution plan are expensed as incurred. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Pension benefits of \$62,957 (2022 - \$59,483) were paid to defined contribution retirement plans during the year.

STOUGHTON CREDIT UNION LIMITED
SCHEDULE OF NON-INTEREST EXPENSES
(Unaudited)
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)

SCHEDULE 1

	<u>2023</u>	<u>2022</u>
General business		
Amortization - equipment	\$ 42,513	\$ 37,047
Audit and regulatory inspection	54,314	50,341
Business development	74,773	66,379
Cash shortage	(166)	(139)
Computer costs	277,141	225,793
Legal, registration	5,198	11,549
Maintenance, insurance - equipment	10,739	12,838
Office	11,331	12,447
Rental - equipment	-	327
Service charges, clearing fees	134,375	162,255
Telephone, postage, courier	61,346	33,680
Other general business	112,350	40,251
	<u>\$ 783,914</u>	<u>\$ 652,768</u>
Occupancy		
Amortization - building	\$ 62,799	\$ 62,431
Maintenance, taxes, insurance - building	81,634	61,503
Utilities	18,607	18,993
	<u>\$ 163,040</u>	<u>\$ 142,927</u>
Organizational		
Annual meeting	\$ 12,410	\$ 7,923
Development - officials	1,858	5,539
Remuneration - officials	22,299	18,147
Other organizational	25,752	10,195
	<u>\$ 62,319</u>	<u>\$ 41,804</u>

STOUGHTON CREDIT UNION LIMITED
SCHEDULE OF NON-INTEREST EXPENSES
(Unaudited)
FOR THE YEAR ENDED DECEMBER 31, 2023
(with comparative figures for the year ended December 31, 2022)
SCHEDULE 1 - Continued

	<u>2023</u>	<u>2022</u>
Personnel		
Benefits	\$ 160,949	\$ 151,800
Development	19,980	8,169
Salaries	780,472	716,383
Other personnel expenses	83,597	40,149
	<u>\$ 1,044,998</u>	<u>\$ 916,501</u>
Security		
Bonding insurance	\$ 24,412	\$ 9,607
Deposit guarantee assessment	98,697	101,840
Other security	1,380	1,089
	<u>\$ 124,489</u>	<u>\$ 112,536</u>

