Financial Statements of

PROGRESSIVE CREDIT UNION LIMITED

Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of Progressive Credit Union Limited

Opinion

We have audited the financial statements of Progressive Credit Union Limited (the Entity), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of comprehensive income for the year then ended
- the statement of changes in members' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2022 and its results of operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 auditors' report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Fredericton, Canada

July 12, 2023

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Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Cash	$ 7,552,854	$ 11,426,849
Investments (note 7)	34,644,572	39,212,240
Loans receivable (note 5)	103,467,290	87,780,936
Accrued interest receivable	489,968	253,397
Deferred income taxes (note 17)	136,270	128,590
Other assets (note 6)	597,286	146,930
Property and equipment (note 8)	1,113,369	1,288,114
	$ 148,001,609	$ 140,237,056
Liabilities and Members' Equity		
Liabilities to members:		
Member deposits (note 10)	$ 136,359,241	$ 131,071,868
Accrued interest on deposits	75,578	73,505
Accrued return on Members' Life Savings and share accounts	469,782	276,689
	136,904,601	131,422,062
Other liabilities:		
Accounts payable and accrued liabilities	1,063,530	993,909
Income taxes payable	224,138	55,889
Lease liabilities (note 11)	402,602	435,707
	1,690,270	1,485,505
Liabilities qualifying as regulatory equity:		
Preferred shares (note 12)	1,350,990	-
Membership shares (note 12)	34,914	34,710
Voluntary shares (note 12)	459,183	514,728
Surplus shares (note 12)	82,735	81,562
	1,927,822	631,000
	140,522,693	133,538,567
Members' equity:		
Preferred shares (note 12)	-	280,000
Retained earnings	7,478,916	6,418,489
	7,478,916	6,698,489
Commitment (note 16)		
Subsequent event (note 19)		
	$ 148,001,609	$ 140,237,056

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

PROGRESSIVE CREDIT UNION LIMITED

Statement of Comprehensive Income

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Interest income:		
Interest on loans	$ 4,038,060	$ 3,322,418
Interest on investments	758,828	273,252
	4,796,888	3,595,670
Interest expense:		
Interest on member deposits	909,091	694,223
Other interest	25,935	18,742
	935,026	712,965
Net interest income	3,861,862	2,882,705
Provision for credit losses (note 9)	54,000	72,000
Financial margin	3,807,862	2,810,705
Other income (note 15)	1,255,239	1,175,575
	5,063,101	3,986,280
Non-interest expense:		
Personnel	1,652,142	1,555,925
Occupancy	211,843	179,594
Organization	162,700	114,777
Member security	175,878	158,162
General business	1,291,060	1,171,838
Depreciation	182,233	199,625
	3,675,856	3,379,921
Earnings before income taxes	1,387,245	606,359
Income taxes (note 17):		
Current	334,498	121,889
Deferred	(7,680)	(13,100)
	326,818	108,789
Net earnings and comprehensive income	$ 1,060,427	$ 497,570

See accompanying notes to financial statements.

PROGRESSIVE CREDIT UNION LIMITED

Statement of Changes in Members' Equity

Year ended December 31, 2022, with comparative information for 2021

	Preferred shares	Retained earnings	Total
Balance on December 31, 2020	$ 280,000	$ 5,920,919	$ 6,200,919
Net earnings and comprehensive income	-	497,570	497,570
Balance on December 31, 2021	280,000	6,418,489	6,698,489
Net earnings and comprehensive income	-	1,060,427	1,060,427
Redemption of preferred shares (note 12)	(280,000)	-	(280,000)
Balance on December 31, 2022	$ -	$ 7,478,916	$ 7,478,916

See accompanying notes to financial statements.

PROGRESSIVE CREDIT UNION LIMITED

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating:		
Net earnings	$ 1,060,427	$ 497,570
Financial margin	(3,807,862)	(2,810,705)
Depreciation	182,233	199,265
Income taxes	326,818	108,789
	(2,238,384)	(2,005,081)
Changes in non-cash working capital:		
Other assets	(450,356)	(35,213)
Accounts payable and accrued liabilities	69,622	(447,894)
Interest received	4,560,339	3,561,551
Interest paid	(739,860)	(824,153)
Income taxes recovered (paid)	(166,249)	(91,077)
	1,035,112	158,133
Financing:		
Increase in member deposits	5,287,373	13,106,012
(Issuance) Redemption of surplus shares	1,173	(29,760)
Redemption of membership and voluntary shares	(55,341)	(3,232)
Payments on leases	(33,105)	(36,326)
Issuance of preferred shares	1,350,990	-
Redemption of preferred shares	(280,000)	-
	6,271,090	13,036,694
Investing:		
Additions to property and equipment	(7,511)	(110,874)
Increase in loans receivable	(15,740,354)	(8,642,834)
Decrease (Increase) in investments	4,567,668	(5,624,220)
	(11,180,197)	(14,377,928)
Decrease in cash	(3,873,995)	(1,183,101)
Cash, beginning of year	11,426,849	12,609,950
Cash, end of year	$ 7,552,854	$ 11,426,849

See accompanying notes to financial statements.

Governing legislation and nature of operations:

Progressive Credit Union Limited (the "Credit Union") is incorporated under the Credit Unions Act of New Brunswick and its principal activity is providing financial services to its members. For financial reporting and regulatory matters, the Credit Union is under the authority of the Superintendent of Credit Unions and Caisse Populaires. The Credit Union head office is located at 30 Hughes Street, Fredericton, New Brunswick.

1. Basis of presentation and statement of compliance:

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

These financial statements have been approved and authorized for issue by the Board of Directors on July 12, 2023.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2. Summary of significant accounting policies:

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Financial instruments:

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

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

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

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in OCI. This FVOCI election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

Financial assets and liabilities have been classified as follows:

	2022	2021
Cash	Amortized cost	Amortized cost
Liquidity reserve	Amortized cost	Amortized cost
Short term deposits	Amortized cost	Amortized cost
Debentures receivable	Amortized cost	Amortized cost
Investment shares	FVOCI	FVOCI
Loans receivable and accrued interest	Amortized cost	Amortized cost
Member deposits and accrued interest	Amortized cost	Amortized cost
Accrued return on Members' Life Savings and share accounts	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost
Preferred shares	Amortized cost	Amortized cost
Membership shares	Amortized cost	Amortized cost
Voluntary shares	Amortized cost	Amortized cost
Surplus shares	Amortized cost	Amortized cost

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and report to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realized.

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

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

For the purpose of this assessment, "principal" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Credit Union's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Credit Union holds a portfolio of long-term fixed rate loans for which the Credit Union has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Credit Union has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models during the current year

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

De-recognition

(i) *Financial assets*

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

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Credit Union is recognized as a separate asset or liability.

In certain transactions, the Credit Union retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the de-recognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(ii) Financial liabilities

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

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

(iii) Restructuring financial assets

If the terms of a financial asset are modified, then the Credit Union evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Credit Union plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in de-recognition of the financial asset, then the Credit Union first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

(iv) Restructuring financial liabilities

The Credit Union derecognized a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment

The Credit Union recognized loss allowances for expected credit losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

No impairment loss is recognized on equity investments.

The Credit Union measures loss allowances at an amount equal to lifetime ECL, except for the following for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Credit Union considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Credit Union does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as "Stage 1 financial instruments".

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit impaired are referred to as "Stage 2 financial instruments".

Assessment of significant increase in credit risk ("SICR")

The determination of whether the ECL on a financial instrument is calculated on a twelve month period or a lifetime basis is dependent on the stage of the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition. Loans with payments in arrears of 30-90 days are considered to have a SICR.

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

Measurement of ECL

ECL are a probability weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Credit Union expect to receive);
- financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expect to recover.

Credit impaired financial assets

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

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduce significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit impaired.

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets are measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Credit Union cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual assets level.

Recoveries of amounts previously written off are included in “impairment losses on financial instruments” in the statement of comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union’s procedures for recovery of amounts due.

Non-integral financial guarantee contracts

The Credit Union assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Credit Union considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument; and
- the guarantee is entered into at the same time as and in contemplation of the debt instrument.

If the Credit Union determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Credit Union considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Credit Union determines that the guarantee is not an integral element of the debt instrument, then it recognizes an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognized only if the guaranteed exposure neither is credit impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognized in “other assets”. The Credit Union presents gains or losses on a compensation right in profit or loss in the line item “impairment losses on financial instruments”.

2. Summary of significant accounting policies (continued):

(a) Financial instruments (continued):

Membership shares and surplus shares

In accordance with IFRIC 2, the Credit Union's membership shares and surplus shares are presented in the statement of financial position as financial liabilities. These liabilities qualify as equity for regulatory purposes, notwithstanding their financial statement classification. Dividends on these shares will be classified as financial expenses in the statement of comprehensive income, if and when declared.

(b) Leases:

At inception of a contract, the Credit Union assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Credit Union uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Credit Union allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches, office premises and technology infrastructure the Credit Union has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liabilities.

2. Summary of significant accounting policies (continued):

(b) Leases (continued):

The Credit Union presents right-of-use assets in ‘property and equipment' in the statement of financial position.

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 that rate cannot be readily determined, the Credit Union’s incremental borrowing rate. Generally, the Credit Union uses its incremental borrowing rate as the discount rate. The Credit Union determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Credit Union is reasonably certain to exercise, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Credit Union is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Credit Union’s estimate of the amount expected to be payable under a residual value guarantee, if the Credit Union changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Credit Union has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Credit Union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Summary of significant accounting policies (continued):

(c) Property and equipment:

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

Asset	Rate
Buildings	25 years
Furniture and fixtures	3 and 5 years
Computer equipment	3 and 5 years
Parking lot	12 years
Leasehold improvements	5 years
Intangible assets	3 and 5 years

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

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss.

2. Summary of significant accounting policies (continued):

(d) Impairment of non-financial assets:

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit level.

Individual assets or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Credit Union's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements.

Discount factors are determined individually for each cash generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash generating units is charged pro-rata to the assets in the cash generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash generating unit’s recoverable amount exceeds its carrying amount.

2. Summary of significant accounting policies (continued):

(e) Income taxes:

The Credit Union follows the asset and liability method of accounting for income taxes, whereby the Credit Union recognizes both current and future income tax consequences of all transactions that have been recognized in the financial statements.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Credit Union’s forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other income or equity, respectively.

2. Summary of significant accounting policies (continued):

(f) Membership shares:

Membership shares, including members' shares, voluntary shares and surplus shares, are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity, as per IFRIC 2 - Members' Shares in Cooperative Entities and Similar Instruments.

Under the Credit Unions Act of New Brunswick, the Credit Union is not permitted to make distributions or redemption by members if the distributions will cause the Credit Union to fall below legislated capital requirements (note 13). Membership shares are presented as equity to the extent they are required to meet the legislated capital requirements.

(g) Patronage distributions:

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation and it can make a reasonable estimate of the amount required to settle the obligation. Patronage distributions are deductible for income tax purposes.

(h) Revenue recognition:

(i) Investment income:

Investment income is recognized as revenue on an accrual basis using the effective interest method.

(ii) Service charges:

Service charges revenue is recognized when earned, specifically when the members' accounts are charged.

(iii) Property and equipment rentals:

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

(iv) Commissions:

Commissions' revenue is recognized when the event creating the commissions takes place.

2. Summary of significant accounting policies (continued):

(i) Syndications:

The Credit Union enters into commercial loan syndication agreements with various other credit unions. Syndicated loans are assessed for derecognition under IFRS 9 Financial Instruments. When derecognition criteria are met, as required by regulators or IFRS 9, the assets are derecognized from the balance sheet.

Revenue from administering loans is recorded as the services are provided.

(j) Foreign currency translation:

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

3. Significant management judgment in applying accounting policies and estimation uncertainty:

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The effect of a change in an accounting estimate is recognized prospectively by including it in income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Securitizations and Syndications

The determination of whether derecognition criteria have been met under IFRS 9 requires judgment. For each transaction management assesses if securitized residential mortgages or syndicated loans have had substantially all risk and rewards transferred or control has been transferred.

Classification of financial assets

The classification of financial assets requires an assessment of the business model within which assets are held and an assessment of whether the contractual terms of the financial assets have primarily cash flows that are solely payments of principal and interest on the principal outstanding. Their assessment requires judgment.

3. Significant management judgment in applying accounting policies and estimation uncertainty (continued):

Impairment losses on loans to members

Impairment of financial instruments is assessed on whether credit risk on the financial asset has significantly increased since initial recognition and requires forward looking information in the measurement of ECL.

Determining the allowance for impaired loans involves an assessment of the future cash flows expected from an impaired loan. The process takes into account historical information of similar types of loans, information known about the borrower and expected future cash flows. Changes to the estimates could result from future events such as receiving additional borrower information, receiving additional security or realizing different amounts on security than expected.

The estimates are principally based on the Credit Union's historical experience and knowledge of the borrower. Methods of estimation have been used that the Credit Union believes produce reasonable results given current information. As additional information and other data become available, the estimates could be revised. Any future changes in estimation would be reflected in the comprehensive income for the year in which the change occurred.

More information is provided in note 9.

Fair value of financial instruments

For information on the estimation uncertainty of fair value of financial instruments see note 4.

4. Risk management:

(a) The types of risk inherent in the Credit Union environment include credit, liquidity and interest rate risk.

i) Credit risk is the risk that the Credit Union will incur a loss because a member or investment counter-party fails to meet an obligation. Risk management policies are implemented by management and the Board. These include the evaluation of the member's ability to repay the loan when it is originally granted and subsequently renewed and the regular monitoring of member information such as delinquent and over-limit amounts. Also, the Credit Union has a policy to limit the type of investments to counter-parties to those that are considered high credit quality.

In addition, the Credit Union Act requires the Credit Union to maintain at all times a prescribed capital base. The required level of capital, consisting of share capital and retained earnings, is 5% of the total assets. The actual capital base at December 31, 2022 is detailed in note 13 of the notes to the financial statements.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk. The credit risk policies include the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration

- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness

- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods

- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations

- Loan delinquency controls regarding procedures followed for loans in arrears

- Audit procedures and processes are in existence for the Credit Union's lending activities

4. Risk management (continued):

ii) Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. Liquidity risk is managed through matching of assets and liabilities to the extent possible, as included in the table at iii) below. To mitigate the risk, the Credit Union is required under the Credit Unions Act of New Brunswick to maintain, at all times, liquid assets that are adequate in relation to the business carried on. The level of liquidity is based on a prescribed percentage of total liabilities. At December 31, 2022, the prescribed liquidity requirement was 10% of total liabilities of which 8% is to be in liquid deposits with Atlantic Central. The actual liquidity was 29.08% of total liabilities, and 8.36% was in liquidity deposits with Atlantic Central. Atlantic Central adjust liquidity deposits to ensure compliance every 3 months.

iii) Interest rate risk refers to the potential impact on the Credit Union's earnings and net asset values due to changes in interest rates. Interest rate risk results primarily from differences in the maturity or re-pricing dates of assets and liabilities. The Credit Union manages the impact of interest rate changes with self-imposed limits, thus minimizing fluctuations of income during periods of changing interest rates. The Credit Union's major source of income is the financial margin between the income earned on investments and loans to members, and the interest paid to members on their deposits and interest on temporary borrowings.

Interest-sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity, nor would a perfect match be desirable. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Expected re-pricing or maturity dates	Assets	Liabilities and members equity	Net assets liability mismatch
0-6 months	$ 38,872,227	$ 71,459,764	$ (32,587,537)
6-12 months	35,258,475	5,701,830	29,556,645
1-2 years	13,490,293	5,403,874	8,086,419
2-3 years	17,318,321	2,557,171	14,761,150
3-5 years	40,479,754	1,523,833	38,955,921
Over 5 years	2,278,560	-	2,278,560
Not interest sensitive	303,979	61,355,137	(61,051,158)
	$ 148,001,609	$ 148,001,609	$ -

4. Risk management (continued):

(b) Fair value of financial instruments

Estimated fair values of financial instruments are summarized as follows:

(in dollars)	2022 Fair value	2022 Book value	2022 Fair value over book value	2021 Fair value	2021 Book value	2021 Fair value over book value
Assets:						
Cash	$ 7,552,854	$ 7,552,854	$ -	$ 11,426,849	$ 11,426,849	$ -
Investments	34,644,572	34,644,572	-	39,212,240	39,212,240	-
Member loans	93,197,063	103,467,290	(10,270,227)	87,566,590	87,780,936	(214,346)
Liabilities:						
Member deposits	$137,929,388	$136,359,241	$ 1,570,147	$131,346,122	$131,071,868	$ 274,254
Member shares	1,927,822	1,927,822	-	631,000	631,000	-
Accounts Payable	1,063,531	1,063,531	-	993,909	993,909	-

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

4. Risk management (continued):

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

(a) The fair values of cash, investments, accrued interest receivable, accrued interest on deposits and accounts payable and accrued liabilities are assumed to approximate carrying values, due to their short term nature. Investment in shares are determined based on redemption value (note 7).

(b) The estimated fair value of variable rate member loans and deposits are assumed to be equal to the carrying value as interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate loans and deposits are determined by discounting the expected future cash flows at current market rate for products with similar terms.

(c) The fair value of shares classified as liabilities is approximated by the carrying value as these amounts are repayable at the option of the member.

The Credit Union is required to classify fair value measurements using a fair value hierarchy that groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All amounts measured at fair value in the financial statements are determined using a level 3 fair value measurement techniques. Fair value disclosures were determined using level 2 fair value measurement techniques. The main variable used in the determination of fair value in these techniques was interest rates used to discount the expected cash flows. A prime interest rate of 6.45% (2021 - 2.95%) was used adjusted for credit risk where applicable.

5. Loans receivable:

	2022	2021
Personal	$ 4,759,970	$ 4,710,821
Line of credit	5,191,119	6,310,252
Commercial	38,437,695	25,477,840
Mortgages	55,480,793	51,637,699
	103,869,577	88,136,612
Allowance for credit losses (note 9)	(402,287)	(355,676)
	$ 103,467,290	$ 87,780,936

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to eight years.

Variable rate loans are based on a prime rate formula ranging from prime to prime plus 14.50% (2021 - prime to prime plus 18.55%). The Credit Union's prime rate at December 31, 2022 was 6.45% (2021 - 2.95%). The overall effective yield of the variable rate loan portfolio is 8.64% (2021 - 5.02%). Variable rate loans account for 8.07% of member loans.

The interest rate on fixed rate loans at December 31, 2022 ranges from 2.74% to 13.95% (2021 - 2.19% to 13.95%). The overall effective yield of the fixed rate loan portfolio is 6.73% (2021 - 4.40%).

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

Personal loans consist of term loans and lines of credit that are non-real estate secured and have various repayment terms. Some of the personal loans are secured by personal property or investments.

5. Loans receivable (continued):

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

Syndicated loans

The Credit Union has entered into syndication agreements with various other credit unions to limit exposure to certain commercial loans.

Full derecognition occurs when the Credit Union transfers its contractual right to receive cash flows from the assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, prepayment and other price risks.

The participants' portions of the commercial loans that have been derecognized are those that meet the qualifications required to be derecognized under IFRS.

The following table summarizes the Credit Union's loan syndication activity for the year ended December 31, 2022:

	2022	2021
Gross loans under syndication	$ 20,146,436	$ 18,899,402
Other participants' portion	(19,079,831)	(17,411,589)
Net loans included in the statement of financial position	$ 1,066,605	$ 1,487,813

The syndicated loans are derecognized as the Credit Union has entered an agreement to transfer substantially all of the cash flows associated with the risks and rewards of the these loans. The Credit Union earns a service fee to administer the loans under syndication.

Concentration of risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

- All groupings of individual or related groups of member loans by category do not exceed 10% of the Credit Union’s equity.

- Substantially all member loans are with members located in and around New Brunswick.

6. Other assets:

	2022	2021
Other receivables	$ 10,666	$ 66,221
Prepaid expenses	586,620	80,709
	$ 597,286	$ 146,930

7. Investments:

	2022	2021
Atlantic Central - liquidity deposit	$ 11,680,807	$ 10,270,014
Atlantic Central - shares	1,906,735	1,885,196
Atlantic Central - short term deposits	17,000,000	24,000,000
League Data - shares	56,830	56,830
GMEC - shares	200	200
Concentra debentures	2,000,000	3,000,000
	$ 32,644,572	$ 39,212,240

As required by the Credit Unions Act of New Brunswick, the Credit Union maintains deposits with Atlantic Central to satisfy the legislated liquidity levels. Also additional deposits can be made in share term deposits to earn a return for excess liquidity. These deposits bear interest at market rates, 0.67% at December 31, 2022 (2021 - 0.78%), for a period that do not exceed one year. Concentra debentures bear interest at 4.6% (2021 - 1.19%) and mature June 2023.

Shares in Atlantic Central are required by the Credit Union Act to be held and are a condition of membership in Atlantic Central. Other equity investments represent shares in entities that support Atlantic credit unions in their delivery of services to members. Atlantic Central shares are subject to a rebalancing mechanism requiring shares to be issued and redeemed at par to members. As there is no active market for these shares, fair value is equal to redemption value as all available earnings are distributed to shareholders annually. Similarly all other shares have a fair value which is approximated to carrying value as this represents the redemption value which is due upon withdrawal from the credit union system in Atlantic Canada.

8. Property and equipment:

	Land	Buildings	Parking lot	Leasehold improvements	Computer equipment	Furniture and fixtures	Intangible assets	Right-of-use assets	Total
Cost									
Balance January 1, 2022	$ 234,303	$ 1,302,757	$ 87,087	$ 468,198	$ 428,585	$ 338,090	$ -	$ 545,982	$ 3,405,002
Additions	-	-	-	-	7,509	-	-	-	7,509
Disposals	-	-	-	-	(52,244)	-	-	-	(52,244)
Balance as at December 31, 2022	$ 234,303	$ 1,302,757	$ 87,087	$ 468,198	$ 383,850	$ 338,090	$ -	$ 545,982	$ 3,360,267
Accumulated depreciation									
Balance January 1, 2022	$ -	$ 882,106	$ 87,087	$ 376,263	$ 364,466	$ 279,762	$ -	$ 127,204	$ 2,116,888
Depreciation expense	-	58,858	-	21,735	39,599	21,929	-	40,133	182,254
Disposals	-	-	-	-	(52,244)	-	-	-	(52,244)
Balance as at December 31, 2022	$ -	$ 940,964	$ 87,087	$ 397,998	$ 351,821	$ 301,691	$ -	$ 167,337	$ 2,246,898
Net book value									
December 31, 2022	$ 234,303	$ 361,793	$ -	$ 70,200	$ 32,029	$ 36,399	$ -	$ 378,645	$ 1,113,369

8. Property and equipment (continued):

	Land	Buildings	Parking lot	Leasehold improvements	Computer equipment	Furniture and fixtures	Intangible assets	Right of use asset	Total
Cost									
Balance January 1, 2021	$ 234,303	$ 1,257,400	$ 87,087	$ 468,198	$ 422,108	$ 335,997	$ 17,430	$ 439,250	$ 3,261,773
Additions	-	102,303	-	-	6,477	2,093	-	106,732	217,605
Disposals	-	(56,946)	-	-	-	-	(17,430)	-	(74,376)
Balance as at December 31, 2021	$ 234,303	$ 1,302,757	$ 87,087	$ 468,198	$ 428,585	$ 338,090	$ -	$ 545,982	$ 3,405,002
Accumulated depreciation									
Balance January 1, 2021	$ -	$ 880,533	$ 87,087	$ 351,281	$ 318,677	$ 251,810	$ 17,430	$ 85,181	$ 1,991,999
Depreciation expense	-	58,519	-	24,982	45,789	27,952	-	42,023	199,265
Disposals	-	(56,946)	-	-	-	-	(17,430)	-	(74,376)
Balance as at December 31, 2021	$ -	$ 882,106	$ 87,087	$ 376,263	$ 364,466	$ 279,762	$ -	$ 127,204	$ 2,116,888
Net book value									
December 31, 2021	$ 234,303	$ 420,651	$ -	$ 91,935	$ 64,119	$ 58,328	$ -	$ 418,778	$ 1,288,114

9. Allowance for impaired loans:

	Stage 1	Stage 2	Stage 3	Gross Amount	Stage 1	Stage 2	Stage 3	2022 Total	Net Amount
Personal loans	$ 8,584,628	$ 1,757,074	$ 19,406	$ 10,361,108	$ 70,705	$ 183,309	$ 3,482	$ 257,496	$ 10,103,612
Residential mortgage	38,145,535	3,779,812	-	41,925,347	39,583	43,325	-	82,908	41,842,439
Commercial loans and mortgage	51,274,902	308,220	-	51,583,122	31,861	30,022	-	61,883	51,521,239
2022	$ 98,005,065	$ 5,845,106	$ 19,406	$ 103,869,577	$ 142,149	$ 256,656	$ 3,482	$ 402,287	$ 103,467,290

	Stage 1	Stage 2	Stage 3	Gross Amount	Stage 1	Stage 2	Stage 3	2021 Total	Net Amount
Personal loans	$ 7,222,020	$ 1,480,990	$ 20,890	$ 8,723,900	$ 48,838	$ 150,718	$ 2,610	$ 202,166	$ 8,521,734
Residential mortgage	36,049,990	4,327,694	-	40,377,684	47,314	80,623	-	127,937	40,249,747
Commercial loans and mortgage	39,026,974	8,026	28	39,035,028	25,124	429	20	25,573	39,009,455
2021	$ 82,298,984	$ 5,816,710	$ 20,918	$ 88,136,612	$ 121,276	$ 231,770	$ 2,630	$ 355,676	$ 87,780,936

9. Allowance for impaired loans (continued):

	12 month ECL (Stage 1)	Lifetime non-credit impaired (Stage 2)	Lifetime credit impaired (Stage 3)	2022 total
Balance at January 1, 2022	$ 121,275	$ 231,771	$ 2,630	$ 355,676
Originations	28,263	24,144	1,593	54,000
Remeasurements	-	741	(741)	-
Write-offs	(9,966)	-	-	(9,966)
Recoveries	2,577	-	-	2,577
Balance at December 31, 2022	$ 142,149	$ 256,656	$ 3,482	$ 402,287

	12 month ECL (Stage 1)	Lifetime non-credit impaired (Stage 2)	Lifetime credit impaired (Stage 3)	2021 total
Balance at January 1, 2021	$ 107,151	$ 137,989	$ 26,665	$ 271,805
Originations	42,204	-	-	42,204
Repayments	(9,503)	(3,197)	(9,344)	(22,044)
Remeasurements	(2,718)	96,979	(42,420)	51,841
Write-offs	(15,859)	-	-	(15,859)
Recoveries	-	-	27,729	27,729
Balance at December 31, 2021	$ 121,275	$ 231,771	$ 2,630	$ 355,676

The statement of operations includes provision for credit losses consisting of originations, transfers and remeasurements.

9. Allowance for impaired loans (continued):

Loans past due but not impaired as at December 31, 2022 are as follows:

	<30 days	31 - 60 days	61 - 90 days	2022 Total
Personal loans	$ 1,137,345	$ 407,292	$ 3,537	$ 1,548,174
Commercial loans	1,646,532	11,044	-	1,657,576
	$ 2,783,877	$ 418,336	$ 3,537	$ 3,205,750

	<30 days	31 - 60 days	61 - 90 days	2021 Total
Personal loans	$ 2,360,225	$ 722,878	$ 730	$ 3,083,833
Commercial loans	530	26	-	556
	$ 2,360,755	$ 722,904	$ 730	$ 3,084,389

Impaired loans with specific security:

	Impaired loans	Security value	2022 Total	2021 Total
Personal loans	$ 1,567,580	$ 1,320,289	$ 247,291	$ 85,629
Commercial	1,657,576	1,612,857	44,719	54
	$ 3,225,156	$ 2,933,146	$ 292,010	$ 85,683

All loans less than 30 days are included in Stage 1 loans unless there is an indicator of impairment in which case the loans are evaluated in Stage 3. All loans greater than 30 days , but less than 90 days are included in Stage 2 loans unless there is an indicator of impairment in which case the loans are evaluated in Stage 3.

Collateral:

For all mortgages (personal and commercial) valuations are obtained of the properties and the loan to value (LTV) cannot exceed 75% unless insured. Other loans may require collateral in the form of real property or personal guarantees to protect the Credit Union’s risk of loss. The Credit Union does not routinely update the valuation of collateral held. Collateral is included in the ECL calculation through the loss given default adjustment (below). This is based on historical experience of the Credit Union and updated based on changes in market indices (i.e. regional house price indices) when they indicate a difference from historical experience. The following table represents the impact of collateral on the determination of ECL.

9. Allowance for impaired loans (continued):

Value of collateral in ECL model:

	Personal	Residential mortgages	Commercial	2022 Total
Stage 1	$ 77,877	$ 183,402	$ 85,634	$ 346,913
Stage 2	230,589	250,771	6,341	487,701
Stage 3 - credit impaired	2,420	-	-	2,420
	$ 310,886	$ 434,173	$ 91,975	$ 837,034

	Personal	Residential mortgages	Commercial	2021 Total
Stage 1	$ 50,996	$ 199,756	$ 71,248	$ 322,000
Stage 2	186,017	306,950	1,668	494,635
Stage 3 - credit impaired	2,411	-	7	2,418
	$ 239,424	$ 506,706	$ 72,923	$ 819,053

Measurement of ECL:

The ECL impairment model measures the credit losses using the following three-stage approach based on the extent of credit deterioration of the financial assets since initial recognition:

- Stage 1 – Where there has not been a significant increase in credit risk (“SICR”) since initial recognition of a financial instrument, an amount equal to twelve months ECL is recorded. The ECL is computed using a probability of default (“PD”) occurring over the next twelve months.
- Stage 2 – When a financial instrument experiences a SICR subsequent to initial recognition but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the PD over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage.

9. Allowance for impaired loans (continued):

The PD, exposure at default ("EAD"), and loss given default ("LGD") are inputs used to estimate the ECL, and are modelled based on macroeconomic factors that are closely related with credit losses in the relevant portfolios.

Details of these statistical parameters/inputs are as follows:

- PD is an estimate of the likelihood of default over a given time horizon, and is expressed as a percentage. PD is adjusted based on historical experience and changes in FLI to considered indicators of changes in the PD.
- EAD is the expected exposure in the event of default at a future default date, and is expressed as an amount. This includes the expected amount, if any, of future advances of unused LOC, overdraft limits or other loan commitments that may not be advanced as at the reporting date.
- LGD is an estimate of the loss arising in case where a default occurs at a given time and is based on the difference between the contractual cash flows due and those that the Credit Union would expect to receive, including from the realization of any collateral. It is expressed as a percentage of the EAD.

Forward-looking information ("FLI"):

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The estimation and application of FLI requires significant judgment. The Credit Union relies on a broad range of FLIs, such as expected unemployment rates. The economic scenarios used as at December 31, 2022 included the following ranges of New Brunswick, Canada key indicators for the years ending December 31, 2022 and 2021.

	2022	2021
Unemployment rates:		
Base	7.8%	8.8%
Interest rates:		
Base	3.25%	3.25%

10. Member deposits:

	2022	2021
Term	$ 4,798,468	$ 4,467,086
Member life savings	41,667,112	40,321,653
TFSA	13,007,577	13,125,564
Chequing	51,746,394	48,345,484
RRSP	7,933,970	8,127,699
Savings	17,205,720	16,684,382
	$ 136,359,241	$ 131,071,868

Terms and conditions

Chequing deposits are due on demand and may bear interest at a variable rate up to 0.75% at December 31, 2022 (2021 - 0.75%) depending on the balance in the account.

Savings deposits are due on demand and bear interest at a variable rate up to 0.75% at December 31, 2022 (2021 - 0.75%) depending on the balance in the account. Interest is calculated daily and paid on the accounts monthly with the exception of interest on member life saving's deposits which is calculated monthly and paid annually.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2022 range from 0.15% to 4.75% (2021 - 0.15% to 3.25%).

The weighted average yield paid on deposits was 1.69% (2021 - 1.76%).

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term savings accounts described above. The variable rate RRSPs bear interest at rates up to 0.15% at December 31, 2022 (2021 - 0.15%).

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing deposits are amounts of $450,881 (2021 - $638,512) denominated in US dollars.

11. Leases:

(a) Leases as lessee (IFRS 16)

The Credit Union leases office spaces and branches. The leases typically run for periods of 10 years, with an option to renew the lease after that date.

Information about leases for which the Credit Union is a lessee is presented below.

(i) Right-of-use assets:

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment (note 8).

		2022		2021
Balance at January 1	$	418,778	$	354,069
Additions		-		106,732
Depreciation charge for the year		(40,133)		(42,023)
Balance at December 31	$	378,645	$	418,778

(ii) Lease liabilities:

		2022		2021
Balance at January 1	$	435,707	$	365,301
Payments		(52,551)		(52,551)
Interest		19,446		16,225
Additions		-		106,732
Balance at December 31	$	402,602	$	435,707

11. Leases (continued):

(iii) Amounts recognized in profit or loss

	2022	2021
Interest on lease liabilities	$ 19,446	$ 16,225
Depreciation on right-of-use assets	40,133	42,023
	$ 59,579	$ 58,248

(iv) Amounts recognized in statement of cash flows

	2022	2021
Payments on leases	$ (52,551)	$ (52,551)
Interest expense	19,446	16,225
	$ (33,105)	$ (36,326)

(v) Maturity of lease liabilities

	0 - 12 Months	1-5 Years	5+ Years	Total
Lease liabilities	$ 52,551	$ 210,204	$ 139,847	$ 402,602

12. Members' shares:

	2022	2021
Member shares classified as liabilities:		
Membership shares	$ 34,914	$ 34,710
Voluntary shares	459,183	514,728
Preferred shares	1,350,990	-
Surplus shares	82,735	81,562
	1,927,822	631,000
Member shares classified as equity:		
Preferred shares	-	280,000
	$ 1,927,822	$ 911,000

12. Members’ shares (continued):

As a condition of membership each adult member must hold a minimum of one membership share. Membership shares are redeemable on withdrawal from membership. Pursuant to the Credit Union’s by-laws, the value of each membership share is $5. These shares have specific restrictions on withdrawal and are not covered by Credit Union Deposit Insurance. Voluntary shares are identical to membership shares and not covered by Credit Union Deposit Insurance. Members may hold a combination of membership and voluntary shares to a maximum of 400 shares. Each member is entitled to one vote, regardless of the number of shares held. Membership and voluntary shares are redeemable on demand and are presented as a liability on the Credit Union's balance sheet.

Surplus shares are issued at a value $1 per share for settlement of patronage rebates. These shares are non-voting and may be redeemed on withdrawal from membership provided the Credit Union has sufficient capital as required under the Credit Union Act of New Brunswick. Shares may be retracted by the Credit Union upon application by the member or through a general repurchase upon approval by the members.

During the year, preference shares held by Atlantic Central were repaid. The Credit Union issued 13,470 preference shares for proceeds of $1,350,990. These preference shares are Class AA preferred shares which have a par value of $100 per share. The commencement date for these shares was on July 1, 2022 with an annual maturity date of June 30, 2025. Upon reaching the maturity date of the offering, the shares shall be redeemed at their par value, plus payment of any accumulated dividends or rolled into a new offering of Class AA shares for an additional three-year period. During the three-year period, the dividend on these shares shall be paid in an amount equal to that percentage of the par value of the share which is equal to the Bank of Canada Prime Rate plus 50 basis points as determined on the closing date. The board of directors may, in its sole and absolute discretion, fix by resolution prior to any issue date such higher dividend rate on the Class AA shares as it shall deem appropriate, provided that, in no event shall such discretionary higher dividend rate on the shares exceed an annual rate of 5%. These dividends shall accumulate daily and will be paid annually in the form of interest. The Class AA preferred shares are non-voting shares. There are no rights to convert the Class AA shares into any other type of shares or security of the Credit Union. Subject to the Act and By-laws of the Credit Union, the board of directors of the Credit Union, in its discretion may authorize the Credit Union to redeem or purchase any Class AA preferred shares. These shares would be redeemed or purchase by the Credit Union at its par value of $100 plus accumulated dividends which have not been paid at the time of the redemption.

12. Members' shares (continued):

		Members' shares		Voluntary shares		Surplus shares		Preferred shares
Balance at December 31, 2021	$	34,710	$	514,728	$	81,562	$	280,000
Issuance of shares for:								
Cash		2,970		24,185		9,098		1,350,990
Redemption of shares for cash		(2,766)		(79,731)		(7,926)		(280,000)
Balance at December 31, 2022	$	34,914	$	459,182	$	82,734	$	1,350,990

13. Capital management:

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

New Brunswick Credit Union Legislation

Regulatory equity

Credit Union legislation requires that each Credit Union maintain a minimum level of equity in the Credit Union to provide protection against potential financial losses. The requirement calls for equity to meet or exceed 5% of total assets. The following table indicates the equity level for Progressive at December 31, 2022 as defined in the Credit Union Act of New Brunswick.

	2022	2021
Membership shares	0.02 %	0.02 %
Voluntary shares	0.31 %	0.37 %
Preferred shares	0.91 %	0.20 %
Surplus shares	0.05 %	0.06 %
Retained earnings/special reserve	5.12 %	4.56 %
	6.41 %	5.21 %

14. Line of credit:

The Credit Union maintains an authorized line of credit with Atlantic Central in the amount of $3,509,000 with an interest rate of 6.45%. The line is secured by investments with Atlantic Central and a general assignment of book debts. No amounts were withdrawn on the line of credit at December 31, 2022.

15. Other income:

	2022	2021
Service charges	$ 715,548	$ 683,114
Commissions	212,733	163,004
Miscellaneous	167,823	232,909
Rental	49,561	55,561
Foreign exchange	109,574	40,987
	$ 1,255,239	$ 1,175,575

16. Commitment:

The Credit Union has a contract with League Data Limited for data processing services. The contract expires October, 2024, however, it is automatically renewed every five years until terminated by either party given a three year notice period. The terms of the contract require minimum annual payments of $43,950. The annual minimum amount can increase at the discretion of League Data.

17. Income taxes:

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 29% (2021 - 29%) are as follows:

	2022	2021
Earnings before income taxes	$ 1,387,245	$ 606,359
Income tax expense based on statutory tax rate of 29% (2021 - 29%) in Canada	$ 402,301	$ 175,844
Adjustments to income taxes resulting from:		
Tax impact of small business deductions	(87,500)	(87,500)
Tax effect of permanent item	339	397
Impact of differences between current and deferred tax rates	11,684	19,885
Other differences	(6)	163
	$ 326,818	$ 108,789

	2022	2021
Current	$ 334,498	$ 121,889
Deferred	(7,680)	(13,100)
	$ 326,818	$ 108,789

17. Income taxes (continued):

The tax effected temporary differences, which result in deferred income tax assets and liabilities and the amount of deferred taxes recognized in the 2022 statement of operations and comprehensive income are as follows:

	2022	2021
Deferred income tax assets (liabilities):		
Allowance for impaired loans	$ 45,900	$ 40,630
Property and equipment	107,040	104,630
Investments	(17,130)	(17,130)
Other	460	460
	$ 136,270	$ 128,590

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the future tax assets are deductible, management believes it is more likely than not that the Credit Union will realize the benefits of these deductible differences. The amount of the future tax asset considered realizable, however, could be reduced in the near term if estimates of future income during the carry forward period are reduced.

18. Related party transactions:

Included in loans to members are loans to senior officers, directors and staff at December 31, 2022. Loans to these parties amounted to $958,332 (2021 - $1,031,895). These loans have been advanced on the same terms and conditions as have been accorded to all members of the Credit Union. Directors and elected committee members were reimbursed for out-of-pocket expenses and were due $21,088 (2021 - $9,906) for meeting attendance during the year.

Included in member deposits are $1,119,886 (2021 - $611,601) from senior officers, directors and staff at December 31, 2022.

Key management compensation for the year was $396,422 (2021 - $388,692).

19. Subsequent event:

In the 2022 fiscal year, the Credit Union entered into an agreement with Advance Savings Credit Union and Bayview Credit Union to amalgamate the three credit unions. On September 27, 2022, the members of Progressive Credit Union, Advance Savings Credit Union and Bayview Credit Union voted and approved the amalgamation of the three credit unions to form a new entity named Brunswick Credit Union Limited. The amalgamation was completed subsequent to the 2022 fiscal year-end on January 1, 2023.