

FINANCIAL STATEMENTS

Lahave River Credit Union Limited
December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of Lahave River Credit Union Limited

Opinion

We have audited the financial statements of Lahave River Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, retained earnings and special reserve 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, 2022, and the financial performance and 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 report. We are independent of the Credit Union in accordance with 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.

(continues)

Independent Auditor's Report to the Members of Lahave River Credit Union Limited (*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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

Miles J. Sweeney Limited

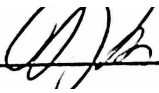
Dartmouth, Nova Scotia
March 21, 2023

CHARTERED PROFESSIONAL
ACCOUNTANTS

Lahave River Credit Union Limited
STATEMENT OF FINANCIAL POSITION
 December 31

	2022	2021
Assets		
Cash resources (Note 6)	\$ 19,912,872	\$ 20,374,134
Income taxes receivable	-	47,508
Prepaid expenses (Note 20)	276,726	13,827
Members' loans (Note 7)	39,295,012	36,339,775
Long-term investments (Note 9)	1,607,296	1,484,997
Capital assets (Note 11)	333,696	349,203
Deferred income taxes (Note 13)	<u>35,396</u>	<u>27,611</u>
	<u>\$ 61,460,998</u>	<u>\$ 58,637,055</u>
Liabilities		
Payables and accruals (Note 8)	\$ 85,048	\$ 148,574
Members' deposits (Note 10)	54,678,997	52,762,602
Members' rebate payable	100,848	50,000
Income taxes payable	151,875	-
Deferred government grant (Note 19)	<u>50,000</u>	<u>50,000</u>
	<u>55,066,768</u>	<u>53,011,176</u>
Members' equity		
Equity shares (Note 12)	403,038	391,752
Special reserve (Note 21)	12,500	12,500
Retained earnings	<u>5,978,692</u>	<u>5,221,627</u>
	<u>6,394,230</u>	<u>5,625,879</u>
	<u>\$ 61,460,998</u>	<u>\$ 58,637,055</u>

Approved by the Board



Director



Director

(See accompanying notes to the financial statements)

Lahave River Credit Union Limited
STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31	2022	% of Income	2021	% of Income
Income				
Loan interest	\$ 1,813,502	68.4	\$ 1,659,601	74.8
Investment income	<u>383,122</u>	<u>14.5</u>	<u>92,224</u>	<u>4.2</u>
	<u>2,196,624</u>	<u>82.9</u>	<u>1,751,825</u>	<u>79.0</u>
Interest and loan related expenses				
Distributions to members:				
Interest on deposits	161,061	6.1	128,073	5.8
Loan impairment losses (recoveries)	<u>110,918</u>	<u>4.2</u>	<u>(51,945)</u>	<u>(2.3)</u>
	<u>271,979</u>	<u>10.3</u>	<u>76,128</u>	<u>3.5</u>
Financial margin	<u>1,924,645</u>	<u>72.6</u>	<u>1,675,697</u>	<u>75.5</u>
Other income				
Revenue from contracts (Note 14)	378,162	14.3	393,320	17.7
Other	<u>75,870</u>	<u>2.9</u>	<u>72,567</u>	<u>3.3</u>
	<u>454,032</u>	<u>17.2</u>	<u>465,887</u>	<u>21.0</u>
Income before operating expenses	<u>2,378,677</u>	<u>89.8</u>	<u>2,141,584</u>	<u>96.5</u>
Operating expenses				
Administrative (see schedule)	421,664	16.0	488,694	20.1
Amortization of capital assets	21,411	0.8	26,208	1.2
Central service charges	51,919	2.0	42,482	1.9
Occupancy (see schedule)	46,110	1.7	59,407	2.7
Salaries, benefits, contracted services	735,797	27.8	892,213	40.2
CUDIC assessment	<u>41,603</u>	<u>1.6</u>	<u>43,795</u>	<u>2.0</u>
Total operating expenses	<u>1,318,504</u>	<u>49.9</u>	<u>1,552,799</u>	<u>68.1</u>
Income before rebate to members	1,060,173	39.9	588,785	28.4
Rebate to members	<u>100,000</u>	<u>3.8</u>	<u>50,000</u>	<u>2.3</u>
Income before provision for income taxes	<u>960,173</u>	<u>43.7</u>	<u>538,785</u>	<u>30.7</u>
Provision for income taxes (Note 13)				
Current	210,893	8.0	59,324	2.7
Future (recovery)	<u>(7,785)</u>	<u>(0.3)</u>	<u>4,308</u>	<u>0.2</u>
	<u>203,108</u>	<u>7.7</u>	<u>63,632</u>	<u>2.9</u>
Net income and comprehensive income	<u>\$ 757,065</u>	<u>36.0</u>	<u>\$ 475,153</u>	<u>27.8</u>

(See accompanying notes to the financial statements)

 Lahave River Credit Union Limited

STATEMENT OF RETAINED EARNINGS AND SPECIAL RESERVE

December 31

2022

2021

RETAINED EARNINGS

Balance, beginning of year	\$ 5,221,627	\$ 4,746,474
Current year's net income and comprehensive income	757,065	475,153
Appropriation from (to) Special Reserve	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 5,978,692</u>	<u>\$ 5,221,627</u>

SPECIAL RESERVE

Balance, beginning of year	\$ 12,500	\$ 12,500
Appropriation from (to) retained earnings (Note 21)	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 12,500</u>	<u>\$ 12,500</u>

(See accompanying notes to the financial statements)

Lahave River Credit Union Limited
STATEMENT OF CASH FLOWS
Year ended December 31

	2022	2021
Cash generated from (used in) operating activities		
Loan interest received	\$ 1,777,584	\$ 1,672,647
Investment income received	289,015	90,514
Other income received	75,870	72,567
Rebates received	-	42,266
Revenue from contracts received	378,162	393,320
Increase in members' deposits	1,916,395	4,865,428
Bad loans recovered	20,543	16,000
Interest paid on members' deposits	(144,902)	(134,318)
Decrease (increase) in members' loans	(3,050,781)	1,607,707
Rebates paid	(49,152)	(12,512)
Payments to suppliers	(903,877)	(617,756)
Payments to employees	(735,799)	(890,574)
Income taxes paid	(11,510)	(149,386)
	<u>(438,452)</u>	<u>6,955,903</u>
Cash generated from (used in) investing activities		
Purchase of investments, net of proceeds	(28,192)	(338,027)
Purchase of capital assets	(5,904)	(56,696)
	<u>(34,096)</u>	<u>(394,723)</u>
Cash generated from (used in) financing activities		
Equity shares issued (redeemed)	11,286	(13,394)
Net increase (decrease) in cash flows	(461,262)	6,547,786
Cash and cash equivalents, beginning of year	20,374,134	13,826,348
Cash and cash equivalents, end of year (Note 5)	\$ 19,912,872	\$ 20,374,134
Supplemental cash flow information		
Interest received from investments	\$ 247,038	61,977

(See accompanying notes to the financial statements)

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

1. REPORTING ENTITY

Lahave River Credit Union (the "Credit Union") is incorporated under the Nova Scotia Companies Act. The operation of the Credit Union is subject to the Nova Scotia Credit Union Act. Products and services offered to its members include loans, mortgages, chequing and savings accounts, MasterCards, RRSP's, term deposits, online and telephone banking and financial planning. The Credit Union is located at 29 North Street, Bridgewater, Nova Scotia.

On March 21, 2023, the Credit Union's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2022.

2. NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

IFRS 17- Insurance Contracts

IFRS 17 was issued in May 2017 and establishes recognition, measurement, presentation and disclosure requirements of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2023.

The Credit Union does not anticipate this new standard will impact its financial statements. The Credit Union does not issue or hold insurance contracts as defined in IFRS 17.

3. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

These financial statements were prepared under the historical cost principle using a going concern basis, with the exception of available-for-sale financial assets which have been measured at fair value.

Functional currency

These statements are denominated in Canadian dollars which is the Credit Union's functional currency.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statement in the year the assumptions changed.

Significant estimates made in the preparation of these financial statements include, but are not limited to the following areas, with further information contained in the applicable accounting policy note.

Measurement of the expected credit loss (ECL) allowance

The Credit Union reviews its loan portfolio to assess the ECL allowance for loans at least on a quarterly basis. The measurement of the ECL allowance for financial assets measured at amortized cost and fair value through other comprehensive income (FVTOCI) is an area that requires the use of models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of members defaulting and resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 4.

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

3. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (Continued)

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.

The judgments, inputs, methodology and assumptions used for estimating the ECL allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of available-for-sale securities

The fair values of available-for-sale securities where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In each instance, management has reviewed the attributes of its investments and determined that fair value was liquidation value for each investment as there is no ability to otherwise sell the investments. Management also determined that liquidation value approximated historical cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, and short-term highly liquid securities which are readily convertible into known amounts of cash. The Credit Union considers securities with original maturities of three months or less as meeting the definition of convertible to known amounts of cash.

Members' loans and foreclosed assets

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

Members' loans are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

Real estate held for resale is carried at the lower of the amortized cost of the loan or mortgages foreclosed, adjusted for revenues received and cost incurred subsequent to foreclosure and the estimated net proceeds from the sale of assets.

Allowance for impaired loans

The Credit Union recognizes a loss allowance for the expected credit losses associated with its members' loans. Expected credit losses are measured to reflect the probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those members' loans for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses at each balance sheet date whether there is objective evidence that a members' loan or group of members' loans is impaired. A members' loan or group of members' loans is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the members' loan (a "loss event") and that loss event (events) has an impact on the estimated future cash flows of the members' loan or group of members' loans that can be reliably estimated.

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The criteria the Credit Union uses to determine whether there is objective evidence of an impairment loss includes:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the member;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the member's competitive position; and
- Deterioration in the fair value of collateral.

For members' loans assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses. Loss allowances for expected credit losses are deducted from the gross carrying amount of the members' loans in the statement of financial position.

Members' loans are written off when the Credit Union has no reasonable expectation of recovering all or any portion thereof.

Revenue recognition

Interest on loans and advances is recognized on an accrual basis using the effective interest rate method. Revenue from the provision of services is recognized when earned and the ability to collect is reasonably assured.

Contracts with members have performance obligations as set out in the contract. Revenue is recognized when the performance obligations have been met and collection is reasonably assured.

Members' deposits

All members' deposits are initially recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Members' deposits are subsequently measured at amortized cost, using the effective interest rate method.

Financial assets

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit and loss (FVTPL) are expensed in profit and loss when incurred.

On initial recognition, financial assets are classified and subsequently measured at amortized cost, FVTOCI or FVTPL. The Credit Union determines the classification of its financial assets, including any derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit and loss.
- FVTOCI - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at FVTOCI. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial asset are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit and loss.
- Mandatory FVTPL - Assets that do not meet the criteria to be measured at amortized cost, or FVTOCI, are measured at FVTPL. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.
- Designated FVTPL - On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at FVTPL in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the assets or liabilities or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.

The Credit Union measures equity instruments at FVTPL, except where the Credit Union has irrevocably elected on initial recognition to present in other comprehensive income the fair value gains and losses of an equity instrument that is neither held for trading purposes nor contingent consideration acquired in a business combination. In such cases, the cumulative gains and losses recognized in other comprehensive income are not reclassified to profit or loss on derecognition of the investment.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way in which the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Credit Union transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and the Credit Union has transferred all the risks and rewards of ownership of the asset to a third party.

Financial liabilities

The Credit Union recognizes financial liabilities when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures all financial liabilities at fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses related to a financial liability are recognized in profit and loss.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

The Credit Union has classified its financial instruments as follows:

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL ASSET/LIABILITY	CLASSIFICATION	SUBSEQUENT MEASUREMENT
Cash resources	Amortized cost	Amortized cost
Deposits with Atlantic Central	Amortized cost	Amortized cost
Long term investments	FVTOCI	FVTOCI
Members' loans (inc. accrued interest) and rebates receivable	Amortized cost	Amortized cost
Members' deposits (inc. accrued interest), borrowings and payables	Amortized cost	Amortized cost

Capital assets

Capital assets are recorded at cost. Amortization is based on their estimated useful life using the following rates and terms:

Building	declining balance	4%
Furniture & equipment	declining balance	20%
Computer equipment	declining balance	55%
Paving	declining balance	10%

Residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Leases

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.

At the commencement date of a lease, the Credit Union recognizes a right-of-use asset and a lease liability in the Statement of Financial Position. The lease liability is initially measured at the present value of lease payments that are not paid at that date.

The right-of-use asset is measured at cost. The cost of a right-of-use asset is comprised of:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of any dismantling and site restoration costs to be incurred by the lessee.

After the commencement date, the lease liability is measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The right-of-use asset is subsequently measured at cost:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability.

There are no right-of-use assets or lease liabilities as at December 31, 2022.

Income taxes

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Deferred tax assets and liabilities are recognized where the carrying value of an asset or liability differs from its tax base. Recognition of deferred taxes for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized at historical cost which is a reasonable estimate of fair value.

Cash flow statement

The cash flow statement is prepared using the direct method.

Shares

Savings shares, which are included in members' deposits, are in practice withdrawable on demand. Common shares and surplus shares, which are classified as equity, represent a residual interest in the equity of the Credit Union. They are not covered by deposit insurance. Common shares are redeemable upon request of the member and approval of the directors.

Dividends to members

Provision for dividends on savings shares represents the amount recommended by the Board of Directors. The recommended dividend is included in the statement of financial position as an accrued liability under payables and accruals. In the statement of income, these dividends are deducted as an expense in determining net income for the year.

Foreign currency translation

Assets and liabilities which are denominated in foreign currencies (US dollars) are translated at the exchange rate prevailing at the year end date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing on the transaction date. Exchange differences are charged or credited to income.

Employee future benefit plans

The Credit Union uses defined contribution accounting for its Canadian Credit Union Employees Pension Plan.

Government grants

Unconditional government grants are recognized in profit or loss as other income when the grant becomes receivable. Other government grants are initially recognized as deferred income at fair value if there is reasonable assurance that they will be received and the Credit Union will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

The following are the significant risks that the Credit Union is exposed to through its financial instruments:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility which is determined by following Board approved policies and procedures, which include assessing the members' credit history, character, collateral and debt servicing capacity.

In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. As well, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and reported to senior management on a timely and frequent basis to ensure that all allowances for potential loan losses are adequately provided for and written off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as prescribed by the Credit Union's lending agreements.

The Credit Union's loan portfolio is focused in two main areas; consumer loans and mortgages, and commercial loans, the latter to small and mid-size companies. Commercial loans to larger companies are available through a syndication process with other Credit Unions in order to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to eighty percent of the appraised value of a residential property with all mortgages in excess of that amount being insured through a third party, for example Canada Mortgage and Housing Corporation or Genworth Financial Corporation.

Other credit facilities provided include personal overdrafts, and MasterCard accounts that have no recourse to the Credit Union.

The Credit Union uses the expected loss model to record an allowance against members' loans. The allowance is broken into three stages. Stage 1 contains all loans that are not delinquent or do not have any known additional risk. Stage 2 contains all loans delinquent between 31 and 90 days, and any loan that has been assessed to have additional risk. Stage 3 contains all loans delinquent over 90 days, bankruptcy, and foreclosure. Each stage is broken down into pools of members' loans that have similar risk characteristics. The probability of default, risk adjustment and loss given default are used to determine the expected credit loss for each pool of members' loans.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Credit Union uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Credit Union's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The Credit Union's maximum exposure to credit risk at the reporting date was:

	2022	2021
Cash resources	\$ 19,912,872	\$ 20,374,134
Members' loans	<u>39,295,012</u>	<u>36,339,775</u>
	<u>\$ 59,207,884</u>	<u>\$ 56,713,909</u>

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Interest rate sensitivity

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 on their deposits. The objective of "interest rate sensitivity" management is to keep interest sensitive assets and interest sensitive liabilities in balance by amount and term to maturity, thus monitoring fluctuations of income during periods of changing interest rates.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates due or payable on demand are classified as maturing in the first three months, regardless of maturity. A significant amount of loans can be settled before maturity without penalty, on mortgages and deposits a penalty will be levied. No adjustments have been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Expected Repricing or Maturity Date	Weighted Average Interest Rate		Assets (000's)	Liabilities (000's)	Net Asset Liability Mismatch (000's)
	Assets	Liabilities			
0 to 3 months	4.79	0.42	\$ 25,700	\$ 23,924	\$ 1,776
4 to 6 months	3.76	2.43	5,261	1,470	3,791
6 to 12 months	4.02	3.03	7,693	2,608	5,085
1 to 2 years	5.55	2.42	8,706	1,848	6,858
2 to 3 years	4.31	2.52	7,357	693	6,664
3 to 4 years	3.70	2.55	2,130	33	2,097
4 to 5 years	4.69	3.55	4,366	184	4,182
Over 5 years	6.12	0.00	341	4,746	(4,405)
Not interest sensitive	n/a	n/a	<u>(93)</u>	<u>25,955</u>	<u>(26,048)</u>
			<u>\$ 61,461</u>	<u>\$ 61,461</u>	<u>\$ -</u>

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors. As a matter of policy, the Credit Union will limit the short term exposure to a maximum of a negative .2% of the Credit Union's assets, based on a 1% fluctuation in interest rates.

Foreign exchange risk

The Credit Union's foreign exchange risk is related to United States dollar deposits and cash on hand denominated in United States dollars. At year end, the Credit Union's holdings in foreign currency were 1.18% (2021 - 0.48%) of the total members' deposits portfolio.

The Credit Union limits its exposure to foreign exchange risk by maintaining only minimal levels of US dollar deposits and cash on hand.

There have been no significant changes from the previous year in the exposure to foreign exchange risk or procedures used to limit the risk.

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

5. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities as they come due. Liquidity risk is inherent in any financial institution and could result from entity level circumstances and/or market events.

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

The Credit Union is required to maintain 10% of member deposits in liquid investments of which 90% must be held with Atlantic Central Credit Union. The Credit Union was in compliance with this requirement at December 31, 2022.

The Credit Union manages liquidity risk by:

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

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

The Credit Union's maximum exposure to liquidity risk at the reporting date was:

	2022	2021
Liquid assets	\$ 20,578,982	\$ 21,041,794
Required liquidity	<u>5,467,900</u>	<u>5,276,260</u>
Excess liquidity	<u>\$ 15,111,082</u>	<u>\$ 15,765,534</u>
Liquid assets comprise:		
Cash held at Atlantic Central	\$ 1,074,805	\$ 908,032
Liquidity and short-term deposits held at Atlantic Central	18,838,067	19,466,102
Shares held at Atlantic Central	<u>666,110</u>	<u>667,660</u>
	<u>\$ 20,578,982</u>	<u>\$ 21,041,794</u>

6. CASH RESOURCES

	2022	2021
Cash on hand and in current account	\$ 1,074,805	\$ 908,032
Demand and short-term deposits (Market value = cost)	<u>18,838,067</u>	<u>19,466,102</u>
	<u>\$ 19,912,872</u>	<u>\$ 20,374,134</u>

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

7. MEMBERS' LOANS

Loans by purpose

	2022	2021
Personal loans	\$ 1,712,068	\$ 2,314,547
Residential mortgages	14,586,279	12,407,934
Commercial loans	914,692	643,234
Commercial mortgages	15,661,212	13,002,648
Provincial guarantee loans	216,627	257,942
League Savings & Mortgage pools	828,010	963,462
Omista Credit Union mortgage pools	630,460	754,504
Syndicated loans and mortgages	4,841,094	5,879,116
Credit Union Atlantic mortgage pools	<u>199,620</u>	<u>343,437</u>
	39,590,062	36,566,824
Accrued interest	<u>108,726</u>	<u>72,808</u>
	39,698,788	36,639,632
Less : Allowance for impaired loans	<u>403,776</u>	<u>299,857</u>
Net loans	<u>\$ 39,295,012</u>	<u>\$ 36,339,775</u>

Members' loans can have either variable or fixed rates of interest and they mature within 1 month to 5 years. The rates offered to members are determined by the type of security offered, the members' credit worthiness, competition from other lenders and the current prime rate.

Commercial loans that are not subject to a government guarantee are secured by collateral ranging from specific assets to a general security agreement or personal guarantee. Consumer loans also are secured by collateral such as vehicles, investments and property.

Syndicated loans consist of conventional residential mortgages maturing within five years and secured by residential property. The Credit Union receives monthly amounts from the loan administrators which represent blended payments of principal and interest equal to its percentage interests in the loans, less an administration fee.

Members' loans from mortgage pools earn interest at 2.00% to 6.20%. The Credit Union receives monthly amounts from the loan administrators which represent blended payments of principal and interest equal to its percentage interests in the loans, less an administration fee. The loan pools are comprised of conventional residential mortgages maturing within five years and secured by residential property.

	2022	2021
Maturity analysis:		
Scheduled for repayment:		
Overdrafts and line of credit facilities	\$ 6,384,963	\$ 5,821,224
Within 1 year	10,305,336	6,266,500
Longer than 1 year and not longer than 3 years	16,062,950	14,955,400
Longer than 3 years	<u>6,836,813</u>	<u>9,523,700</u>
	<u>\$ 39,590,062</u>	<u>\$ 36,566,824</u>

Allowance for impaired loans

Assessment of credit risk

Members' loans are assessed at each reporting date for a significant increase in credit risk since initial recognition.

7. MEMBERS' LOANS (Continued)

This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers members' loans to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the member's loan rather than based on changes in the amount of expected credit losses or other factors. The Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort in making this assessment. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

Members' loans with an acceptable credit risk consistent with that upon origination of the loan are considered to be Stage 1. The credit risk of a loan is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers, such as the COVID-19 pandemic). The increase in credit risk designates the loan to be Stage 2.

The Credit Union identifies credit-impaired members' loans through regular review of past due balances and credit assessment of its customers. Loans greater than 90 days past due are considered credit impaired. Credit impaired loans are classified as Stage 3.

Measurement of expected credit losses

The Credit Union measures expected credit losses of members' loans receivable on a group basis. These assets are grouped on the basis of their shared credit risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans). Otherwise, expected credit losses are measured on an individual basis.

Forward looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effects such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit impaired loan.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of members' loans. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that forward looking information may have on the historical data used to measure expected credit losses. The Credit Union has identified forecasted unemployment rates, inflation and prime interest rates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors (e.g. higher unemployment rates due to COVID-19).

Write-offs

Members' loans are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

The following tables set out information about the members' loans classified based on the credit quality of financial assets assessed for impairment under IFRS 9 for 2021 and 2022. The gross carrying amount of members' loans represent the maximum exposure to credit risk.

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

7. MEMBERS' LOANS (Continued)

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at December 31, 2022				
Gross carrying amount of members' loans	\$ 37,109,699	\$ 2,403,462	\$ 76,901	\$ 39,590,062
Loss allowance	\$ 284,512	\$ 119,264	\$ -	\$ 403,776
Balance at December 31, 2021				
Gross carrying amount of members' loans	\$ 34,116,824	\$ 2,186,070	\$ 263,930	\$ 36,566,824
Loss allowance	\$ 221,262	\$ 54,497	\$ 24,098	\$ 299,857

The following tables explain the changes in the loss allowance between the beginning and end of the year.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at December 31, 2022				
Allowance beginning	\$ 221,262	\$ 54,497	\$ 24,098	\$ 299,857
Recoveries	-	-	14,108	14,108
Write-offs	(9,129)	-	(11,978)	(21,107)
Net remeasurement of loss allowance	<u>72,379</u>	<u>64,767</u>	<u>(26,228)</u>	<u>110,918</u>
Allowance ending	<u>\$ 284,512</u>	<u>\$ 119,264</u>	<u>\$ -</u>	<u>\$ 403,776</u>

Balance at December 31, 2021				
Allowance beginning	\$ 251,011	\$ 54,489	\$ 31,939	\$ 337,439
Recoveries	-	-	16,000	16,000
Write-offs	-	(76)	(1,561)	(1,637)
Net remeasurement of loss allowance	<u>(29,749)</u>	<u>84</u>	<u>(22,280)</u>	<u>(51,945)</u>
Allowance ending	<u>\$ 221,262</u>	<u>\$ 54,497</u>	<u>\$ 24,098</u>	<u>\$ 299,857</u>

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2022	2021
31 to 60 days	\$ 17,700	\$ 178,032
61 to 90 days	22,950	651
91 to 180 days	1,020	17,061
Over 180 days	<u>70,060</u>	<u>161,044</u>
	<u>\$ 111,730</u>	<u>\$ 356,788</u>

Canada Emergency Business Account (CEBA) loans

The Credit Union is participating in the CEBA loan program announced by the government of Canada. As of December 31, 2022, the Credit Union was administering, on behalf of Export Development Canada, commercial loans totaling \$1,740,000 (2021 - \$2,144,665). As these loans do not belong to the Credit Union, they are not included in these financial statements.

8. PAYABLES AND ACCRUALS

	2022	2021
Accrued interest on deposits	\$ 65,514	\$ 49,356
Trade payables	<u>19,534</u>	<u>99,218</u>
	<u>\$ 85,048</u>	<u>\$ 148,574</u>

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

9. LONG-TERM INVESTMENTS	2022	2021
Shares in unlisted entities (at cost):		
Atlantic Central common shares	\$ 579,110	\$ 580,660
Atlantic Central provincial shares	87,000	87,000
Concentra - series 1 preferred shares	170,000	170,000
League Savings and Mortgage Limited	666,619	636,877
League Data Limited - class B preference shares	6,870	6,870
Central 1 - class B shares	100	100
Nova Scotia Co-operative Council	<u>100</u>	<u>100</u>
	1,509,799	1,481,607
Accrued interest receivable	<u>97,497</u>	<u>3,390</u>
	<u>\$ 1,607,296</u>	<u>\$ 1,484,997</u>

The Credit Union's long-term equity investments are not held for trading or contingent consideration from a business combination. Long-term equity investments are irrevocably measured at FVTOCI. The investments do not have a quoted market price in an active market. In each instance, management has reviewed the attributes of its investments and determined that fair value was liquidation value for each investment as there is no ability to otherwise sell the investments. Management also determined that liquidation value approximates historical cost.

10. MEMBERS' DEPOSITS	2022	2021
Chequing	\$ 25,634,619	\$ 23,523,321
Demand, no penalty on withdrawal	19,679,993	19,574,748
RRSP and RRIF	3,188,166	3,099,792
Term deposits	<u>6,176,219</u>	<u>6,564,741</u>
	<u>\$ 54,678,997</u>	<u>\$ 52,762,602</u>
Maturity analysis:		
At call	\$ 46,149,685	\$ 43,692,402
Within 1 year	5,770,211	6,782,800
Longer than 1 year and not longer than 3 years	2,541,632	1,968,400
Longer than 3 years	<u>217,469</u>	<u>319,000</u>
	<u>\$ 54,678,997</u>	<u>\$ 52,762,602</u>

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

11. CAPITAL ASSETS

	<u>Land</u>	<u>Building</u>	<u>Paving</u>	<u>Computer Equipment</u>	<u>Furniture & Fixtures</u>	<u>Total</u>
Cost						
Balance at January 1, 2021	\$ 109,800	\$ 595,148	\$ 69,755	\$ 48,565	\$ 284,898	\$ 1,108,166
Additions	-	43,287	3,702	9,306	400	56,695
Disposals	-	-	-	-	-	-
Balance on December 31, 2021	<u>109,800</u>	<u>638,435</u>	<u>73,457</u>	<u>57,871</u>	<u>285,298</u>	<u>1,164,861</u>
Additions	-	-	-	2,439	3,465	5,904
Disposals	-	-	-	-	-	-
Balance on December 31, 2022	<u>\$ 109,800</u>	<u>\$ 638,435</u>	<u>\$ 73,457</u>	<u>\$ 60,310</u>	<u>\$ 288,763</u>	<u>\$ 1,170,765</u>
Accumulated depreciation						
Balance at January 1, 2021	\$ -	\$ 423,687	\$ 68,270	\$ 24,687	\$ 272,806	\$ 789,450
Depreciation expense	-	7,724	334	15,692	2,458	26,208
Disposals	-	-	-	-	-	-
Balance on December 31, 2021	<u>-</u>	<u>431,411</u>	<u>68,604</u>	<u>40,379</u>	<u>275,264</u>	<u>815,658</u>
Depreciation expense	-	8,281	486	10,291	2,353	21,411
Disposals	-	-	-	-	-	-
Balance on December 31, 2022	<u>\$ -</u>	<u>\$ 439,692</u>	<u>\$ 69,090</u>	<u>\$ 50,670</u>	<u>\$ 277,617</u>	<u>\$ 837,069</u>
Net book value						
December 31, 2021	<u>\$ 109,800</u>	<u>\$ 207,024</u>	<u>\$ 4,853</u>	<u>\$ 17,492</u>	<u>\$ 10,034</u>	<u>\$ 349,203</u>
December 31, 2022	<u>\$ 109,800</u>	<u>\$ 198,743</u>	<u>\$ 4,367</u>	<u>\$ 9,640</u>	<u>\$ 11,146</u>	<u>\$ 333,696</u>

12. EQUITY SHARES

Each member must hold 1 common share with a par value of \$5 each. Common shares and surplus shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements and the discretion of the Board of Directors.

Authorized:

An unlimited number of common shares with par value of \$5 each.

An unlimited number of surplus shares with par value of \$1 each.

	2022	2021
Issued:		
Common shares		
Balance, beginning of year (2,996 shares)	\$ 14,978	\$ 14,853
Add: shares issued during year (168 shares)	<u>840</u>	<u>675</u>
	15,818	15,528
Less: shares redeemed during year (651 shares)	<u>(3,255)</u>	<u>(550)</u>
Balance, end of year (2,513 shares)	<u>12,563</u>	<u>14,978</u>

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

12. EQUITY SHARES (Continued)

	2022	2021
Surplus shares		
Balance, beginning of year (376,773 shares)	376,773	390,292
Add: distributions to members (47,728 shares)	<u>47,728</u>	<u>12,402</u>
	424,501	402,694
Less: shares redeemed during year (34,027 shares)	<u>(34,027)</u>	<u>(25,921)</u>
Balance, end of year (390,474 shares)	<u>390,474</u>	<u>376,773</u>
Total equity shares	<u>\$ 403,038</u>	<u>\$ 391,752</u>

13. INCOME TAX

The components of tax expense (benefit) were as follows:

	2022	2021
Current income tax expense in respect of current year	\$ 210,893	\$ 59,324
Deferred income taxes relating to the origination and reversal of temporary differences	<u>(7,785)</u>	<u>4,308</u>
Total income tax expense	<u>\$ 203,108</u>	<u>\$ 63,632</u>

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

	2022	2021
Income before income taxes	\$ 960,173	\$ 538,785
Combined Canadian basic federal and provincial income tax rate	<u>20.50 %</u>	<u>11.50 %</u>
Expected income tax	196,797	61,960
Effect on income tax of:		
Temporary differences	6,311	1,672
Permanent differences	<u>-</u>	<u>-</u>
Total income tax expense	<u>\$ 203,108</u>	<u>\$ 63,632</u>

The components of deferred income tax balances are as follows:

	2022	2021
Deferred income tax assets (liabilities)		
Allowance for impaired loans	\$ 34,095	\$ 26,349
Capital assets	11,306	11,267
Atlantic Central Shares	<u>(10,005)</u>	<u>(10,005)</u>
Deferred income tax asset (liability)	<u>\$ 35,396</u>	<u>\$ 27,611</u>
Deferred tax assets (liabilities) to be recovered (settled) > 12 months	<u>\$ 35,396</u>	<u>\$ 27,611</u>

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2022

13. INCOME TAX (Continued)

Deferred tax assets are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and their respective tax bases. Deferred tax assets are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

14. REVENUE FROM CONTRACTS

The Credit Union derives revenue from the transfer of goods and services over time and at a point in time in the following products and services:

	Account and transaction fees	Commissions	Total
Balance at December 31, 2022	\$ <u>367,101</u>	\$ <u>11,061</u>	\$ <u>378,162</u>
Timing:			
At point in time	\$ 34,666	\$ 11,061	\$ 45,727
Over time	<u>332,435</u>	<u>-</u>	<u>332,435</u>
	<u>\$ 367,101</u>	<u>\$ 11,061</u>	<u>\$ 378,162</u>
Balance at December 31, 2021	\$ <u>380,945</u>	\$ <u>12,375</u>	\$ <u>393,320</u>
Timing:			
At point in time	\$ 43,417	\$ 12,375	\$ 55,792
Over time	<u>337,528</u>	<u>-</u>	<u>337,528</u>
	<u>\$ 380,945</u>	<u>\$ 12,375</u>	<u>\$ 393,320</u>

Revenue from contracts with members comes from savings and current accounts, and the related fees as well as commissions on the sale of insurance products.

15. RELATED PARTY TRANSACTIONS

Loans to management and personnel

At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and spouses had loans owing to the Credit Union totalling \$652,021 (2021 - \$626,113) and had deposits with the Credit Union totalling \$104,338 (2021 - \$148,025).

The loans were in the normal course of business with interest rates at regular rates offered to all members of the Credit Union. Interest rates on deposits and dividends on shares were at identical rates offered to all members of the Credit Union.

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2022	2021
Direct compensation	\$ 145,919	\$ 119,776
Other benefits	<u>8,452</u>	<u>7,024</u>
Total salaries and benefits	<u>\$ 154,371</u>	<u>\$ 126,800</u>

Lahave River Credit Union Limited
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

15. RELATED PARTY TRANSACTIONS (Continued)

The remuneration of key management personnel is determined by the Board of Directors having regard to the performance of individuals and market trends.

Group RRSP plan

The Credit Union sponsors a group RRSP plan. The plan provides the Credit Union with flexibility in that the percentage contributed to the employees' plan can be modified. The Credit Union contributed 6% of base salaries to the employees' plan. Staff also contributed 6% of their base salary to the plan. Current Service costs totalled \$35,877 (2021 - \$36,476) and were included in salaries, benefits and contracted services expense on the statement of income.

16. CREDIT FACILITY

The Credit Union has an approved operating line of credit with Atlantic Central with a limit of \$1,458,000 to cover shortfalls in cash resources. The line of credit is secured by an assignment of book debts, bears interest at 5.95% and is to be reviewed on an annual basis. At December 31, 2022 the line of credit was not drawn upon.

17. CAPITAL REQUIREMENTS

The Credit Union's plan to manage equity is designed to establish a strong base for future growth, to pay dividends on the equity shares and to provide a cushion in the event of market instability. Members' equity consists of equity shares, reserves and retained earnings. In accordance with the Credit Union Act, the Credit Union shall establish and maintain equity at a level equal to 5% of its assets. At December 31, 2022, equity was 10.40% (2021 - 9.59%) of its assets. Members' equity ratios are monitored regularly and reported to the Board monthly. The Credit Union's equity ratios have been in compliance with the regulatory requirements throughout the year.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Credit Union's financial instruments are set out below. Fair value represents the amount at which a financial investment could be exchanged in an orderly transaction between market participants at the measurement date.

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Where there is no quoted market value, fair value is determined using a variety of valuation techniques and assumptions. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments. The carrying value is a reasonable approximation of fair value for the Credit Union's cash resources, demand deposits, certain other assets and certain other liabilities, due to their short-term nature.

The fair value of financial instruments are as follows:

Loans:

In determining the fair value of loans, the Credit Union incorporates the following assumptions:

- For fixed rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms.
- For floating rate performing loans, changes in interest rates have minimal impact on the fair value since loans reprice to market. On that basis, fair value is assumed to equal carrying value.
- The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans to determine the fair value of the Credit Union's loan portfolio.

Lahave River Credit Union Limited
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18. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Deposits:

In determining the fair value of deposits, the Credit Union incorporates the following assumptions:

- For fixed rate and fixed maturity deposits, the Credit Union discounts the remaining contractual cash flows, at market interest rates offered for deposits with similar terms and risks.
- For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market. On that basis fair value is assumed to equal carrying value.

The Credit Union categorizes valuation methods used for financial instruments carried at fair value under a hierarchy of valuation techniques based on whether inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Credit's Union market assumptions. These two inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for active markets for identical financial instruments.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model derived valuation in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived for valuation techniques in which one or more significant inputs are not based on observable market data.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Fair value of investments:

	2022	2021
Fair Value Hierarchy		
Level 1	\$ -	\$ -
Level 2	1,607,296	1,484,997
Level 3	-	-
	<u>\$ 1,607,296</u>	<u>\$ 1,484,997</u>

Fair value of loans and deposits:

	<u>2022</u>		<u>2021</u>	
	<u>Book Value</u>	<u>Estimated Fair Value</u>	<u>Book Value</u>	<u>Estimated Fair Value</u>
Members' loans	\$ 39,295,012	\$ 38,836,853	\$ 36,339,775	\$ 34,197,775
Members' deposits	\$ 54,678,997	\$ 53,117,084	\$ 52,762,602	\$ 52,751,970

The differences between the book values and fair values of the Credit Union's loans, deposits and other financial instruments are due primarily to changes in interest rates.

19. GOVERNMENT GRANT

In 2018 the Credit Union received a government grant in the amount of \$50,000. The grant is to be used to improve accessibility to the branch both internally and externally. Under the terms of the funding agreement, the Credit Union was originally required to submit a final project report to the Province of Nova Scotia by January 2019. The Province of Nova Scotia has granted an extension until July 30, 2024.

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20. PREPAID EXPENSES

	2022	2021
Honeybee implementation costs	\$ 262,368	\$ -
Other prepaid expenses	<u>14,358</u>	<u>13,827</u>
	<u>\$ 276,726</u>	<u>\$ 13,827</u>

The honeybee Mission is the overall brand name for League Data projects related to core banking, digital services and cyber security service. These projects include transitioning the current HORIZON core system to a new Mambu core banking platform by 2024.

The Credit Union's portion of The honeybee Mission costs will be invoiced according to the following payment schedule:

- June 31, 2022 \$110,371
- January 31, 2023 \$137,964 (paid in December 2022)
- June 30, 2023 \$137,964
- January 31, 2024 \$165,556

These up-front payments are recorded as a prepaid asset. The prepaid asset will be amortized over the term of the honeybee service contract, which will be determined by League Data and the member Credit Unions.

21. SPECIAL RESERVE - DOMESTIC VIOLENCE RECOVERY LOANS PROGRAM (DVRLP)

The Credit Union is developing a Domestic Violence Recovery Loans Program (DVRLP) for victims escaping domestic violence, economic abuse, and financial control, who require funds and/or financial literacy information to establish a safe place to live. A special reserve is being established to support the DVRLP program. The special reserve will be used, with Board approval, for any substantial community initiative that supports the execution of the Credit Union's strategic plan. The special reserve may provide funding for one-time costs or to cover on-going operational costs, in situations that may have a higher risk profile than would usually be considered at a financial institution.

During the year, no funds were transferred to or disbursed from the DVRLP program reserve.

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SCHEDULES OF ADMINISTRATIVE AND OCCUPANCY EXPENSES

Year ended December 31

2022**% of Income**

2021

% of Income**Administrative expenses**

Advertising and promotion	\$ 15,338	0.6	\$ 12,180	0.5
Accounting and audit	18,475	0.7	33,079	1.5
Atlantic Central dues	102,419	3.9	85,632	3.9
Data processing	163,440	6.2	159,721	7.2
Donations	5,679	0.2	3,659	0.2
Dues, courier and credit reports	3,247	0.1	3,330	0.2
Insurance	18,294	0.7	17,701	0.8
Legal and collection	482	-	28,026	1.3
Miscellaneous and sundry	22,482	0.8	26,776	1.2
Office, stationery and postage	16,148	0.6	19,902	0.9
Professional fees	-	0.6	44,816	0.9
Service contracts	36,287	1.4	38,156	1.7
Telephone	9,944	0.4	10,973	0.5
Travel	9,429	0.4	4,743	0.2
	<u>\$ 421,664</u>	<u>16.0</u>	<u>\$ 488,694</u>	<u>20.1</u>

Occupancy expenses

Insurance	\$ 9,504	0.4	\$ 10,939	0.5
Heat, lights and water	10,887	0.4	9,283	0.4
Property taxes	21,960	0.8	21,806	1.0
Repairs and maintenance	3,759	0.1	17,379	0.8
	<u>\$ 46,110</u>	<u>1.7</u>	<u>\$ 59,407</u>	<u>2.7</u>

(See accompanying notes to the financial statements)