Provincial Credit Union Limited

Financial Statements
December 31, 2024

Management's Report

The integrity, relevance and comparability of the data in the accompanying financial statements are the responsibility of management.

The financial statements are prepared by management in accordance with International Financial Reporting Standards established by the International Accounting Standards Board. A summary of the significant accounting policies is disclosed in note 3 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with a certainty until future periods.

To meet its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

Management is accountable to the Board of Directors of Provincial Credit Union Limited on matters of financial reporting and internal control. Management provides the Board of Directors with externally audited financial statements annually. The Board also discusses any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by ArsenaultBestCameronEllis, independent external auditors appointed by the Board. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the financial statements.

On behalf of Provincial Credit Union Limited

Alfred Arsenault
Chief Executive Officer

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS
Member of The AC Group of Independent Accounting Firms

Chartered Professional Accountants &
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March 18, 2025

Independent Auditor's Report

To the Members of Provincial Credit Union Limited

Opinion
We have audited the accompanying financial statements of Provincial Credit Union Limited, which comprise the statement of financial position as at December 31, 2024, and the statements of comprehensive income, changes in members' equity 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 Provincial Credit Union Limited as at December 31, 2024, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Provincial Credit Union Limited in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Provincial Credit Union Limited'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 Provincial Credit Union Limited or to cease operations, or has no realistic alternative but to do so.

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

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

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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 Provincial Credit Union Limited'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 Provincial Credit Union Limited'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 Provincial Credit Union Limited 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.

ArsenaultBestCameronEllis

Chartered Professional Accountants

Provincial Credit Union Limited
Statement of Financial Position
As at December 31, 2024

	2024 $	2023 $
Assets		
Cash and cash equivalents (note 15)	35,433,701	35,575,086
Investments (note 9)	267,055,751	199,859,426
Loans and mortgages (note 6)	1,291,105,258	1,189,865,317
Other assets (notes 7 and 20)	7,008,531	7,857,823
Property and equipment (note 8)	15,430,721	13,802,178
Deferred income taxes (note 14)	1,000,000	1,400,000
	1,617,033,962	1,448,359,830
Liabilities		
Member deposits (note 10)	1,296,731,500	1,141,442,676
Share deposits (note 11)	179,804,972	176,571,220
Accrued interest payable	17,676,463	14,309,880
Other liabilities (note 13)	3,407,238	6,593,019
Income taxes payable	126,384	569,506
	1,497,746,557	1,339,486,301
Members' Equity		
Members' share capital (note 11)	179,400	178,175
Undistributed income	119,108,005	108,695,354
	1,617,033,962	1,448,359,830

Approved by the Board of Directors

_____________________ Director

_____________________ Director

ArsenaultBestCameronEllis
CHARTERED PROFESSIONAL ACCOUNTANTS

Provincial Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31, 2024

	2024 $	2023 $
Members' share capital - Beginning of year	178,175	176,415
Issuance/redemption of members' share capital, net	1,225	1,760
Members' share capital - End of year	179,400	178,175
Undistributed income - Beginning of year	108,695,354	98,071,215
Net earnings for the year	10,412,651	10,624,139
Undistributed income - End of year	119,108,005	108,695,354

Provincial Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2024

	2024 $	2023 $
Revenue		
Loan interest	66,858,416	55,858,435
Investment	9,305,465	8,560,363
	76,163,881	64,418,798
Cost of capital and borrowings	33,768,339	23,806,886
Provision for loan losses (note 6)	1,305,086	533,657
Financial margin	41,090,456	40,078,255
Non-interest revenue		
Commissions and account fees	4,740,461	4,015,625
Loan fees	2,442,103	2,026,554
Fixed asset	322,132	329,261
	7,504,696	6,371,440
	48,595,152	46,449,695
Expenses		
Personnel (notes 16 and 17)	16,605,391	16,020,143
General (note 20)	11,325,634	10,293,465
Member security	1,897,639	1,737,289
Occupancy	1,556,049	1,361,893
Organization	142,304	143,305
Amortization (note 8)	1,443,901	1,003,290
	32,970,918	30,559,385
Operating earnings	15,624,234	15,890,310
Other expenses		
Member rebate	(15,179)	(1,090,936)
	15,609,055	14,799,374
Provision for (recovery of) income taxes		
Current (note 14)	4,796,404	4,507,235
Deferred (note 14)	400,000	(332,000)
	5,196,404	4,175,235
Net earnings for the year	10,412,651	10,624,139

Provincial Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2024

	2024 $	2023 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	10,412,651	10,624,139
Items not affecting cash		
Amortization	1,443,901	1,003,290
Loss on disposal of property and equipment	6,158	-
Deferred income taxes (recovery)	400,000	(332,000)
Provision for loan losses	1,305,086	533,657
	13,567,796	11,829,086
Net change in non-cash working capital items		
Decrease (increase) in other assets (note 7)	849,292	(3,948,932)
Increase in accrued interest payable	3,366,583	9,058,558
Increase (decrease) in other liabilities (note 13)	(3,185,781)	260,063
Increase (decrease) in income taxes payable	(443,122)	156,794
	14,154,768	17,355,569
Financing activities		
Increase in member deposits	155,288,824	120,035,804
Increase (decrease) in share deposits	3,234,977	(24,736,336)
	158,523,801	95,299,468
Investing activities		
Increase in loans and mortgages	(102,545,027)	(102,439,976)
Purchase of property and equipment (note 8)	(3,078,602)	(3,466,441)
Increase in investments	(67,196,325)	(260,455)
	(172,819,954)	(106,166,872)
Increase (decrease) in cash and cash equivalents	(141,385)	6,488,165
Cash and cash equivalents - Beginning of year	35,575,086	29,086,921
Cash and cash equivalents - End of year	35,433,701	35,575,086
Supplementary disclosure		
Interest received	76,256,204	61,275,238
Interest paid	29,840,820	16,194,183
Dividends paid	2,946,137	1,575,288
Income taxes paid - net	5,178,869	4,350,441

1 General

The Provincial Credit Union Limited (the "Credit Union") is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

Effective January 11, 2023, the Credit Union has been identified as a Provincial Systemically Important Financial Institution (P-SIFI) by the Credit Union Deposit Insurance Corporation, the provincial regulator of Credit Unions.

The Credit Union's head office is located in Charlottetown, Prince Edward Island.

2 Basis of presentation

(a) 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 for issue by the Board of Directors on March 18, 2025.

(b) Basis of measurement

These financial statements have been presented on the historical cost basis except for certain financial instruments as indicated in note 3.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The judgments that have the most significant effect on the amounts recognized in the financial statements are detailed in note 4.

3 Summary of significant accounting policies

(a) Financial instruments

i) *Classification and measurement of financial assets*

The Credit Union classifies its financial assets into one of the following measurement categories:

- Amortized cost; or
- Fair value through profit or loss (FVTPL).

Financial assets include both debt and equity instruments.

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

i) the Credit Union's business model for managing the asset; and
ii) the cash flow characteristics of the asset.

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Credit Union's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

The Credit Union assesses the business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective.

- How the performance of assets in a portfolio is evaluated and reported to group heads and other key decision makers within the Credit Union's business lines;
- Whether the assets are held for trading purposes (ie. assets that the Credit Union acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking);
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding.

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Credit Union identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Based on these factors, the Credit Union classifies its debt instruments into one of the following three measurement categories:

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 6. Interest income from these financial assets is included in 'Loan interest' using the effective interest rate method.

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL, and is not part of a hedging relationship, is recognized in net earnings and presented in the statement of comprehensive income within 'Investment revenue' in the period in which it arises. Interest income from these financial assets is included in 'Investment revenue' using the effective interest method.

Equity instruments

The Credit Union measures all equity investments at FVTPL. Impairment losses and reversals of impairment losses are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Credit Union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in 'Investment revenue' in the statement of comprehensive income (SCI).

ii) *Classification and measurement of financial liabilities*

Financial liabilities are classified into one of the following measurement categories:

- Amortized cost;
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL.

Financial liabilities measured at amortized cost

Member deposits are accounted for at amortized cost. Interest on deposits, calculated using the effective interest rate method, is recognized as cost of capital and borrowings. Interest on subordinated notes and debentures, including capitalized transaction costs, is recognized using the effective interest rate method as cost of capital and borrowings.

iii) *Determination of fair value*

Fair value of a financial asset or liability is the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Credit Union has access at the measurement date.

The Credit Union values instruments carried at fair value using quoted market prices, where available. The fair value hierarchy is as follows:

- Level 1 - unadjusted quoted market prices for identical instruments.
- Level 2 - use of observable inputs within valuation models.
- Level 3 - significant use of unobservable inputs within valuation models.

iv) *Derecognition of financial assets and liabilities*

The derecognition criteria are applied to the transfer of part of an asset rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset, or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognized when the contractual rights to the cash flows from the asset has expired or the Credit Union transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party, or the Credit Union has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Credit Union has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Credit Union derecognizes the transferred asset only if it has lost control over the asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the SCI.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognized as a gain/loss in the SCI.

v) *Impairment*

The Credit Union applied a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – when a financial instrument experiences a credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default 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. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD – the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.
- EAD – the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD – the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial recognition;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determine and there is no reasonable expectation of further recover, write-off may be earlier.

(b) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between cost in the functional currency at the beginning of the period, and the cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on the translation are recognized in commission and account fees revenue in the statement of comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(d) Foreclosed properties

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure of loans that are in default. Foreclosed properties are measured at the lower of the carrying amount and the fair value less the costs to sell.

(e) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. Repairs and maintenance costs are charged to expenses during the financial period in which they are incurred.

Land is not depreciated. Right-of-use assets depreciation are calculated on a straight-line basis over 6 years. All other property and equipment is depreciated using the straight-line method over their estimated useful lives, as follows:

Buildings	20 to 25 years
Furniture, equipment and computers	2 to 5 years
Pavement	10 years

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Credit Union will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying asset. Right-of-use assets are recognized for contracts that are, or contain, leases.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were identified as impaired as at December 31, 2024.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds to the net book value of the asset and are presented as a gain or loss on disposal in the statement of comprehensive income.

(f) Leased assets

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union;
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

At lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients option. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in other liabilities.

(g) Impairment of non-financial assets

Non-financial assets 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 carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Employee benefits

The Credit Union records annually the estimated liabilities for retirement benefit obligations which are payable to its employees in subsequent years under the Credit Union's policy.

Liabilities for wage and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in the Statement of Comprehensive Income in respect of the employees service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liabilities are included in other liabilities in the statement of financial position.

(i) Revenue recognition

i) Loan interest

Interest on loans and mortgages is recognized on an amortized cost basis using the effective interest rate method. The effective rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan and mortgage to the net carrying amount of the loan and mortgage. When estimating the future cash flows the credit union considers all contractual terms of the loan and mortgage excluding any future credit losses. The calculation includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Mortgage prepayment fees are recognized in income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest rate method. All interest is recognized on an accrual basis.

ii) Investment and other income

Investment and other income is recognized as revenue on an accrual basis.

iii) Service fees

Service fees are recognized on an accrual basis in accordance with the service agreement.

iv) Commissions

Commissions income is recognized when the event creating the commission takes place.

(j) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly to equity.

i) Current income tax

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

ii) Deferred income tax

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can 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.

(k) Related parties

A related party is a person or an entity that is related to the Credit Union.

A person or a close member of that person's family is related to the Credit Union if that person:

i) Has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;

ii) Has significant influence over the Credit Union, participating in financial and operating policy decisions, but not control over these policies; or

iii) Is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, Related Party Disclosures, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director of the Credit Union.

(l) Capital disclosures

The Credit Union considers its share capital to be its members' equity. The Credit Union's objectives when managing its capital are to safeguard its ability to continue as a going concern in order to provide services to its members. Capital is under the direction of the Board with the objective of minimizing risk and ensuring adequate liquid investments are on hand to meet the Credit Union's national standards.

(m) Standards issued but not yet effective

Certain new accounting standards and interpretations have been issued but are not effective for the fiscal year ended December 31, 2024 and have not been early adopted by the Credit Union. These standards are not expected to have a material effect on the Credit Union in the current or future reporting periods.

4 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities and net earnings in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or area which require significant estimates are described below:

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. The assessment of a significant increase in credit risk requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

(b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union’s property and equipment in the future.

(c) Fair value of financial instruments

Fair value measurement techniques are used to value various financial assets and financial liabilities and are used in impairment testing on certain non-financial assets.

The fair values of the credit union's financial instruments were estimated 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 interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Fair values of floating loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market and the spread remains appropriate. Fixed rate loans are valued by discounting the contractual future cash flows at current market rates at the time of issuance for loans with similar credit risks. Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms. A credit valuation adjustment is applied to the calculated fair value of uninsured deposits to account for the credit union's own risk.

The fair value for the credit union's investments as detailed in Note 5 is determined as follows:

- Membership shares in Atlantic Central, Concentra, League Data, Central 1, Co-operative memberships, and CU Financial Management Limited do not trade in a public market. Fair market value approximates par value as the shares are subject to regular rebalancing across the membership; and
- Liquidity reserve deposits are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms.

(d) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

(e) Extension options for leases

When the Credit Union has an option to extend a lease, management uses its judgment to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practices and any cost that will be incurred if an option to extend is not taken, to help them determine the lease term.

5 Fair value of financial instruments

Fair values versus carrying amounts

Estimated fair values of financial instruments assets and liabilities are described in the following table:

	Fair level hierarchy	December 31, 2024 Carrying amount $	December 31, 2024 Fair value $	December 31, 2023 Carrying amount $	December 31, 2023 Fair value $
Financial assets					
Loans and mortgages	Level 2	1,291,105,258	1,291,105,258	1,189,865,317	1,189,865,317
Liquidity reserve deposit	Level 2	98,008,456	98,008,456	87,618,101	87,618,101
Atlantic Central shares	Level 2	15,285,446	15,285,446	17,015,523	17,015,523
Concentra shares	Level 2	-	-	1,654,703	1,654,703
League Data shares	Level 2	2,007,390	2,007,390	230,340	230,340
Central 1 shares	Level 2	100	100	400	400
Co-operative membership	Level 3	4,340	4,340	4,340	4,340
CU Financial Management Limited	Level 3	19	19	19	19
Term deposits	Level 2	151,750,000	151,750,000	93,336,000	93,336,000
		1,558,161,009	1,558,161,009	1,389,724,743	1,389,724,743
Financial liabilities					
Member deposits	Level 2	1,296,731,500	1,296,731,500	1,141,442,676	1,141,442,676
Share deposits		179,804,972	179,804,972	176,571,220	176,571,220
		1,476,536,472	1,476,536,472	1,318,013,896	1,318,013,896

The fair value for items that are short-term in nature are equal to book value. These include cash and cash equivalents, accounts receivable, accrued liabilities and other liabilities.

6 Loans and mortgages

(a) Loans at amortized cost

	Gross loans $	Allowance for credit losses $	December 31, 2024 Net carrying amount $
Personal loans	580,847,245	743,577	580,103,668
Commercial loans	650,180,002	2,391,891	647,788,111
Personal lines of credit and overdrafts	8,611,876	637,355	7,974,521
Commercial lines of credit and overdrafts	56,722,528	1,483,570	55,238,958
	1,296,361,651	5,256,393	1,291,105,258

	Gross loans $	Allowance for credit losses $	December 31, 2023 Net carrying amount $
Personal loans	597,261,644	519,719	596,741,925
Commercial loans	545,113,200	2,143,915	542,969,285
Personal lines of credit and overdrafts	10,418,565	528,659	9,889,906
Commercial lines of credit and overdrafts	41,097,952	833,751	40,264,201
	1,193,891,361	4,026,044	1,189,865,317

Mortgages and loans

Mortgage loans (including mortgage pools) are secured by realty mortgages with interest rates of 1.00% - 10.30% (2023 - 1.00% - 10.12%). The remaining loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.00% - 21.70% (2023 - 0.00% - 21.70%) on personal, business, farming and fishing loans and 0.00% - 21.00% (2023 - 0.00% - 21.00%) on lines of credit and overdrafts. These loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

The Credit Union's prime lending rate

The Credit Union's prime lending rate is set by the Board based on the prime interest rate of chartered banks in Canada. The rate as at December 31, 2024 was 5.45% (2023 - 7.2%).

(b) Impaired loans

	December 31, 2024			December 31, 2023		
	Gross impaired loans $	**Allowance for credit losses $**	**Net carrying amount $**	**Gross impaired loans $**	**Allowance for credit losses $**	**Net carrying amount $**
Personal loans	17,117,922	489,899	16,628,023	15,234,736	257,786	14,976,950
Commercial loans	36,965,071	552,246	36,412,825	34,027,714	610,598	33,417,116
Personal lines of credit and overdrafts	7,197,998	619,681	6,578,317	4,410,083	453,554	3,956,529
Commercial lines of credit and overdrafts	8,994,433	886,969	8,107,464	6,504,717	401,336	6,103,381
	70,275,424	2,548,795	67,726,629	60,177,250	1,723,274	58,453,976

(c) Allowance for credit losses

	Balance as at January 1, 2024 $	**Provision for credit losses $**	**Net of write-offs and recoveries $**	**Balance as at December 31, 2024 $**
Personal loans	519,719	341,686	(117,828)	743,577
Commercial loans	2,143,915	247,976	-	2,391,891
Personal lines of credit and overdraft	528,659	101,569	7,127	637,355
Commercial lines of credit and overdraft	833,751	649,819	-	1,483,570
	4,026,044	1,341,050	(110,701)	5,256,393

As at December 31, 2024	**Stage 1 $**	**Stage 2 $**	**Stage 3 $**	**Total $**
Personal loans	253,679	473,439	16,459	743,577
Commercial loans	1,839,644	545,221	7,026	2,391,891
Personal lines of credit and overdraft	17,674	482,648	137,033	637,355
Commercial lines of credit and overdraft	596,601	183,185	703,784	1,483,570
	2,707,598	1,684,493	864,302	5,256,393

As at December 31, 2023	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Personal loans	261,934	68,427	189,358	519,719
Commercial loans	1,533,318	495,842	114,755	2,143,915
Personal lines of credit and overdraft	75,106	296,559	156,994	528,659
Commercial lines of credit and overdraft	432,415	276,550	124,786	833,751
	2,302,773	1,137,378	585,893	4,026,044

(d) Loans past due but not impaired

	31 - 90 days $	90+ days $	2024 Total $	31 - 90 day $	90+ days $	2023 Total $
Personal loans	360,428	-	360,428	452,118	-	452,118
Personal lines of credit and overdrafts	1,486	27,939	29,425	72,713	574	73,287
	361,914	27,939	389,853	524,831	574	525,405

(e) Provision for loan losses

	2024 $	2023 $
Increase in allowance	1,194,385	696,067
Loans directly written off	138,261	67,675
Recoveries of loans previously written off	(27,560)	(230,085)
	1,305,086	533,657

7 Other assets

	2024 $	2023 $
Accrued interest on investments	1,437,514	1,827,713
Accounts receivable	243,264	309,452
Prepaid expenses and other (note 20)	5,067,653	5,460,558
Real estate held for resale	260,100	260,100
	7,008,531	7,857,823

8 Property and equipment

	Land $	Buildings $	Furniture, equipment and computers $	Pavement $	Total $
Cost					
Balance - Beginning of year	1,422,968	19,211,232	8,327,658	573,655	29,535,513
Additions	651,368	831,547	1,595,687	-	3,078,602
Disposals	-	-	(6,734,645)	-	(6,734,645)
Balance - End of year	2,074,336	20,042,779	3,188,700	573,655	25,879,470
Accumulated amortization					
Balance - Beginning of year	-	7,932,533	7,390,446	410,356	15,733,335
Current period amortization	-	917,275	481,327	45,299	1,443,901
Disposals	-	-	(6,728,487)	-	(6,728,487)
Balance - End of year	-	8,849,808	1,143,286	455,655	10,448,749
Carrying value					
December 31, 2023	1,422,968	11,278,699	937,212	163,299	13,802,178
December 31, 2024	2,074,336	11,192,971	2,045,414	118,000	15,430,721

As at December 31, 2024, furniture, equipment and computers includes a non-cash transaction for a right-of-use assets with a cost of $9,378, accumulated amortization of $9,252, and carrying amount of $126 (2023 - $1,807). For the period ended December 31, 2024, amortization expense includes $1,681 (2023 - $1,681) related to the right-of-use assets.

9 Investments

	2024 $	2023 $
Measured at fair value through profit or loss		
Liquidity reserve	98,008,456	87,618,101
Atlantic Central shares	15,285,446	17,015,523
Concentra shares	-	1,654,703
League Data shares	2,007,390	230,340
Co-operative membership shares	4,340	4,340
Central 1 shares	100	400
CU Financial Management Limited shares	19	19
Total fair value measured through profit or loss	115,305,751	106,523,426
Measured at amortized cost		
Term deposits	151,750,000	93,336,000
	267,055,751	199,859,426

Liquidity reserve deposit

In order to meet Credit Union national standards, the Credit Union is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets (see note 18b). The deposit bears interest at a variable rate that averaged 3.50% (2023 - 2.992%) during the year.

Term deposits

Term deposits are carried at cost which approximates fair value. These term deposits have the following maturity dates and rates of return:

	Amount $	Rate of Return	Maturity
Atlantic Central	110,000,000	3.12 - 4.14%	January 2025 - April 2025
Concentra	24,750,000	1.65 - 5.70%	September 2025 - May 2026
League Savings & Mortgage	15,000,000	4.05 - 4.76%	May 2025 - December 2025
Central 1	2,000,000	4.08 - 4.89%	March 2025 - March 2026
Total	151,750,000		

10 Member deposits

	2024 $	2023 $
Savings	183,042,709	162,952,510
Chequing accounts	452,324,396	432,786,274
Term deposits	490,453,079	382,903,529
RRSP and RRIF	170,911,316	162,800,363
	1,296,731,500	1,141,442,676

*Saving*s are deposits on a call basis that pay the account holders a variable rate of interest ranging from 0% - 2.90% (2023 - 0% - 3.80%).

Chequing accounts are held on a call basis and pay the account holders interest at the Credit Union's stated rates.

Term deposits are for periods of one to five years generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Fixed *term deposits* bear interest at various rates and ranging from 0% - 6.63% (2023 - 0% - 6.50%).

RRSP and RRIF

Concentra Financial is the trustee for the registered savings plans offered to members. Under an agreement with the trust company, member's contributions to the plans, as well as income earned on them, are deposited in the credit union. On withdrawal, payment of the plan proceeds is made to members, or the parties designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates.

Withdrawal privileges on all member deposit accounts are subject to the overriding right of the Board to impose a waiting period.

11 Share deposits

Unlimited membership shares are available for issuance with a par value of $5 per share. These shares are non-transferable, redeemable by the Credit Union, retractable by shareholders subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation. Dividends on membership shares are payable at the discretion of the Board.

	2024 $	2023 $
Ownership shares and share deposits	179,984,372	176,749,395
Ownership shares presented as equity	(179,400)	(178,175)
Share deposits	179,804,972	176,571,220

Share deposits pay members a dividend at the discretion of the Board. Privileges of the shares are under the authority of the Board. The dividend rate declared for December 31, 2024 was 1.56% (2023 - 1.75%) based on the average minimum monthly share account balance throughout the period.

12 Contingent liability

	2024 $	2023 $
Outstanding guarantees on behalf of members	3,977,811	2,176,864

The Credit Union holds outstanding guarantees on behalf of 13 (2023 - 12) members. The value of these guarantees range from $5,000 to $549,630.

13 Other liabilities

	2024 $	2023 $
Trade liabilities	1,375,200	3,396,763
Accrued liabilities	1,898,676	1,793,905
Retirement accrual	141,449	301,218
HST payable (receivable)	(8,087)	1,133
Member rebate	-	1,100,000
	3,407,238	6,593,019

14 Income taxes

(a) Current income tax reconciliation

	December 31, 2024 $	December 31, 2023 $
Income before income taxes	15,609,055	14,799,374
Taxes at statutory rates - 31%	4,838,807	4,587,806
Timing differences regarding foreign exchange	(193,695)	(33,566)
Temporary difference regarding provision for loan losses	151,087	96,522
Timing differences regarding property and equipment	38,795	(24,453)
Timing differences regarding retirement	(49,528)	(64,616)
Permanent differences and other	9,355	(11,309)
Loss carryforwards used by CU PEI Investment Corp.	-	(43,149)
	4,794,821	4,507,235

(b) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 31%, as follows:

	2024 $	2023 $
Balance - Beginning of year	1,400,000	1,068,000
Comprehensive income recovery (expense)	(400,000)	332,000
Balance - End of year	1,000,000	1,400,000

Deferred income tax assets are attributable to the following items:

	2024 $	2023 $
Deferred income tax assets (liabilities)		
Property and equipment	375,000	355,000
Allowance for impaired loans	915,000	772,000
Foreign exchange	370,000	180,000
Retirement allowance	40,000	93,000
	1,700,000	1,400,000

15 Line of credit availability

In 2024, the Credit Union had approved lines of credit with Atlantic Central of $36,299,000 with an interest rate of 5.45%. As of December 31, 2024, the lines of credit had outstanding balances of nil.

16 Pension plan

The Credit Union provides employees with a voluntary defined contribution pension plan in which the Credit Union matches employee contributions to the plan, within specified limits. During the year, the Credit Union expensed $929,489 (2023 - $908,780) contributions to the plan. This expense is included with personnel expenses on the statement of comprehensive income.

17 Composition of key management

Key management includes the board of directors, Chief Executive Officer, Chief Financial Officer, Chief Administrative Officer, Chief Operating Officer, Chief Innovation Officer, and Chief Human Resources Officer. Compensation awarded to key management includes:

(a) Key management, excluding directors

	2024 $	2023 $
Salaries and short-term employee benefits	1,061,650	1,113,515

(b) Directors' remuneration

	2024 $	2023 $
Honorariums	99,454	96,158
Payment for expenses while on credit union business	17,804	42,815

(c) Loans to directors and key management personnel

	2024 $	2023 $
Loans outstanding - Beginning of period	6,778,053	3,685,122
Add: loans issued during the period	3,110,285	4,090,351
Less: loan repayments during the period	(1,270,160)	(997,420)
Loans outstanding - End of period	8,618,178	6,778,053
Interest income earned	377,373	246,865

No provisions have been recognized in respect of loans to directors and key management (2023 - nil). The loans issued to directors and existing loans to new directors and key management personnel during the year of $3,110,285 (2023 - $4,090,351) are repayable over 1-25 years (2023 - 1-25 years) and have interest rates ranging from 4.2% to 18% (2023 - 1.5% to 18%).

The Credit Union has approved lines of credit for key management and directors as at December 31, 2024 amounting to $1,522,533 (2023 - $750,800). The balance of the lines of credit included above is $606,627 (2023 - $378,440).

18 Risk management

The Credit Union's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board, which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Credit Union manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Credit Union's commercial and consumer loans and advances, and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Oversight for the credit risk management and control is done by management who report to the Board.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the credit union holds as security for loans include (i) insurance and mortgages over residential lots and properties, (ii) recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and (iii) recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

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

	2024	**2023**
	$	**$**
Cash and cash equivalents	35,433,701	35,575,086
Accrued interest on investments	1,437,514	1,827,713
Accounts receivable	243,264	309,452
Loans and mortgages	1,291,105,258	1,189,865,317
Investments	267,055,751	199,859,426
	1,595,275,488	1,427,436,994

Cash and cash equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union's underwriting methodologies and risk modelling is customer based rather than product based. The Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral, although it is an important component in establishing risk.

(b) 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 approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

Exposure to liquidity risk:

The key measure used by the Credit Union for managing liquidity risk is the ratio of liquid assets to deposits. For this purpose, liquid assets may comprise of the following:

	2024 **$**	**2023** **$**
Cash and cash equivalents	35,433,701	35,575,086
Liquidity reserve	98,008,456	87,618,101
	133,442,157	123,193,187

Credit Union bylaws require Provincial Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Consistent with other Prince Edward Island Credit Unions, Provincial Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain a minimum liquid asset level of 10% of total deposits to ensure ongoing cash flow requirements are met. The Credit Union was in compliance with this requirement at December 31, 2024.

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year **$**	**Over 1 to 5 years** **$**	**Over 5 years** **$**	**2024 Total** **$**
Member deposits	1,034,154,452	262,577,048	-	1,296,731,500
Share accounts	179,804,972	-	-	179,804,972
Accrued interest payable	17,676,463	-	-	17,676,463
Other liabilities	3,407,238	-	-	3,407,238
	1,235,043,125	262,577,048	-	1,497,620,173

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	2023 Total $
Member deposits	899,467,513	241,975,163	-	1,141,442,676
Share accounts	176,571,220	-	-	176,571,220
Accrued interest payable	14,309,880	-	-	14,309,880
Other liabilities	6,593,019	-	-	6,593,019
	1,096,941,632	241,975,163	-	1,338,916,795

The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

(c) Market risk

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Union as part of its normal trading activities. As the Credit Union does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk. The objective of market rate risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(d) 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. For the Credit Union, mismatches in the balances of assets, liabilities and off-balance sheet financial instruments that mature and reprice in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as the Credit Union manages member portfolios of loans and deposits with changing term preferences and through the strategic positioning of the credit union to enhance profitability.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union’s management initiatives.

	Net interest income change 2024 $	Net interest income change 2023 $
Before tax impact of		
1% increase in interest rates	2,901,470	1,486,520
1% decrease in interest rates	(2,861,556)	(1,488,845)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(f) Capital management

The primary objective of the Credit Union's capital management is to ensure that it maintains a healthy financial position in order to support its business. The Credit Union manages its capital structure and makes changes to it in light of changes in economic conditions.

Consistent with other Prince Edward Island Credit Unions, Provincial Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets.

In accordance with the recommendations of the Canadian Chartered Professional Accountants Handbook related to the financial statement presentation of financial instruments, the ownership shares are presented in the statement of financial position as financial liabilities. At December 31, 2024, the equity level for regulatory purposes is as follows:

	2024 **$**	**2023** **$**
Ownership shares	179,400	178,175
Undistributed income	119,108,005	108,695,354
Total regulatory equity	119,287,405	108,873,529
Total assets	1,617,033,962	1,448,359,830
Equity level	7.42%	7.52%

	#	**2024** **$**
Opening, January 1, 2024	35,635	178,175
Net increase	245	1,225
Closing, December 31, 2024	35,880	179,400

19 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	Not interest rate sensitive $	2024 Total $
Assets					
Cash and cash equivalents	35,433,701	-	-	-	35,433,701
Effective interest rate	1.56%				
Investments	265,037,102	-	-	2,018,649	267,055,751
Effective interest rate	3.54%				
Loans and mortgages	596,944,443	688,666,753	3,394,789	2,099,273	1,291,105,258
Effective interest rate	6.10%	4.75%	5.32%		
Other assets	-	-	-	7,008,531	7,008,531
Property and equipment	-	-	-	15,430,721	15,430,721
Deferred income tax	-	-	-	1,000,000	1,000,000
Total assets	897,415,246	688,666,753	3,394,789	27,557,174	1,617,033,962
Liabilities and equity					
Member deposits	581,830,056	262,577,048	-	452,324,396	1,296,731,500
Effective interest rate	2.99%	4.58%			
Share deposits	179,804,972	-	-	-	179,804,972
Effective interest rate	0.75%				
Accrued liabilities	-	-	-	17,676,463	17,676,463
Other liabilities	-	-	-	3,407,238	3,407,238
Income taxes payable	-	-	-	126,384	126,384
Members share capital	-	-	-	179,400	179,400
Undistributed income	-	-	-	119,108,005	119,108,005
Total liabilities and equity	761,635,028	262,577,048	-	592,821,886	1,617,033,962
Interest rate sensitivity gap	135,780,218	426,089,705	3,394,789	(565,264,712)	-

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	Not interest rate sensitive $	2023 Total $
Assets					
Cash and equivalents	35,575,086	-	-	-	35,575,086
Effective interest rate	2.41%				
Investments	197,962,824	1,650,000	-	246,602	199,859,426
Effective interest rate	3.92%	3.58%			
Loans and mortgages	465,655,733	715,237,429	5,877,903	3,094,252	1,189,865,317
Effective interest rate	6.47%	4.23%	6.05%		
Other assets	-	-	-	7,857,823	7,857,823
Property and equipment	-	-	-	13,802,178	13,802,178
Deferred income tax	-	-	-	1,400,000	1,400,000
Total assets	699,193,643	716,887,429	5,877,903	26,400,855	1,448,359,830
Liabilities and equity					
Member deposits	463,025,930	241,975,163	-	436,441,583	1,141,442,676
Effective interest rate	2.86%	4.36%			
Share deposits	176,571,220	-	-	-	176,571,220
Effective interest rate	0.80%				
Accrued interest payable	-	-	-	14,309,880	14,309,880
Other liabilities	-	-	-	6,593,019	6,593,019
Income taxes payable	-	-	-	569,506	569,506
Members share capital	-	-	-	178,175	178,175
Undistributed income	-	-	-	108,695,354	108,695,354
Total liabilities and equity	639,597,150	241,975,163	-	566,787,517	1,448,359,830
Interest rate sensitivity gap	59,596,493	474,912,266	5,877,903	(540,386,662)	-

As at December 31, 2024, the Credit Union's net interest spread was 2.03% (2023 - 2.22%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.

20 Commitment

On May 24, 2022 the Credit Union entered into a ten year agreement with League Data Limited to transition its core banking platform to a new platform. The total cost of the transition is estimated to be $5,605,650, including merger costs. As at December 31, 2024, the Credit Union has incurred costs of $5,605,650 of which $1,250,159 is included general expenses in the statement of comprehensive income as of December 31, 2024, and the remaining $4,355,491 is included in the statement of financial position in other assets.