

DUCA Financial Services Credit Union Ltd.

**Consolidated financial statements
December 31, 2024**

Independent auditor's report

To the Members of
DUCA Financial Services Credit Union Ltd.

Opinion

We have audited the consolidated financial statements of **DUCA Financial Services Credit Union Ltd.** [the "Credit Union"], which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in Members' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, 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 the Audit Committee of the Board of Directors for the consolidated financial statements

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

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

The Audit Committee of the Board of Directors is responsible for overseeing the Credit Union's financial reporting process.

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

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



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

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

We communicate with the Audit Committee of the Board of Directors 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.

Ernst + Young LLP

Toronto, Canada
February 28, 2025

Chartered Professional Accountants
Licensed Public Accountants



DUCA Financial Services Credit Union Ltd.

Consolidated statement of financial position

[In thousands of Canadian dollars]

As at December 31

| | Note | 2024 \$ | 2023 \$ |
|--|------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | 6 | 128,670 | 60,201 |
| Investments | 7 | 585,755 | 480,251 |
| Loans | 8, 9 | 6,565,239 | 6,929,362 |
| Other assets | 11 | 156,954 | 145,416 |
| Derivative financial instruments | 16 | 75,865 | 22,806 |
| Property and equipment, net | 13 | 10,889 | 10,817 |
| Intangible assets, net | 26 | 14,409 | 13,797 |
| Goodwill | 27 | 9,491 | 9,491 |
| Total assets | | 7,547,272 | 7,672,141 |
| Liabilities and Members' equity | | | |
| Liabilities | | | |
| Deposits | 14 | 6,236,168 | 5,962,973 |
| Securitization liabilities | 10 | 770,671 | 823,910 |
| Borrowings | 23 | — | 379,319 |
| Accounts payable and other liabilities | 25 | 25,299 | 32,346 |
| Derivative financial instruments | 16 | 75,450 | 22,697 |
| Deferred tax liability | 15 | 6,049 | 6,636 |
| Members' shares | 17 | 802 | 861 |
| Subordinated debt | 24 | 74,665 | 74,516 |
| Total liabilities | | 7,189,104 | 7,303,258 |
| Members' equity | | | |
| Members' shares | 17 | 210,014 | 218,995 |
| Contributed surplus | | 640 | 626 |
| Retained earnings | | 151,097 | 154,955 |
| Accumulated other comprehensive loss | | (3,583) | (5,693) |
| Total Members' equity | | 358,168 | 368,883 |
| Total liabilities and Members' equity | | 7,547,272 | 7,672,141 |

See accompanying notes

Approved by the Board:



Director



Director

DUCA Financial Services Credit Union Ltd.

Consolidated statement of income

[In thousands of Canadian dollars]

Year ended December 31

| | Note | 2024 | 2023 |
|--|------|----------------|----------------|
| | | \$ | \$ |
| Interest income | | | |
| Interest on loans | | 362,413 | 307,043 |
| Investment income | | 31,865 | 23,511 |
| | | 394,278 | 330,554 |
| Interest expense | | | |
| Interest on deposits | | 287,751 | 226,718 |
| Borrowings, securitizations and other interest expense | | 49,606 | 50,320 |
| | | 337,357 | 277,038 |
| Net interest income | | 56,921 | 53,516 |
| Non-interest income | 18 | 39,441 | 57,953 |
| Total revenue | | 96,362 | 111,469 |
| Provision for credit losses | 9 | 5,808 | 1,448 |
| Non-interest expense | | | |
| Salaries and benefits | | 48,246 | 48,723 |
| Occupancy | | 4,698 | 4,248 |
| Technology | | 6,376 | 6,143 |
| Other general and administrative | | 28,559 | 29,182 |
| | | 87,879 | 88,296 |
| Income before income taxes | | 2,675 | 21,725 |
| Income tax expense | 15 | 235 | 4,394 |
| Net income for the year | | 2,440 | 17,331 |

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Consolidated statement of comprehensive income

[In thousands of Canadian dollars]

Year ended December 31

| | Note | 2024 \$ | 2023 \$ |
|---|------|--------------|------------|
| Net income for the year | | 2,440 | 17,331 |
| Other comprehensive income (loss) | | | |
| Items that will be subsequently reclassified to net income for the year | | | |
| Loans classified at fair value through other comprehensive income | | | |
| Net unrealized gains (losses) from change in fair value | | 487 | (313) |
| Fixed income securities classified at fair value through other comprehensive income | | | |
| Net unrealized gains from change in fair value | | 207 | — |
| Cash flow hedges | | | |
| Net losses on derivatives designated as cash flow hedges | 16 | — | (6,821) |
| Net losses reclassified to net income | 16 | 1,670 | 1,270 |
| Items that will not be subsequently reclassified to net income for the year | | | |
| Equity and other securities designated at fair value through other comprehensive income | | | |
| Net unrealized gains from change in fair value | | 215 | 157 |
| | | 2,579 | (5,707) |
| Income tax recovery (expense) | | (469) | 1,056 |
| Total other comprehensive income (loss) | | 2,110 | (4,651) |
| Comprehensive income | | 4,550 | 12,680 |

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Consolidated statement of changes in Members' equity

[In thousands of Canadian dollars]

| | | | | | | Accumulated other | | |
|---|-------------|---------------------------|------------------------------------|------------------------------------|--------------------------------|------------------------------|---|----------------------------------|
| | Note | Class A shares | Class B shares Series 1 | Class B shares Series 4 | Contributed surplus | Retained earnings | comprehensive loss, net of tax | Total Members' equity |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2022 | | 35,202 | 32,069 | 160,657 | — | 144,152 | (1,042) | 371,038 |
| Net income for the year | | — | — | — | — | 17,331 | — | 17,331 |
| Dividends to Members, net of tax | 17 | — | — | — | — | (6,528) | — | (6,528) |
| Business combination | | — | — | — | 626 | — | — | 626 |
| Redemption of shares | | (3,520) | (3,270) | (2,143) | — | — | — | (8,933) |
| Net losses on derivatives designated as cash flow hedges | | — | — | — | — | — | (6,821) | (6,821) |
| Net losses reclassified to net income | | — | — | — | — | — | 1,270 | 1,270 |
| Net unrealized losses from change in fair value on loans | | — | — | — | — | — | (313) | (313) |
| Net unrealized gains from change in fair value on equity and other securities | | — | — | — | — | — | 157 | 157 |
| Income tax recovery on other comprehensive income | | — | — | — | — | — | 1,056 | 1,056 |
| Balance, December 31, 2023 | | 31,682 | 28,799 | 158,514 | 626 | 154,955 | (5,693) | 368,883 |
| Net income for the year | | — | — | — | — | 2,440 | — | 2,440 |
| Dividends to Members, net of tax | 17 | — | — | — | — | (6,383) | — | (6,383) |
| Business combination | | — | — | — | 14 | — | — | 14 |
| Redemption of shares | | (3,167) | (2,919) | (2,895) | — | — | — | (8,981) |
| Net losses reclassified to net income | | — | — | — | — | — | 1,670 | 1,670 |
| Net unrealized gains from change in fair value on loans | | — | — | — | — | — | 487 | 487 |
| Net unrealized gains from change in fair value on fixed income securities | | — | — | — | — | — | 207 | 207 |
| Unrealized gains from change in fair value on equity and other securities | | — | — | — | — | — | 300 | 300 |
| Realized gain on equity and other securities designated at fair value through other comprehensive income reclassified to retained earnings | | — | — | — | — | 85 | (85) | — |
| Income tax expense on other comprehensive income | | — | — | — | — | — | (469) | (469) |
| Balance, December 31, 2024 | | 28,515 | 25,880 | 155,619 | 640 | 151,097 | (3,583) | 358,168 |

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Consolidated statement of cash flows

[In thousands of Canadian dollars]

Year ended December 31

| | Note | 2024 \$ | 2023 \$ |
|--|------------|------------------|------------------|
| Operating activities | | | |
| Net income for the year | | 2,440 | 17,331 |
| Add (deduct) non-cash items: | | | |
| Depreciation and amortization | 11, 13, 26 | 5,168 | 6,508 |
| Provision for (recovery of) credit losses on loans and third-party mortgages | 7, 9 | 5,808 | 1,448 |
| Current income taxes | 15 | (3,077) | 3,096 |
| Deferred income taxes | 15 | 3,312 | 1,298 |
| Unrealized loss (gain) on derivative instruments | 16 | (305) | 172 |
| Cash flow hedges net losses reclassified to net income | 16 | 1,670 | — |
| Interest paid on lease liabilities | 25 | 712 | 565 |
| Change in fair value of loans and investments, net | | 364 | — |
| Changes in operating assets and liabilities: | | | |
| Increase in accrued interest receivable | 8 | (3,231) | (261) |
| Increase in income taxes paid | | (60) | (100) |
| Increase in other assets | 11, 26 | (9,603) | (59,675) |
| Decrease (increase) in loans, net of write-offs and recoveries | 8, 9 | 361,622 | (496,129) |
| Increase in deposits | 14 | 232,580 | 276,386 |
| Increase in accrued interest payable | 14 | 40,616 | 46,781 |
| Increase (decrease) in accounts payable and other liabilities | 25 | (7,478) | 8,106 |
| Increase (decrease) in securitization liabilities | 10 | (53,239) | 370,305 |
| Realized gain on derivative instruments designated as cash flow hedges | 16 | — | 3,949 |
| Other | | 13 | (19) |
| Cash provided by operating activities | | 577,312 | 179,761 |
| Financing activities | | | |
| Decrease in securities lent or sold under repurchase agreements | | — | (31,315) |
| Increase (decrease) in borrowings | | (379,319) | 17,289 |
| Repayment of lease liabilities | 25 | (3,594) | (3,494) |
| Redemption of Membership shares | | (59) | (83) |
| Redemption of Class A shares | | (3,167) | (3,520) |
| Redemption of Class B shares | | (5,814) | (5,413) |
| Dividend on Class B shares | | (7,803) | (8,009) |
| Realized gain on equity and other securities designated at FVOCI | | 85 | — |
| Cash used in financing activities | | (399,671) | (34,545) |
| Investing activities | | | |
| Acquisition of subsidiary, net of cash acquired | | — | 5,294 |
| Net change in investments and third-party mortgages | 7 | (105,000) | (122,683) |
| Purchase of property and equipment | 13 | (1,754) | (1,302) |
| Purchase of intangible assets | 26 | (2,418) | (4,569) |
| Cash used in investing activities | | (109,172) | (123,260) |
| Net increase in cash and cash equivalents during the year | | 68,469 | 21,956 |
| Cash and cash equivalents, beginning of year | | 60,201 | 38,245 |
| Cash and cash equivalents, end of year | | 128,670 | 60,201 |

See accompanying notes

DUCA Financial Services Credit Union Ltd.

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2024

1. Corporate information

DUCA Financial Services Credit Union Ltd. [the “Credit Union” or “DUCA”] is incorporated under the *Credit Unions and Caisses Populaires Act, 2020* [the “Act”] of Ontario and is a Member of Central 1 Credit Union [“Central 1”].

The Credit Union is primarily involved in providing a full range of retail and commercial services to its Members in Ontario. The activities of the Credit Union are regulated by the Financial Services Regulatory Authority of Ontario [“FSRA”]. The Credit Union has 19 branches in Ontario.

On April 1, 2022, the Credit Union acquired Continental Currency Exchange Canada Ltd. [“CCE”], which is a foreign currency exchange and money transfer business offering services to customers via a network of 19 branches in Ontario. CCE is a wholly owned subsidiary of the Credit Union.

On December 21, 2023, DUCA completed the merger of operations with United Employees Credit Union Limited [“United”], which was a credit union with two branches that served over 3,000 Members across the GTA region, Ontario. The merger was accounted for as a business combination as described in note 28. All assets and liabilities of United were acquired by the Credit Union, and post December 21, 2023, both branches of United began operating as DUCA branches. United was dissolved by virtue of a dissolution order issued by FSRA on November 15, 2024.

2. Basis of presentation

[a] Statement of compliance

These consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards [“IFRS”], as issued by the International Accounting Standards Board [“IASB”].

These consolidated financial statements for the year ended December 31, 2024, were approved and authorized for issue by the Board of Directors on February 28, 2025.

[b] Use of judgments and estimates

Management has exercised judgments in the process of applying the Credit Union’s accounting policies.

The preparation of consolidated financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the consolidated statement of financial position date and the reported amounts of revenue and expenses during the year. Key areas where Management has made estimates, include allowance for expected credit losses, fair values and impairment of financial instruments, gain on acquisition, goodwill and intangible assets, income taxes, deferred income taxes, effectiveness of financial hedges for accounting purposes and useful lives of fixed assets. Actual results could differ from those estimates. Management has applied judgments in the classification of financial instruments within the consolidated financial statements.

In making estimates and judgments, Management uses external information and observable market inputs where possible, supplemented by internal analysis as required. These estimates and judgments have been made taking into consideration the economic impact of the current market volatility and uncertainty due to

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Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2024

geopolitical environment in the U.S. and internationally, the current interest rate environment, and inflationary pressures. The full extent of the impact of the heightened economic situation in 2024 on the Canadian economy and the Credit Union's business remains uncertain and difficult to predict and has been incorporated into the forward-looking indicators. Updated forward-looking macroeconomic assumptions have been incorporated into the models used in the Credit Union's expected credit loss ["ECL"] estimation process for 2024.

[c] Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following items that are measured at fair value:

- Derivative financial instruments;
- Financial instruments at fair value through profit or loss ["FVTPL"]; and
- Financial instruments at fair value through other comprehensive income ["FVOCI"].

[d] Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. Financial information presented in Canadian dollars has been rounded to the nearest thousand, except where otherwise indicated.

[e] Basis of consolidation

The consolidated financial statements include the financial statements of the Credit Union and its wholly owned subsidiaries. Subsidiaries are entities controlled by the Credit Union through ownership of the majority of the voting shares, power to govern, exposure to the rights and variable returns, and ability to exercise influence by exercising power to affect the returns.

The results of subsidiaries acquired during the year are included in these consolidated financial statements from the effective date of acquisition.

All intercompany balances and transactions have been eliminated on consolidation.

[f] Business combinations

Business combinations are accounted for using the acquisition method. As at the acquisition date, which is the date on which control is transferred to the Credit Union, the consideration transferred related to a business combination is measured at the fair value of the consideration transferred, which would include the fair value of any contingent consideration. Direct transaction costs of acquisition are recognized as an expense in the period in which they are incurred. Identifiable assets [including previously unrecognized intangible assets] and liabilities of the acquired business are measured at their fair value and recognized on the Credit Union's consolidated statement of financial position. Goodwill is measured as the excess of the consideration transferred over the net of the fair value amounts of identifiable assets acquired and liabilities assumed. To the extent the net fair value of the purchased assets and assumed liabilities exceeds the consideration transferred, the excess is recognized as a gain on acquisition in the consolidated statement of income. The results of operations of acquired businesses are included in the Credit Union's consolidated financial statements beginning on the date of acquisition.

DUCA Financial Services Credit Union Ltd.

Notes to consolidated financial statements

[In thousands of Canadian dollars]

December 31, 2024

3. Changes to accounting policies

Interest Rate Benchmark Reform

As a part of the interest rate benchmark reform, the publication of all remaining Canadian Dollar Offered Rate [CDOR] settings ceased on June 28, 2024. The Credit Union's exposure to non-derivative financial assets and non-derivative financial liabilities, referencing CDOR is no longer significant to its consolidated financial statements as at December 31, 2024 [2023 – \$408,149].

4. Material accounting policy information

[a] Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less, and, for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

[b] Financial instruments

[i] Recognition and initial measurement

The Credit Union initially recognizes loans and advances, deposits and mortgage securitization liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

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

[ii] Classification

[1] Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

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

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

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

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

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Notes to consolidated financial statements

[In thousands of Canadian dollars]

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On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income (loss) ["OCI"]. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

[a] Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Credit Union's Management;
- The risks that affect the performance of the business model, the financial assets held within that business model and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and the Credit Union's expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Credit Union's claim to cash flows from specified assets [e.g., non-recourse asset arrangements]; and
- Features that modify consideration of the time value of money – e.g., periodical reset of interest rates.

[c] Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets.

DUCA Financial Services Credit Union Ltd.

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[In thousands of Canadian dollars]

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[2] Financial liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

Financial assets and financial liabilities measured at FVTPL are those that are designated by Management upon initial recognition, assets part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are SPPI. Financial assets and financial liabilities at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the effective interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

[iii] Derecognition

[1] Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset [or the carrying amount allocated to the portion of the asset derecognized] and the sum of [i] the consideration received [including any new asset obtained less any new liability assumed] and [ii] any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Credit Union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage and Housing Corporation (CMHC), an agency of the Government of Canada, that issue bonds to third-party investors. This includes securitization of insured residential mortgages by participating in the National Housing Act mortgage-backed securities (NHA MBS) program and Canada Mortgage Bond ["CMB"] program. Through the programs, the Credit Union issues securities backed by residential mortgages that are insured against borrowers' default. All securitization transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the Credit Union's securitizations do not qualify for derecognition based on the above criteria, the Credit Union does not derecognize the transferred financial assets but records a secured borrowing with respect to any consideration received.

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Notes to consolidated financial statements

[In thousands of Canadian dollars]

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[2] Financial liabilities

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

[iv] Modifications of financial assets and financial liabilities

[1] Financial assets

If the terms of a financial asset are modified, the Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

[2] Financial liabilities

The Credit Union derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

[v] Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Credit Union has access at that date. The fair value of a liability reflects its non-performance risk. For assets and liabilities carried at fair value, the Credit Union measures such value using the procedures set out below, irrespective of whether these assets and liabilities are carried at fair value as a result of an election.

When available, the Credit Union uses quoted market prices to determine fair value and classifies such items as Level 1. In some cases where a market price is not available, the Credit Union uses quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets to calculate fair value, in which case the items are classified as Level 2.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, option volatilities, etc. Items valued using such internally generated valuation techniques are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

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[In thousands of Canadian dollars]

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[vi] Impairment

The Credit Union recognizes ECL allowances on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments [loans and advances and certain investment securities]; and
- Loan commitments issued.

The Credit Union measures loss allowances at an amount equal to lifetime ECL or 12-month ECL. 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

The impairment model measures ECL using a three-stage approach as described below:

Stage 1: When a financial asset has not shown a significant increase in credit risk ["SICR"] since origination, the Credit Union records a 12-month ECL. Interest income is calculated on the gross carrying amount.

Stage 2: When a financial asset has shown a SICR since origination, the Credit Union records a lifetime ECL. Interest income is calculated on the gross carrying amount.

Stage 3: When a financial asset is credit-impaired, the Credit Union records a lifetime ECL. Interest income is calculated on the gross carrying amount net of impairment allowance.

[1] Measurement of ECL

IFRS 9, Financial Instruments ["IFRS 9"] requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a SICR and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period, including pre-payment, extension and other options.

[2] Significant increase in credit risk

The determination of a SICR considers many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status.

[3] Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect ECLs over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

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[4] Forward-looking information

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Credit Union formulates a “base case” view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes forecasts by large Canadian banks and financial institutions. The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting.

[5] Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized, and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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[6] Credit-impaired financial assets

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

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

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

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

[7] Write-off

Loans and debt securities are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union’s procedures for recovery of amounts due.

[vii] Designation of fair value through profit or loss

[1] Financial assets

At initial recognition, the Credit Union has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

[2] Financial liabilities

The Credit Union may designate certain financial liabilities as at FVTPL in either of the following circumstances:

- The liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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[c] Derivatives held for risk management

Derivatives held for risk management purposes are measured at fair value in the consolidated statement of financial position and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value.

The Credit Union may utilize bond forwards or interest rate swaps to manage interest rate risks and may utilize forward contracts or cross-currency swaps to manage risk of foreign currency fluctuations.

Hedge accounting

The Credit Union elected to apply hedge accounting to derivatives that meet the criteria for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ["IAS 39"]. The Credit Union utilizes two types of hedge relationships for accounting purposes, fair value hedges and cash flow hedges. If derivative instruments do not meet all of the criteria for hedge accounting or are managed as economic hedges, the changes in fair value of such derivatives are recognized in non-interest income.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Credit Union's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. To qualify for hedge accounting, there must be a correlation of between 80% and 125% in the changes in fair values or cash flows between the hedged and hedging items. Hedge effectiveness is assessed at the inception of the hedging relationship and on an ongoing basis.

Hedge ineffectiveness occurs when the changes in the fair value of the hedging item [derivative] differ from the fair value changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in non-interest income.

Fair value hedges

The Credit Union's fair value hedges generally use interest rate swaps to hedge changes in the fair value of fixed-rate assets or liabilities [the hedged items] attributable to interest rate risk. Changes in the fair value of the hedged items are recorded as part of the carrying value of the hedged items and are recognized in net realized and unrealized gain or loss on derivatives. Changes in the fair value of the hedging item [interest rate swap] are also recognized in net realized and unrealized gain or loss on derivatives. If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated and the fair value adjustment on the hedged item is then amortized over the remaining term of the hedged item. If the hedged item is settled, the unamortized fair value adjustment is recognized in non-interest income immediately.

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Cash flow hedges

The Credit Union's cash flow hedges use bond forwards or interest rate swaps to hedge changes in future cash flows attributable to interest rate fluctuations arising on highly probable forecasted issuances of fixed-rate loans and liabilities. The effective portion of the change in fair value of the derivative instrument is recognized in OCI until the forecasted cash flows being hedged are recognized in income in future accounting periods. When the forecasted cash flows are recognized in income, the accumulated other comprehensive income (loss) ["AOCI"] related to those cash flows is reclassified from AOCI into income. Any hedge ineffectiveness is immediately recognized in non-interest income. If the forecasted transaction is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in non-interest income. If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated. Any cumulative gain or loss recognized at that time remains in AOCI until the forecasted transaction impacts the consolidated statement of income.

Embedded derivatives

When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments. Derivatives embedded in financial assets are not separated from the host contract. Derivatives embedded in financial liabilities are separated from the host contract [bifurcated] and accounted for as a derivative when their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at FVTPL.

These embedded derivatives are separately accounted for at fair value with changes in fair market value recognized as part of other income in the consolidated statement of income.

The Credit Union has embedded derivatives that require bifurcation in its equity index-linked term deposits products offered to Members, with respect to which the host deposits are carried at amortized cost.

[d] Loans

Loans that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market have been classified as measured at amortized cost.

Loans that are non-derivative financial assets and for which the Credit Union has a dual business model to collect SPPI contractual cash flows and to sell have been classified as FVOCI.

Loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred, and subsequently measured at amortized cost, using the effective interest rate method net of an allowance for credit losses.

Deferred revenue consists primarily of commitment fee revenue received on commercial loans, renewal fee and lender fees from residential loans and is recognized using the effective interest rate method.

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[e] Securitized loans and securitization liabilities

The Credit Union periodically securitizes mortgages and sells the securities to CMHC's sponsored entities as well as asset backed securitization programs of Schedule I banks. Mortgage loan securitization is part of the Credit Union's liquidity and funding strategy. In the absence of sales of retained interests, most transfers of pools of mortgages under the current programs do not result in derecognition of the mortgages from the Credit Union's consolidated statement of financial position. As such, these transactions result in the recognition of securitization liabilities when cash is received from the securitization entities. Such mortgages are recognized as securitized residential mortgages and continue to be accounted for as loans, as described above.

The securitization liabilities are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs and premiums or discounts are applied to the carrying amount of the liability.

[f] Property, equipment and right-of-use assets

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and amortization and any accumulated impairment losses, with the exception of land, which is not depreciated.

| Asset | Basis | Rate |
|-----------------------------------|---------------|---------------|
| Buildings | Straight-line | 20 years |
| Computer hardware | Straight-line | 3–5 years |
| Equipment, furniture and fixtures | Straight-line | 5 years |
| Leasehold improvements | Straight-line | Term of lease |
| Right-of-use assets – buildings | Straight-line | 5-10 years |

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments [including in-substance fixed payments], less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantee;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

[g] Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit ["CGU"], which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has two CGUs for which impairment testing is performed.

[h] Income taxes

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in net income, except to the extent that they relate to a business combination or items recognized directly in equity.

Current income taxes are recognized for the estimated income taxes payable or recoverable 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 from or paid to the taxation authorities. 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 amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill or gain on acquisition and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

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Recognition of deferred tax assets 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 that allows 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.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities (assets) are settled (recovered).

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

[i] Deposits

All deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and have been classified as financial liabilities.

Deposits are subsequently measured at amortized cost, using the effective interest rate method.

[j] Subordinated debt

Subordinated debt is accounted for at amortized cost and has been classified as a financial liability. Accrued interest on subordinated debt is included in other liabilities on the consolidated statement of financial position. Interest, including capitalized transaction costs, is recognized on an accrual basis as interest expense on the consolidated statement of income.

[k] Pension plan

The Credit Union accrues its obligations under the supplementary executive retirement plan ["SERP"] and the related costs, net of plan assets, and has adopted the following policies:

- [i] The cost of the SERP is valued using the projected benefit method based on service and Management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees; and
- [ii] For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The Credit Union has a defined contribution pension plan. Contributions to this plan are expensed as incurred.

[l] Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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[m] Members' shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Membership shares are redeemable at par when the Member withdraws from Membership in DUCA and are accounted for as liabilities on the consolidated balance sheet.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the requirements of International Financial Reporting Interpretations Committee ["IFRIC"] 2, *Members' Shares in Cooperative Entities and Similar Instruments* ["IFRIC 2"].

[n] Revenue recognition

Revenue from the provision of services to Members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

[o] Intangible assets

The Credit Union capitalizes costs relating to the development of internal-use software. Costs incurred during the application development phase are capitalized when it is probable that the development will result in new or additional functionality. The types of costs capitalized during the application development phase include employee salaries and benefits as well as professional and other vendor costs arising directly from bringing the asset to its working condition. Costs related to the preliminary project stage and post-implementation activities are expensed as incurred.

The core deposit intangible asset was acquired through business combination. It represents the fair market value of the cost savings inherent in acquiring a portfolio of deposits with a lower cost of funding versus attracting funds in the open market.

Intangible assets are amortized over their estimated useful life on the following basis:

| Asset | Basis | Rate |
|-------------------------------|---------------|-------------|
| Computer software | Straight-line | 1–3 years |
| Banking system software | Straight-line | 5–10 years |
| Core deposit intangible asset | Straight-line | 7 years |

[p] Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

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The carrying amounts of the Credit Union's intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit [group of units] on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other intangible assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

[q] Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. As at the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined, and the related translation differences are recognized in net income.

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5. Future changes in accounting policies

There were no new accounting pronouncements applicable to the Credit Union as at December 31, 2024.

6. Cash and cash equivalents

| | 2024 | 2023 |
|--|----------------|---------------|
| | \$ | \$ |
| Cash | 48,757 | 54,246 |
| Short-term deposits and investments maturing within three months | 79,913 | 5,955 |
| | 128,670 | 60,201 |

Cash includes cash collateral accounts for \$12,939 [\$13,211 – 2023] supporting DUCA's securitization programs and assets restricted from use for legal or other reasons.

Short-term deposits and investments include \$74,079 [2023 – 241] securities issued or guaranteed by the Canadian federal government, \$1,582 [2023 – nil] issued by Canadian provincial and municipal governments, and \$2,500 [2023 – \$5,549] issued regulated and major Canadian financial institutions. They bear interest rates ranging from 0.05% [2023 – 0.05%] to 5.15% [2023 – 5.10%].

7. Investments

The following table provides information on the Credit Union's investments. The maximum exposure to credit risk would be the fair value as detailed below:

| | 2024 | 2023 |
|---|----------------|----------------|
| | \$ | \$ |
| Investment securities measured at FVTPL | 2,127 | 2,024 |
| Investment securities measured at FVOCI | 39,162 | 11,924 |
| Investment securities measured at amortized cost | 174,053 | 71,886 |
| Investment in third-party mortgages at amortized cost | 321,796 | 394,417 |
| Investment in third-party mortgages at FVOCI | 48,617 | – |
| | 585,755 | 480,251 |

Investment securities measured at FVTPL

| | 2024 | 2023 |
|--------------------------|--------------|--------------|
| | \$ | \$ |
| Central 1 Class A shares | 2,021 | 1,918 |
| Central 1 Class E shares | 106 | 106 |
| | 2,127 | 2,024 |

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The Central 1 shares include Classes A and E, and are required as a condition of Membership and are redeemable upon withdrawal of Membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

Central 1 Class A shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Central 1 Class E shares were acquired as part of the Credit Union's transaction with United and these shares are not subject to annual rebalancing. There is no separately quoted market value for these shares, and these shares are carried at fair value, which approximate their cost basis, as the fair value cannot be reliably measured until such time as a transaction occurs.

The Credit Union is not intending to dispose of Central 1 Class A or E shares as the services supplied by Central 1 are relevant to the day-to-day activities of the Credit Union. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

Investment securities measured at FVOCI

| | 2024 | 2023 |
|--|---------------|--------|
| | \$ | \$ |
| Fixed income securities measured at FVOCI | | |
| Canadian federal government issued or guaranteed bonds | 14,904 | — |
| Canadian provincial and municipal governments bonds | 16,952 | — |
| Corporate bonds | 4,831 | 4,971 |
| Other | 41 | 42 |
| | <u>36,728</u> | 5,013 |
| Equity and other securities designated at FVOCI | 2,434 | 6,911 |
| | <u>39,162</u> | 11,924 |

The fixed income securities are issued or guaranteed by the Canadian federal government, Canadian provincial and municipal governments and different institutions. They bear interest rates ranging from 1.05% to 10.75% [2023 – 1.87% to 10.75%] and mature between June 2025 and October 2042. The Credit Union classified these securities at FVOCI as it intends to hold them to both collect their contractual cash flows and to sell them.

The equity and other securities are issued by various corporations and Schedule 1 banks. An irrevocable election was made at initial recognition to classify them at FVOCI, with all subsequent changes in fair value being recognized in OCI. The net realized gain of \$85 [2023 – nil] on disposal of equity and other securities designated at FVOCI during the year was reclassified from AOCI to retained earnings.

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Investment securities measured at amortized cost

| | 2024 | 2023 |
|--|----------------|---------------|
| | \$ | \$ |
| Fixed income securities | | |
| Canadian federal government issued or guaranteed bonds | 25,042 | 855 |
| Canadian provincial and municipal governments bonds | 580 | 771 |
| Corporate bonds | 231 | 955 |
| | <u>25,853</u> | <u>2,581</u> |
| Interest-bearing deposits | 80,596 | 69,305 |
| Mortgage-backed securities | 67,604 | — |
| | <u>174,053</u> | <u>71,886</u> |

The fixed income securities are issued or guaranteed by the Canadian federal government, Canadian provincial and municipal governments and different institutions. They bear interest rates ranging from 0.95% to 3.41% [2023 – 0.95% to 3.75%] and mature between April 2025 and December 2028. The Credit Union classified these securities at amortized cost as it intends to hold them to collect their contractual cash flows. The majority of these securities qualify as high-quality liquid assets ["HQLA"] for regulatory purposes.

The Credit Union holds interest-bearing deposits with regulated and major Canadian financial institutions. The Credit Union classified these securities at amortized cost as it intends to hold them to collect their contractual cash flows. They bear interest rates ranging from 1.40% to 6.34% [2023 – 1.40% to 5.95%] and mature between April 2025 and August 2032. The majority of these securities qualify as HQLA for regulatory purposes.

The Credit Union has pledged \$10,141 [2023 – \$10,141] of deposits with BMO Nesbitt Burns to secure its comprehensive credit facility.

The mortgage-backed securities represent securities backed by mortgages insured by CMHC. They bear an average interest rate of 2.81% [2023 – nil] and mature between July and October 2027.

Investment in third-party mortgages

As part of its investment program, the Credit Union invests in third-party mortgages originated by other financial institutions. The weighted average interest rate for third-party mortgages as at December 31, 2024 was 6.02% [2023 – 5.54%].

As at December 31, 2024, the Credit Union's investment in third-party mortgages was presented net of ECL allowances of \$287 [2023 – \$211], and the related provision for credit losses ["PCL"] was \$76 [2023 – \$68]. The Credit Union's ECL allowance and related PCL on loans are included in note 9.

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8. Loans

| | 2024 | 2023 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| Residential mortgages | | |
| Uninsured | 4,240,055 | 4,523,468 |
| Insured by CMHC | 99,617 | 139,415 |
| Insured by Sagen or Canada Guaranty Corp. | 396,283 | 492,697 |
| | <u>4,735,955</u> | <u>5,155,580</u> |
| Personal loans | 244,569 | 160,542 |
| Commercial loans | 1,557,338 | 1,581,595 |
| | <u>6,537,862</u> | <u>6,897,717</u> |
| Unamortized mortgage fees | 20,015 | 25,709 |
| Deferred loan revenue | (1,624) | (3,590) |
| Unrealized gains on loans at FVOCI | 176 | — |
| Accrued interest receivable | 19,898 | 16,667 |
| Allowance for credit losses | (11,088) | (7,141) |
| Net loans | <u>6,565,239</u> | <u>6,929,362</u> |

[a] Terms and conditions

Loans can have either a variable or fixed rate of interest and they generally mature within five years.

Variable rate loans are based on a prime rate formula, ranging from prime plus 0.05% to prime plus 9.50% [2023 – 0.05% to prime plus 9.5%]. The rate is determined by the type of security offered and the borrower's creditworthiness. The Credit Union's prime rate as at December 31, 2024 was 5.45% [2023 – 7.20%].

The interest rate offered on fixed rate loans being advanced as at December 31, 2024 ranges from 4.59% to 18.00%. The rate offered to a borrower varies with the type of security offered and the borrower's creditworthiness.

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

Personal loans consist of term loans and lines of credit that are not secured by real estate and, as such, have various repayment terms. Some of the personal loans are secured by personal property or investments.

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

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[b] Average rate

Loans bear interest at both variable and fixed rates, with the following rates as at December 31:

| | 2024 | | 2023 | |
|---|------------------|-------------------------------|------------------|-------------------------------|
| | Principal \$ | Weighted average rate % | Principal \$ | Weighted average rate % |
| Variable rate | 1,335,339 | 6.55% | 1,165,995 | 8.27 |
| Fixed rate due less than 1 year | 2,282,624 | 5.97% | 1,743,846 | 5.76 |
| Fixed rate due between 1 and 5 years | 2,919,899 | 4.34% | 3,987,876 | 4.17 |
| | 6,537,862 | | 6,897,717 | |

[c] Concentration of risk

The Credit Union has no exposure to groupings of individual loans, which concentrate risk and create exposure, as no individual or related groups of loans exceed 25% of regulatory capital of the Credit Union. All loans with secured assets as collateral are located in Ontario, except for syndicated loans amount of \$29,816 and \$27,906 as at December 31, 2024 and 2023, respectively.

[d] Credit risk

The determination of impairment losses follows an ECL model under IFRS 9 where provisions are taken upon the initial recognition of the financial asset, based on expectations of potential credit losses at the time of initial recognition. IFRS 9 introduces a three-stage approach to impairment of financial assets that are performing at the date of origination or purchase as follows:

Stage 1: A credit loss allowance is recognized at an amount equal to 12-month ECL.

Stage 2: A credit loss allowance is recognized at an amount equal to lifetime ECL. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining lifetime of the financial asset. The credit loss allowance is higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: A credit loss allowance is recognized based at an amount equal to a lifetime ECL, reflecting a probability of default of 100%.

The determination of a SICR considers many different factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain other criteria such as 30-day past due and watchlist status. The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. Stage 3 requires the recognition of lifetime losses for all credit-impaired assets.

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IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions, in determining whether there has been a SICR and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes. In considering the lifetime of an instrument, IFRS 9 generally requires the use of the contractual period, including pre-payment, extension and other options.

Commercial risk rating

Risk rating involves the categorization of individual credit facilities based on credit analysis and both economic and market conditions, into a series of graded categories based on risk. A primary function of a risk rating model is to assist in the underwriting of new loans and assessment of existing loans. As well, risk ratings assist Management in predicting changes in portfolio quality and the subsequent financial impact. Risk rating can lead to earlier response to potential deteriorating trends and a wider choice of corrective action to decrease exposure to unexpected loan losses. Finally, risk ratings are useful for loan pricing and overseeing the commercial and related loan portfolio exposure within acceptable levels of risk as established in policy.

The Credit Union uses a 10-point risk rating scale to measure and manage its exposure on its commercial and related loan portfolio. This risk rating scale aligns with equivalent public debt ratings published by rating agencies. The 10-point rating scale ranges from Substantially Risk Free [1] to Unacceptable/Impaired Risk [10]. A risk rating in the range of 1 to 6 is deemed to be acceptable risk for new loans.

Retail risk rating

The Credit Union uses the borrower's credit score as one benchmark to manage the risk of the retail portfolio. A credit score is one measure on how likely a person is to repay a loan. DUCA's risk ratings range across four bands: very low risk, low risk, moderate risk and high risk. While DUCA generally originates retail loans with low to moderate risk, DUCA has lending programs that assist borrowers who are in need of credit, addressing the borrower's credit score factor. These loans are priced accordingly based on risk profile.

[e] Loan deferral

The Credit Union may permit payment deferrals to eligible borrowers due to loss of income. While payment of principal and interest for these borrowers is deferred, the Credit Union continues to accrue and recognize interest income on the loans. As at December 31, 2024, a total of 27 loans with a combined loan balance of \$16,852 [2023 – a total of 24 loans with a combined loan balance of \$14,631] are under a payment deferral arrangement. Substantially, all loans that were previously granted payment deferrals have resumed payment and remained current.

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9. Allowance for credit losses

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance as at December 31, 2024:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|-----------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | Gross carrying amount | ECL allowance |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Residential mortgages | 4,196,436 | 846 | 493,232 | 1,535 | 46,287 | 1,205 | 4,735,955 | 3,586 |
| Commercial loans | 1,475,840 | 2,786 | 40,670 | 341 | 40,828 | 3,942 | 1,557,338 | 7,069 |
| Personal loans | 239,355 | 232 | 5,156 | 171 | 58 | 30 | 244,569 | 433 |
| Total | 5,911,631 | 3,864 | 539,058 | 2,047 | 87,173 | 5,177 | 6,537,862 | 11,088 |

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance as at December 31, 2023:

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|-----------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | Gross carrying amount | ECL allowance |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Residential mortgages | 4,842,622 | 1,102 | 288,640 | 748 | 24,318 | 1,138 | 5,155,580 | 2,988 |
| Commercial loans | 1,513,098 | 2,450 | 66,812 | 1,250 | 1,685 | 159 | 1,581,595 | 3,859 |
| Personal loans | 157,873 | 186 | 2,669 | 108 | — | — | 160,542 | 294 |
| Total | 6,513,593 | 3,738 | 358,121 | 2,106 | 26,003 | 1,297 | 6,897,717 | 7,141 |

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The following tables show the continuity of the IFRS 9 ECL allowance for all portfolios:

| | 2024 | | | |
|--|---------------|---------------|---------------|---------------|
| | Stage 1 \$ | Stage 2 \$ | Stage 3 \$ | Total \$ |
| Residential mortgages | | | | |
| Balance, January 1, 2024 | 1,102 | 748 | 1,138 | 2,988 |
| New loans originated | 288 | — | — | 288 |
| Financial assets derecognized | (253) | (134) | (493) | (880) |
| Net remeasurement | (333) | 858 | 2,047 | 2,572 |
| Transfers to Stage 1 ECL | 238 | (213) | (25) | — |
| Transfers to Stage 2 ECL | (171) | 309 | (138) | — |
| Transfers to Stage 3 ECL | (25) | (33) | 58 | — |
| Provision for (reversal of) credit losses | (256) | 787 | 1,449 | 1,980 |
| Write-offs | — | — | (1,382) | (1,382) |
| Recoveries on loans previously written off | — | — | — | — |
| Balance, December 31, 2024 | 846 | 1,535 | 1,205 | 3,586 |
| Commercial loans | | | | |
| Balance, January 1, 2024 | 2,450 | 1,250 | 159 | 3,859 |
| New loans originated | 478 | — | — | 478 |
| Financial assets derecognized | (504) | (353) | (159) | (1,016) |
| Net remeasurement | 388 | 87 | 3,606 | 4,081 |
| Transfers to Stage 1 ECL | 24 | (24) | — | — |
| Transfers to Stage 2 ECL | (37) | 37 | — | — |
| Transfers to Stage 3 ECL | (13) | (656) | 669 | — |
| Provision for (reversal of) credit losses | 336 | (909) | 4,116 | 3,543 |
| Write-offs | — | — | (339) | (339) |
| Recoveries on loans previously written off | — | — | 6 | 6 |
| Balance, December 31, 2024 | 2,786 | 341 | 3,942 | 7,069 |
| Personal loans | | | | |
| Balance, January 1, 2024 | 186 | 108 | — | 294 |
| New loans originated | 139 | — | — | 139 |
| Financial assets derecognized | (19) | (90) | (1) | (110) |
| Net remeasurement | (84) | 162 | 102 | 180 |
| Transfers to Stage 1 ECL | (5) | 5 | — | — |
| Transfers to Stage 2 ECL | 15 | (15) | — | — |
| Transfers to Stage 3 ECL | — | 1 | (1) | — |
| Provision for (reversal of) credit losses | 46 | 63 | 100 | 209 |
| Write-offs | — | — | (76) | (76) |
| Recoveries on loans previously written off | — | — | 6 | 6 |
| Balance, December 31, 2024 | 232 | 171 | 30 | 433 |
| Total ECL allowance | 3,864 | 2,047 | 5,177 | 11,088 |

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| | 2023 | | | |
|--|----------------|----------------|----------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | \$ | \$ | \$ | \$ |
| Residential mortgages | | | | |
| Balance, January 1, 2023 | 1,193 | 372 | 318 | 1,883 |
| New loans originated | 576 | — | — | 576 |
| Financial assets derecognized | (233) | (83) | (146) | (462) |
| Net remeasurement | (438) | 424 | 1092 | 1,078 |
| Transfers to Stage 1 ECL | 121 | (121) | — | — |
| Transfers to Stage 2 ECL | (107) | 164 | (57) | — |
| Transfers to Stage 3 ECL | (10) | (8) | 18 | — |
| Provision for (reversal of) credit losses | (91) | 376 | 907 | 1,192 |
| Write-offs | — | — | (87) | (87) |
| Recoveries on loans previously written off | — | — | — | — |
| Balance, December 31, 2023 | 1,102 | 748 | 1,138 | 2,988 |
| Commercial loans | | | | |
| Balance, January 1, 2023 | 2,153 | 1,218 | 169 | 3,540 |
| New loans originated | 808 | — | — | 808 |
| Financial assets derecognized | (418) | (698) | (169) | (1,285) |
| Net remeasurement | (376) | 1,087 | 94 | 805 |
| Transfers to Stage 1 ECL | 445 | (445) | — | — |
| Transfers to Stage 2 ECL | (162) | 162 | — | — |
| Transfers to Stage 3 ECL | — | (74) | 74 | — |
| Provision for (reversal of) credit losses | 297 | 32 | (1) | 328 |
| Write-offs | — | — | (15) | (15) |
| Recoveries on loans previously written off | — | — | 6 | 6 |
| Balance, December 31, 2023 | 2,450 | 1,250 | 159 | 3,859 |
| Personal loans | | | | |
| Balance, January 1, 2023 | 273 | 88 | 5 | 366 |
| New loans originated | 126 | — | — | 126 |
| Financial assets derecognized | (24) | (4) | (5) | (33) |
| Net remeasurement | (157) | (8) | 7 | (158) |
| Transfers to Stage 1 ECL | (43) | 43 | — | — |
| Transfers to Stage 2 ECL | 11 | (11) | — | — |
| Transfers to Stage 3 ECL | — | — | — | — |
| Provision for (reversal of) credit losses | (87) | 20 | 2 | (65) |
| Write-offs | — | — | (11) | (11) |
| Recoveries on loans previously written off | — | — | 4 | 4 |
| Balance, December 31, 2023 | 186 | 108 | — | 294 |
| Total ECL allowance | 3,738 | 2,106 | 1,297 | 7,141 |

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As at December 31, 2024, the Credit Union's ECL allowance for loans was \$11,088 [2023 – \$7,141] and the related PCL was \$3,947 [2023 – \$1,380]. As indicated in note 7, the Credit Union's investment in third-party mortgages was presented net of ECL allowances of \$287 [2023 – \$211] and the related PCL was \$76 [2023 – \$68].

Credit risk exposure

The internal risk ratings presented in the table below are defined as follows:

Very low risk: Loans that generally have substantially below average probability of credit default, which is within the Credit Union's risk appetite levels.

Low risk: Loans that generally have below average probability of credit default, which is within the Credit Union's risk appetite levels.

Moderate risk: Loans that generally have an average probability of credit default, which is within the Credit Union's risk appetite levels.

High risk: Loans that were originated within the Credit Union's risk appetite but have subsequently experienced an increase in risk of credit default, which is outside of the Credit Union's typical risk tolerance levels. The Credit Union will not originate loans in this category. DUCA has retail lending programs that assist borrowers who are in need of credit, notwithstanding the borrower's credit score. These loans are priced accordingly based on risk profile.

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The following table sets out the Credit Union's credit risk exposure for all loans carried at amortized cost as at December 31, 2024. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are credit-impaired.

| | Stage 1 | Stage 2 | Stage 3 | Total |
|--------------------|------------------|----------------|---------------|------------------|
| | \$ | \$ | \$ | \$ |
| Residential | | | | |
| Very low risk | 2,110,243 | — | — | 2,110,243 |
| Low risk | 1,706,638 | — | — | 1,706,638 |
| Moderate risk | 378,829 | 365,823 | — | 744,652 |
| High risk | 726 | 127,409 | 46,287 | 174,422 |
| | <u>4,196,436</u> | <u>493,232</u> | <u>46,287</u> | <u>4,735,955</u> |
| Commercial | | | | |
| Low risk | 272,631 | — | — | 272,631 |
| Moderate risk | 1,203,209 | 7,458 | — | 1,210,667 |
| High risk | — | 33,212 | 40,828 | 74,040 |
| | <u>1,475,840</u> | <u>40,670</u> | <u>40,828</u> | <u>1,557,338</u> |
| Personal | | | | |
| Very low risk | 208,359 | — | — | 208,359 |
| Low risk | 28,238 | — | — | 28,238 |
| Moderate risk | 2,733 | 4,921 | — | 7,654 |
| High risk | 25 | 235 | 58 | 318 |
| | <u>239,355</u> | <u>5,156</u> | <u>58</u> | <u>244,569</u> |
| | <u>5,911,631</u> | <u>539,058</u> | <u>87,173</u> | <u>6,537,862</u> |

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The following table sets out the Credit Union's credit risk exposure for all loans carried at amortized cost as at December 31, 2023. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are credit-impaired.

| | Stage 1 | Stage 2 | Stage 3 | Total |
|--------------------|------------------|----------------|----------------|------------------|
| | \$ | \$ | \$ | \$ |
| Residential | | | | |
| Very low risk | 2,526,120 | — | — | 2,526,120 |
| Low risk | 1,854,891 | — | — | 1,854,891 |
| Moderate risk | 458,023 | 222,017 | 15,616 | 695,656 |
| High risk | 3,588 | 66,623 | 8,702 | 78,913 |
| | <u>4,842,622</u> | <u>288,640</u> | <u>24,318</u> | <u>5,155,580</u> |
| Commercial | | | | |
| Low risk | 297,388 | — | — | 297,388 |
| Moderate risk | 1,215,710 | 6,326 | — | 1,222,036 |
| High risk | — | 60,486 | 1,685 | 62,171 |
| | <u>1,513,098</u> | <u>66,812</u> | <u>1,685</u> | <u>1,581,595</u> |
| Personal | | | | |
| Very low risk | 134,435 | — | — | 134,435 |
| Low risk | 22,836 | — | — | 22,836 |
| Moderate risk | 596 | 2,456 | — | 3,052 |
| High risk | 6 | 213 | — | 219 |
| | <u>157,873</u> | <u>2,669</u> | <u>—</u> | <u>160,542</u> |
| | <u>6,513,593</u> | <u>358,121</u> | <u>26,003</u> | <u>6,897,717</u> |

As at December 31, 2024, 95% of outstanding commercial loans are risk rated in the acceptable range of 6 or lower [2023 – 96%] based on the Credit Union's risk rating model.

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The following table shows the Credit Union's gross loan balances by security type:

| | 2024 | | | Total gross loans |
|--------------|------------------------|-----------------------------|--------------|-------------------|
| | Secured by real estate | Secured by other collateral | Unsecured | |
| | \$ | \$ | \$ | \$ |
| Residential | 4,735,955 | — | — | 4,735,955 |
| Commercial | 1,393,864 | 163,220 | 254 | 1,557,338 |
| Personal | — | 240,035 | 4,534 | 244,569 |
| Total | 6,129,819 | 403,255 | 4,788 | 6,537,862 |

| | 2023 | | | Total gross loans |
|--------------|------------------------|-----------------------------|--------------|-------------------|
| | Secured by real estate | Secured by other collateral | Unsecured | |
| | \$ | \$ | \$ | \$ |
| Residential | 5,155,580 | — | — | 5,155,580 |
| Commercial | 1,476,475 | 104,306 | 814 | 1,581,595 |
| Personal | — | 156,719 | 3,823 | 160,542 |
| Total | 6,632,055 | 261,025 | 4,637 | 6,897,717 |

The forward-looking macroeconomic scenarios described below reflect Management's best estimate of the forward-looking information as at December 31, 2024.

The base scenario assumes the following assumptions:

- Interest rate reduction is likely to continue into 2025, when inflation is believed to be manageable within a key government policy target range.
- The debt to income ratio continues to remain flat in the short term before growing with higher borrowing.
- Home prices likely to increase because of improving home sales activities due to more affordable interest rates as well as continued demand for housing as a result of immigration and population growth.
- Unemployment gradually declines as the economy slowly improves with declining interest rates.

These estimates and judgments have been made taking into consideration the economic impact of the current market volatility and uncertainty due to geopolitical environment in the U.S. and internationally, the current interest rate environment, and inflationary pressures. This has resulted in a direct impact on the forward-looking macroeconomic variables that Management uses as part of its underlying assumptions for calculating ECL. While these changing assumptions may result in current forward-looking scenarios that are different from those used by the Credit Union in its ECL measurement as at December 31, 2024, based on the information available at the end of the year, IFRS 9 does not permit the use of hindsight in measuring ECL. Accordingly, any changes in forward-looking information subsequent to December 31, 2024 will be reflected in the measurement of ECL in future periods as appropriate.

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The Credit Union's ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results. Management applied experienced credit judgment to reflect the continuing impact of the uncertain environment on credit conditions and the economy.

The following table shows the key macroeconomic inputs the Credit Union uses to estimate its allowance on performing loans during the forecast period. The values shown represent the end-of-period average values for the first 12 months and then the average value for the remaining forecast period of four years.

| | Benign scenario | | Base scenario | | Adverse scenario | |
|-------------------------------------|--|---|--|---|--|---|
| | Average value over the next 12 months | Average value over the remaining forecast period | Average value over the next 12 months | Average value over the remaining forecast period | Average value over the next 12 months | Average value over the remaining forecast period |
| | % | % | % | % | % | % |
| Canadian GDP year-over-year growth | 4.3 | 2.2 | 1.9 | 1.9 | (2.1) | 1.4 |
| Canadian unemployment rate | 5.4 | 4.9 | 6.1 | 5.3 | 7.3 | 6.4 |
| National Housing Price Index growth | 3.7 | 3.7 | 1.9 | 2.7 | (1.0) | 2.1 |

The following table compares the probability-weighted ECL [determined as the reported allowance for credit losses] against the base case ECL to illustrate the impact of applying probability weights to each of the scenarios in the determination of allowance for credit losses.

| | 2024 | 2023 |
|---|---------------|-------------|
| | \$ | \$ |
| Probability-weighted ECL [reported allowance for credit losses] | 11,088 | 7,141 |
| Base case ECL | 11,066 | 7,128 |
| Difference | 22 | 13 |

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Analysis of individual loans that are past due based on age is shown below:

| | 2024 | | | |
|-----------------------------------|------------------|------------------|----------------|------------------|
| | Residential | Commercial | Personal | Total |
| | \$ | \$ | \$ | \$ |
| Less than 30 days | 130,165 | 14,432 | 679 | 145,276 |
| 30–89 days | 64,411 | 45,560 | 195 | 110,166 |
| 90–179 days | 24,423 | 15 | 58 | 24,496 |
| 180–365 days | 12,482 | 31,546 | — | 44,028 |
| Over 365 days | 10,661 | 8,466 | — | 19,127 |
| Total loans in arrears | 242,142 | 100,019 | 932 | 343,093 |
| Total loans not in arrears | 4,493,813 | 1,457,319 | 243,637 | 6,194,769 |
| Balance, December 31, 2024 | 4,735,955 | 1,557,338 | 244,569 | 6,537,862 |

| | 2023 | | | |
|-----------------------------------|------------------|------------------|----------------|------------------|
| | Residential | Commercial | Personal | Total |
| | \$ | \$ | \$ | \$ |
| Less than 30 days | 94,758 | 13,405 | 460 | 108,623 |
| 30–89 days | 23,196 | 22,640 | 51 | 45,887 |
| 90–179 days | 6,200 | — | — | 6,200 |
| 180–365 days | 8,337 | — | — | 8,337 |
| Over 365 days | 5,723 | — | — | 5,723 |
| Total loans in arrears | 138,214 | 36,045 | 511 | 174,770 |
| Total loans not in arrears | 5,017,366 | 1,545,550 | 160,031 | 6,722,947 |
| Balance, December 31, 2023 | 5,155,580 | 1,581,595 | 160,542 | 6,897,717 |

10. Securitization activity

The Credit Union securitizes residential mortgages through the CMHC-sponsored NHA MBS program and CMB program and through Canadian bank-sponsored asset-backed commercial paper programs. These transactions do not meet the requirements for derecognition as the Credit Union retains prepayment risk and certain elements of credit risk. Accordingly, the Credit Union has retained these mortgages on its consolidated statement of financial position and has recorded offsetting liabilities for the net proceeds received as securitization liabilities, which are recorded at amortized cost. As a requirement of the various securitization programs, the Credit Union assigns all its interest in securitized mortgage pools to the securitization entities who may enforce the assignment of the mortgages should the Credit Union fail to make timely payment under the terms of the securitization programs.

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The following table summarizes DUCA's securitization activity:

| | 2024 | 2023 |
|--|------------------|-------------|
| | \$ | \$ |
| Mortgages securitized | 415,562 | 644,945 |
| Net cash proceeds received | 383,915 | 445,026 |
| Outstanding balances of securitized mortgages | 1,498,216 | 1,215,940 |
| Outstanding balances of securitization liabilities | 770,671 | 823,910 |

The average yield on mortgage-backed securities pools outstanding as at December 31, 2024 was 1.66% [2023 – 1.63%]. The outstanding balance of mortgage-backed securities is net of fees.

In addition to the securitization activity noted in the table above, the Credit Union has securitized mortgages that are being held in NHA MBS for liquidity purposes. The balance of securitized mortgages held in NHA MBS for liquidity purposes as at December 31, 2024 was \$160,660 [2023 – \$255,800] and are recorded in the consolidated statement of financial position.

The Credit Union securitizes and sells mortgage-backed securities of certain insured multi-unit residential mortgages with no prepayment or credit risk associated with the sold mortgage-backed securities. The Credit Union enters into certain transactions that allow the transfer of the contractual right to receive the residual cash flows from the mortgages and transfer substantially all of the risks and rewards of ownership, including credit, interest rate, prepayment and other price risks. The present value of the future cash flows is recorded on the consolidated statement of financial position under other assets. The outstanding balance for these multi-unit residential mortgages totals \$3,500,477 as at December 31, 2024 [2023 – \$2,637,439].

The Credit Union securitizes and sells certain uninsured residential mortgages into a Schedule I bank's conduit under the Schedule 1 bank's asset-backed securitization program. The outstanding securitization liability as of December 31, 2024, is \$330,000 [2023 – \$330,000]. The uninsured residential mortgages mature from 2025 to 2027. The outstanding balance for these uninsured residential mortgages totals \$341,477 as at December 31, 2024 [2023 – \$356,608].

The Credit Union securitizes and sells certain uninsured residential mortgages into a second Schedule I bank's conduit under the Schedule 1 bank's asset-backed securitization program. The outstanding securitization liability as of December 31, 2024, is \$132,000 [2023 – \$132,000]. The uninsured residential mortgages mature from 2025 to 2027. The outstanding balance for these uninsured residential mortgages totals \$185,279 as at December 31, 2024 [2023 – \$246,015].

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11. Other assets

| | 2024 | 2023 |
|--|----------------|----------------|
| | \$ | \$ |
| Securitization receivables | 107,374 | 95,051 |
| Right-of-use assets, net | 11,667 | 9,732 |
| Prepaid expenses | 27,592 | 30,063 |
| Third-party mortgage and mortgage pool receivables | 9,018 | 7,766 |
| Other | 1,303 | 2,804 |
| | <u>156,954</u> | <u>145,416</u> |

Set out below are the carrying amounts of right-of-use assets recognized and the movement during the year:

| | 2024 | 2023 |
|----------------------------------|----------------|---------|
| | \$ | \$ |
| Balance as at January 1 | 9,732 | 10,296 |
| Additions and adjustments | 5,147 | 2,749 |
| Depreciation and adjustments | (3,212) | (3,313) |
| Balance as at December 31 | 11,667 | 9,732 |

12. Pension plan

The Credit Union has a defined contribution pension plan and a SERP for a group of former senior executives, under which costs and obligations are determined using the projected benefit method of actuarial valuation prorated on service.

On December 31, 2012, the SERP was closed to new members. Included in other assets is a net pension amount of \$159 [2023 – \$114] relating to the SERP.

The Credit Union contributes a percentage of employee salaries to the defined contribution plan. The amount of the expense for the year was \$1,596 [2023 – \$1,488].

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13. Property and equipment

| | Land \$ | Buildings \$ | Leasehold improvements \$ | Computer hardware \$ | Equipment, furniture and fixtures \$ | Total \$ |
|--|--------------|-----------------|---------------------------------|----------------------------|---|---------------|
| Cost | | | | | | |
| Balance, December 31, 2023 | 5,215 | 864 | 13,724 | 9,872 | 12,114 | 41,789 |
| Additions | 17 | — | 198 | 316 | 1,223 | 1,754 |
| Balance, December 31, 2024 | 5,232 | 864 | 13,922 | 10,188 | 13,337 | 43,543 |
| Accumulated depreciation and amortization | | | | | | |
| Balance, December 31, 2023 | — | 111 | 11,445 | 9,320 | 10,096 | 30,972 |
| Depreciation and amortization | — | 43 | 659 | 286 | 694 | 1,682 |
| Balance, December 31, 2024 | — | 154 | 12,104 | 9,606 | 10,790 | 32,654 |
| Net book value December 31, 2024 | 5,232 | 710 | 1,818 | 582 | 2,547 | 10,889 |
| Cost | | | | | | |
| Balance, December 31, 2022 | 190 | 408 | 13,711 | 9,531 | 11,102 | 34,942 |
| Additions | 5,025 | 456 | 13 | 341 | 1,012 | 6,847 |
| Balance, December 31, 2023 | 5,215 | 864 | 13,724 | 9,872 | 12,114 | 41,789 |
| Accumulated depreciation and amortization | | | | | | |
| Balance, December 31, 2022 | — | 91 | 10,572 | 9,016 | 9,461 | 29,140 |
| Depreciation and amortization | — | 20 | 873 | 304 | 635 | 1,832 |
| Balance, December 31, 2023 | — | 111 | 11,445 | 9,320 | 10,096 | 30,972 |
| Net book value December 31, 2023 | 5,215 | 753 | 2,279 | 552 | 2,018 | 10,817 |

The additions to property and equipment, in fiscal year 2023, mostly relate to land and building and other equipment acquired from United at their fair value [\$5,545] on the acquisition date [note 28]. Land and building were valued by a licensed appraiser.

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14. Deposits

| | 2024 | 2023 |
|---------------------------|------------------|-------------|
| | \$ | \$ |
| Demand deposit accounts | 906,269 | 1,855,026 |
| Term deposits | 4,218,620 | 3,147,064 |
| Registered deposits | 907,065 | 852,065 |
| Foreign currency accounts | 89,007 | 36,090 |
| | 6,120,961 | 5,890,245 |
| Accrued interest payable | 123,180 | 82,565 |
| Unamortized broker fees | (7,973) | (9,837) |
| | 6,236,168 | 5,962,973 |

[a] Terms and conditions

Demand deposit accounts include chequing accounts, savings accounts, and daily interest accounts, are due on demand and bear interest at a variable rate up to 4.00% as at December 31, 2024 [2023 – 5.75%].

Term deposits bear fixed rates of interest for terms of up to seven years. Interest can be paid annually, semi-annually, monthly or upon maturity.

The registered retirement savings plans accounts can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. The variable rate accounts bear interest at rates of 0.25% as at December 31, 2024 [2023 – 0.25%]. Registered retirement income funds consist of both fixed and variable rate products with terms and conditions similar to those of the registered retirement savings plans accounts described above. Depositors may make withdrawals from a registered retirement income fund account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements. The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the registered retirement savings plans accounts described above.

Foreign currency accounts include accounts from all of the above balances.

[b] Average rate

Deposits bear interest at both variable and fixed rates with the following rates at December 31:

| | 2024 | | 2023 | |
|---|------------------|----------------------------------|------------------|----------------------------------|
| | Principal | Weighted average rate | Principal | Weighted average rate |
| | \$ | % | \$ | % |
| Variable rate | 976,142 | 1.70 | 1,949,479 | 3.69 |
| Fixed rate due less than 1 year | 3,261,042 | 5.10 | 1,963,293 | 4.91 |
| Fixed rate due between 1 and 5 years | 1,883,777 | 4.90 | 1,977,473 | 4.86 |
| | 6,120,961 | | 5,890,245 | |

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[c] Concentration of risk

The Credit Union does not have an exposure to individual or related groups of deposits that exceed the Credit Union's policy of 5% of deposits.

15. Income taxes

The significant components of income tax expense included in net income are composed of the following:

| | 2024 | 2023 |
|---------------------------------|------------|--------------|
| | \$ | \$ |
| Current tax expense | 822 | 3,161 |
| Deferred tax expense | (587) | 1,233 |
| Total income tax expense | 235 | 4,394 |

The difference between income tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% [2023 – 26.5%] is as follows:

| | 2024 | 2023 |
|--|------------|--------------|
| | \$ | \$ |
| Income before income taxes | 2,675 | 21,725 |
| Expected taxes based on the statutory rate | 709 | 5,757 |
| Credit Union addition (deduction) | 227 | (1,414) |
| (Over) provision in prior years | (786) | (112) |
| Permanent difference | (11) | (503) |
| Other | 96 | 666 |
| Total income tax expense | 235 | 4,394 |

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The tax effect of temporary differences that give rise to the deferred taxes is from differences between amounts deducted for accounting and income tax purposes for the below items.

The significant components of the deferred tax liability of the Credit Union are as follows:

| | Balance, December 31, 2023 | Consolidated statement of income | Other | Balance, December 31, 2024 |
|--|----------------------------------|--|----------|----------------------------------|
| | \$ | \$ | \$ | \$ |
| Allowance for credit losses | 1,087 | 718 | — | 1,805 |
| Broker fees | (6,391) | 1,373 | — | (5,018) |
| Property and equipment | (1,867) | (1,257) | — | (3,124) |
| Deferred revenue | 653 | (358) | — | 295 |
| Non-capital losses available for carryforward | 2,119 | 1,050 | — | 3,169 |
| Corporate Minimum Tax credit | 2,203 | — | — | 2,203 |
| Prepaid expenses | (4,654) | (198) | — | (4,852) |
| Fair value adjustments related to business combination | (899) | 92 | — | (807) |
| Other (including financing costs) | 1,113 | (833) | — | 280 |
| | (6,636) | 587 | — | (6,049) |

| | Balance, December 31, 2022 | Consolidated statement of income | Other | Balance, December 31, 2023 |
|--|----------------------------------|--|------------|----------------------------------|
| | \$ | \$ | \$ | \$ |
| Allowance for credit losses | 944 | 143 | — | 1,087 |
| Broker fees | (4,356) | (2,035) | — | (6,391) |
| Property and equipment | (2,344) | (87) | 564 | (1,867) |
| Deferred revenue | 907 | (254) | — | 653 |
| Non-capital losses available for carryforward | — | 2,119 | — | 2,119 |
| Corporate Minimum Tax credit | 1,744 | 459 | — | 2,203 |
| Prepaid expenses | (3,116) | (1,538) | — | (4,654) |
| Fair value adjustments related to business combination | — | (899) | — | (899) |
| Other (including financing costs) | 254 | 859 | — | 1,113 |
| | (5,967) | (1,233) | 564 | (6,636) |

The Credit Union has non-capital loss carryforwards as at December 31, 2024 of \$17,410 [2023 – \$11,641] expiring in 2043.

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16. Derivative financial instruments

The Credit Union enters into derivatives for risk management purposes, as explained in note 4. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument [being an equity instrument, commodity product, foreign currency, reference rate or index]. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of either the market or credit risk.

Total derivative financial instruments

There are no outstanding cash flow and fair value hedges as at December 31, 2024. The following are derivative positions outstanding as at December 31, 2024 and 2023.

| | 2024 | | | 2023 | | |
|---|---------------|-----------------|-----------------|--------|-------------|-----------------|
| | Assets | Liabilities | Notional amount | Assets | Liabilities | Notional amount |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Derivatives not in qualifying hedging relationship | | | | | | |
| Foreign exchange contracts | 67,556 | (67,463) | 47,000 USD | 17,214 | (17,288) | 13,000 USD |
| Index-linked call options | 8,309 | — | 43,463 | 5,592 | — | 38,132 |
| Embedded derivatives in index-linked term deposits | | (7,987) | — | — | (5,409) | — |
| | 75,865 | (75,450) | — | 22,806 | (22,697) | — |

The Credit Union designated cash flow hedges involving interest rate swaps and bond forwards that hedged interest rate risk related to certain loan and deposit products. Realized gains (losses) on these derivatives are deferred in consolidated AOCI and, subsequently, recognized in the consolidated statement of income consistent with the recognition of the hedged item. The amount remaining in consolidated AOCI related to cash flow hedges at the end of the year represents a loss of \$4,023 pre-tax [2023 – \$6,829]. The amount of the loss included in consolidated AOCI that is expected to be reclassified to the consolidated statement of income over the next 12 months is \$1,663 pre-tax [2023 – \$1,589].

Index-linked term deposits

DUCA has outstanding \$38,987 in index-linked term deposits [registered and non-registered] to its members. These index-linked term deposits have maturities of three and five years and pay interest to the members at the end of the term, based on the performance of various market indices. The embedded derivative associated with these deposits is presented in liabilities and has a fair value of \$7,987 as at December 31, 2024 [\$5,409 – 2023].

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DUCA has entered into [purchased] index-linked call options agreements with certain counterparties that have equivalent maturities to offset the exposure to the indices associated with these products. DUCA pays a premium amount based on the notional amount at the inception of the index-linked option contract. At the end of the term, the Credit Union receives from the counterparties an amount comparable to the amount that will be paid to the depositors based on the performance of the respective indices. The purpose of the options agreements is to provide an economic hedge against market fluctuations. These options agreements have fair values that vary based on changes in equity indices. As at December 31, 2024, DUCA has entered into such options contracts in the notional amount of \$43,464, and their fair value is presented in assets and amounted to \$8,309 [\$5,592 – 2023]. Although hedge accounting is not applied, these agreements are used as economic hedges.

17. Members' shares

| | 2024 | | | 2023 | | |
|--|--------------------------|--------------|-----------------|--------------------------|----------------|-----------------|
| | Number of shares # | Equity \$ | Liability \$ | Number of shares # | Equity \$ | Liability \$ |
| Authorized | | | | | | |
| Unlimited membership shares | 802 | — | 802 | 861 | — | 861 |
| Investment shares | | | | | | |
| Unlimited Class A shares | 28,515 | 28,515 | — | 31,682 | 31,682 | — |
| Unlimited Class B shares Series 1 | 26,512 | 26,512 | — | 29,430 | 29,430 | — |
| Class B shares Series 1 issuance costs | — | (632) | — | — | (632) | — |
| Unlimited Class B shares Series 4 | 156,251 | 156,251 | — | 159,147 | 159,147 | — |
| Class B shares Series 4 issuance costs | — | (632) | — | — | (632) | — |
| | 210,014 | | 802 | | 218,995 | 861 |

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Membership shares, Class A and Class B investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, *Financial Instruments: Presentation* ["IAS 32"] and IFRIC 2. If they are classified as equity, they are recognized at cost. If they are classified as a liability, they are initially recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and subsequently carried at amortized cost using the effective interest rate method.

Terms and conditions

[a] *Membership shares*

As a condition of Membership, which is required to use the services of the Credit Union, each Member is required to hold one Membership share, which has a par value of \$1. These Membership shares are redeemable at par only when a Membership is withdrawn.

Funds invested by Members in Membership shares are not insured by FSRA. The withdrawal of Membership shares is subject to the Credit Union maintaining adequate regulatory capital [note 22], as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability.

As a part of the transaction with United, 3,229 new Membership shares were issued on December 21, 2023.

[b] *Class A shares*

An unlimited number of Class A non-cumulative, non-voting, non-participating bonus shares are redeemable at the sole and absolute discretion of the Credit Union, up to a limit of 10% of the Class each year, at full face value at any time upon the death of the holder and ranging from 50% of face value in the second year after issue with annual increments in redemption value to 100% of face value in the seventh and subsequent years. The Credit Union may redeem the full amount of the shares at any point after five years from their date of issue. The par value of a Class A share is \$1.

[c] *Class B Series 1 investment shares*

The Class B Series 1 investment shares are not redeemable for five years after the date of their issuance. The holders of Class B Series 1 investment shares may, at any time after the respective non-redeemable period, make a request in writing to the Board of Directors of the Credit Union to redeem their Class B investment shares. Approval of such request is the sole and absolute discretion of the Board of Directors. In no case shall total redemptions approved in any fiscal year exceed 10% of the total Class B investment shares outstanding at the end of the previous fiscal year. The Credit Union may, at any time, redeem the full amount of the shares outstanding at the discretion of the Board of the Directors after the non-redeemable term ended on January 1, 2021. The par value of a Class B share is \$1.

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[d] Class B Series 4 investment shares

The Class B Series 4 investment shares are not redeemable for five years after the date of their issuance. The non-redeemable term will end on January 31, 2025. The holders of Class B Series 4 investment shares may, at any time after the respective non-redeemable period, make a request in writing to the Board of Directors of the Credit Union to redeem their Class B investment shares. Approval of such request is the sole and absolute discretion of the Board of Directors. In no case shall total redemptions approved in any fiscal year exceed 10% of the total Class B investment shares outstanding at the end of the previous fiscal year. Redemptions are subject to the aggregate limits detailed above, and, if the approval of any regulatory body having jurisdiction over the Credit Union of that redemption is required by any applicable law, are subject to obtaining that regulatory approval. The Credit Union may, at any time, redeem the full amount of the shares outstanding after the non-redeemable term has ended at the discretion of the Board of Directors. The par value of a Class B share is \$1.

18. Non-interest income

| | 2024 | 2023 |
|---|---------------|-------------|
| | \$ | \$ |
| Foreign exchange fee revenue | 20,953 | 19,607 |
| Gains on derivative financial instruments | 305 | 12,777 |
| Gain on acquisition <i>[note 28]</i> | — | 9,303 |
| Mortgage and loan fees | 3,018 | 4,806 |
| Wealth management | 4,121 | 3,773 |
| Securitization income | 5,726 | 3,681 |
| Service charges | 2,659 | 2,491 |
| Other | 2,659 | 1,515 |
| | 39,441 | 57,953 |

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19. Related party transactions

The Act requires disclosure of the five highest-paid officers and employees of the Credit Union where total remuneration paid during the year exceeds \$150,000. Bonuses are reported on a lag basis and represent bonus paid during the year with respect to performance of the prior year. The names, positions and remuneration paid during 2024 and 2023 of those officers and employees are as follows:

| 2024 | | | | | | |
|----------------|---------------------------------------|--------|--------|--|-------|-------|
| Name | Title | Salary | Bonus* | Pension and other post-retirement benefits | Other | Total |
| | | \$ | \$ | \$ | \$ | \$ |
| Doug Conick | President and Chief Executive Officer | 508 | 182 | 51 | 31 | 772 |
| Karey Carson | Chief People and Culture Officer | 282 | 91 | 28 | 7 | 409 |
| Phillip Taylor | Chief Member Experience Officer | 282 | 89 | 28 | 7 | 407 |
| Yan Xu | Chief Financial Officer | 281 | 84 | 28 | 6 | 399 |
| Rizwan Ahmad | Chief Risk Officer | 281 | 78 | 28 | 5 | 393 |

* Represents bonus paid in 2024 relating to financial performance of fiscal year ended December 31, 2023.

| 2023 | | | | | | |
|-----------------|---------------------------------------|--------|---------|--|-------|-------|
| Name | Title | Salary | Bonus** | Pension and other post-retirement benefits | Other | Total |
| | | \$ | \$ | \$ | \$ | \$ |
| Doug Conick | President and Chief Executive Officer | 489 | — | 49 | 49 | 587 |
| Phillip Taylor | Chief Member Experience Officer | 272 | 146 | 27 | 7 | 452 |
| Karey Carson | Chief People and Culture Officer | 272 | 130 | 27 | 7 | 436 |
| Michael Creasor | Treasurer | 272 | 129 | 27 | 4 | 432 |
| Rizwan Ahmad | Chief Risk Officer | 272 | 126 | 27 | 5 | 430 |

** Represents bonus paid in 2023 relating to financial performance of fiscal year ended December 31, 2022, of which the bonus of the CEO was voluntarily deferred to future years, subject to approval by the Credit Union's Board of Directors.

The Credit Union entered into the following transactions with key management personnel, which are defined by FSRA as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and Management.

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| | 2024 | 2023 |
|--|-------|-------|
| | \$ | \$ |
| Loans to key management personnel | | |
| Aggregate value of loans advanced | 3,865 | 5,860 |
| Interest received on loans advanced | 106 | 120 |
| Total value of lines of credit advanced | 607 | 168 |
| Interest received on lines of credit advanced | 36 | 12 |
| Unused value of lines of credit | 1,275 | 1,193 |
| Deposits from key management personnel | | |
| Aggregate value of term and savings deposits | 2,507 | 1,596 |
| Total interest paid on term and savings deposits | 29 | 33 |

The Credit Union's policy for key management personnel is that the loans are approved and deposits accepted on the same terms and conditions that apply to Members for each class of loan or deposit with the exception of a policy approved by the Board of Directors, permitting up to a 2.00% interest rate discount on loans and residential first mortgages and an additional 0.25% interest rate premium on fixed term deposits granted to employees of the Credit Union.

The Directors of the Credit Union are remunerated at rates to be fixed annually at the beginning of each year by the Board of Directors, and are also entitled to be paid their travelling, director training and other expenses properly incurred by them in connection with the affairs of DUCA.

The following table outlines remuneration paid to the Directors of the Credit Union:

| | 2024 | 2023 |
|----------------------------|------|------|
| | \$ | \$ |
| Director remuneration paid | 368 | 348 |

Deposit insurance

As at December 31, 2024, the net annual premium paid to FSRA for insuring deposits was \$4,352 [2023 – \$3,560].

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20. Financial instrument classification and fair value

The following table represents the fair values of DUCA's financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, some of DUCA's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

| | 2024 | |
|--|------------------|------------------|
| | Carrying value | Fair value |
| | \$ | \$ |
| Assets | | |
| Amortized cost | | |
| Cash and cash equivalents | 128,670 | 128,670 |
| Investment securities | 174,053 | 175,145 |
| Third-party mortgages | 321,796 | 318,144 |
| Loans | 6,481,309 | 6,366,045 |
| Fair value through profit or loss | | |
| Investment securities | 2,127 | 2,127 |
| Derivative financial instruments | 75,865 | 75,865 |
| Fair value through other comprehensive income | | |
| Investment securities | 39,162 | 39,162 |
| Loans | 83,930 | 83,930 |
| Third-party mortgages | 48,617 | 48,617 |
| Total financial assets | 7,355,529 | 7,237,705 |
| Liabilities | | |
| Amortized cost | | |
| Deposits | 6,236,168 | 6,234,374 |
| Securitization liabilities | 770,671 | 766,372 |
| Accounts payable and other liabilities | 25,299 | 25,298 |
| Subordinated debt | 74,665 | 81,055 |
| Fair value through profit or loss | | |
| Derivative financial instruments | 75,450 | 75,450 |
| Total financial liabilities | 7,182,253 | 7,182,549 |

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| | 2023 | |
|--|-----------------------|-------------------|
| | Carrying value | Fair value |
| | \$ | \$ |
| Assets | | |
| Amortized cost | | |
| Cash and cash equivalents | 60,201 | 60,201 |
| Investment securities | 71,886 | 72,442 |
| Third-party mortgages | 394,417 | 387,517 |
| Loans | 6,881,432 | 6,779,631 |
| Fair value through profit or loss | | |
| Investment securities | 2,024 | 2,024 |
| Derivative financial instruments | 22,806 | 22,806 |
| Fair value through other comprehensive income | | |
| Investment securities | 11,924 | 11,924 |
| Loans | 47,930 | 47,930 |
| Total financial assets | 7,492,306 | 7,384,475 |
| Liabilities | | |
| Amortized cost | | |
| Deposits | 5,962,973 | 5,860,091 |
| Securitization liabilities | 823,910 | 806,810 |
| Borrowings | 379,319 | 381,289 |
| Accounts payable and other liabilities | 32,346 | 32,346 |
| Subordinated debt | 74,516 | 83,948 |
| Fair value through profit or loss | | |
| Derivative financial instruments | 22,697 | 22,697 |
| Total financial liabilities | 7,295,761 | 7,187,181 |

The following methods and assumptions were used to estimate the fair values noted above of on-balance sheet financial instruments, which should be read in conjunction with the fair value measurement basis described in the significant accounting policy in note 4[b][v]:

[a] Investments and third-party mortgages

The estimated fair values of investments in publicly listed securities are determined using quoted market prices. The estimated fair values of investments in third-party mortgages are determined by discounting the expected future cash flows of these investments at current market rates for products with similar terms and credit risks.

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[b] Loans

The estimated fair values of loans are arrived at by discounting the expected future cash flows of the loans at market rates for loans with similar terms of credit risk. Loans are classified as either Level 2 or Level 3.

[c] Deposits

The fair values of deposits payable on demand, payable after notice and floating rate deposits are assumed to equal their carrying values. The estimated fair values for fixed rate term deposits are valued using the discounted cash flows discounted using market rates currently offered for deposits with similar terms and risks. Such deposit liabilities are classified as Level 3.

[d] Derivative financial instruments

The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates. Such instruments are classified as Level 2.

[e] Subordinated debt

The estimated fair values of subordinated debt are determined by discounting future repricing cash flows by the treasury bill or bond curve. Such instruments are classified as Level 2.

[f] Other assets and liabilities

The fair values of cash and cash equivalents and accounts payable and other liabilities are assumed to approximate their book values, due to their short-term nature.

Fair value measurements can be classified in a hierarchy in order to discern the significance of Management assumptions and the ability to observe inputs incorporated into the measurements, as follows:

Level 1 – Fair value measurements are those derived from quoted prices [unadjusted] in active markets for identical assets or liabilities using the last bid price;

Level 2 – Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly [i.e., as prices] or indirectly [i.e., derived from prices]; and

Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data [unobservable inputs].

The level in the fair value hierarchy within which the financial asset or liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

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The following table summarizes the classification of the Credit Union's financial instruments within the fair value hierarchy as at December 31:

| | 2024 | | | Total |
|--|--------------|----------------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| | \$ | \$ | \$ | \$ |
| Recorded at fair value | | | | |
| Assets | | | | |
| Investment securities measured at FVTPL | — | — | 2,127 | 2,127 |
| Investment securities measured at FVOCI | 2,434 | 36,728 | — | 39,162 |
| Loans | — | 83,930 | — | 83,930 |
| Third-party mortgages measured at FVOCI | — | 48,617 | — | 48,617 |
| Derivative financial instruments | — | 75,865 | — | 75,865 |
| Total assets held at fair value | 2,434 | 245,140 | 2,127 | 249,701 |
| Liabilities | | | | |
| Derivative financial instruments | — | 75,450 | — | 75,450 |
| Total liabilities held at fair value | — | 75,450 | — | 75,450 |
| Fair value disclosed | | | | |
| Assets | | | | |
| Investment securities measured at amortized cost | — | 175,145 | — | 175,145 |
| Third-party mortgages measured at amortized cost | — | — | 318,144 | 318,144 |
| Loans | — | — | 6,366,045 | 6,366,045 |
| Total assets disclosed at fair value | — | 175,145 | 6,684,189 | 6,859,334 |
| Liabilities | | | | |
| Deposits | — | — | 6,234,374 | 6,234,374 |
| Securitization liabilities | — | — | 766,372 | 766,372 |
| Subordinated debt | — | 81,055 | — | 81,055 |
| Total liabilities disclosed at fair value | — | 81,055 | 7,000,746 | 7,081,801 |

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| | 2023 | | | Total |
|--|----------------|----------------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| | \$ | \$ | \$ | \$ |
| Recorded at fair value | | | | |
| Assets | | | | |
| Investment securities measured at FVTPL | — | — | 2,024 | 2,024 |
| Investment securities measured at FVOCI | 6,911 | 5,013 | — | 11,924 |
| Loans | — | 47,930 | — | 47,930 |
| Derivative financial instruments | — | 22,806 | — | 22,806 |
| Total assets held at fair value | 6,911 | 75,749 | 2,024 | 84,684 |
| Liabilities | | | | |
| Derivative financial instruments | — | 22,697 | — | 22,697 |
| Total liabilities held at fair value | — | 22,697 | — | 22,697 |
| Fair value disclosed | | | | |
| Assets | | | | |
| Investment securities measured at amortized cost | — | 72,442 | — | 72,442 |
| Third-party mortgages measured at amortized cost | — | — | 387,517 | 387,517 |
| Loans | — | — | 6,779,631 | 6,779,631 |
| Total assets disclosed at fair value | — | 72,442 | 7,167,148 | 7,239,590 |
| Liabilities | | | | |
| Deposits | — | — | 5,860,091 | 5,860,091 |
| Securitization liabilities | — | — | 806,810 | 806,810 |
| Borrowings | — | 381,289 | — | 381,289 |
| Subordinated debt | — | 83,948 | — | 83,948 |
| Total liabilities disclosed at fair value | — | 465,237 | 6,666,901 | 7,132,138 |

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2024 and 2023 and no changes or transfers in securities classified as Level 3.

Included in Level 3 are non-quoted equity investments, which are valued based on financial information provided by that entity. The valuation does not involve a valuation model and, as such, a sensitivity analysis is not disclosed.

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21. Financial risk management

[a] General objectives, policies and processes

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 to the Credit Union's Management. The Board of Directors receives regular reporting from the Credit Union through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

[b] Credit risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Credit risk assessments are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the Member's character, ability to pay and value of collateral or other support available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall enterprise risk management framework. The Board of Directors ensures that Management has a framework, policies and procedures in place to manage credit risk and that the overall credit risk policies are complied with at the business and transaction levels.

[i] Objectives, policies and processes

The Credit Union's credit risk policies and procedures set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies and procedures comprise the following:

- General loan policy statements, including risk appetite statements, approval of lending policies, eligibility for loans, exceptions to policy and loan administration;
- Loan lending limits, including Board of Directors' delegation of loan lending limits to management;
- Loan collateral security classifications;
- Procedures outlining loan overdrafts, release or substitution of collateral and loan renegotiations; and
- Loan delinquency controls regarding procedures followed for loans in arrears.

With respect to credit risk, the Board of Directors receives monthly reports summarizing loan portfolio quality including delinquent loan measures and loans that are on the watchlist. The Board of Directors also receives regular reporting of the allowance for credit losses.

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[ii] Exposure to credit risk

The following table indicates the Credit Union's maximum exposure to credit risk relating to its portfolios as at December 31, 2024 and 2023 without considering any collateral held or credit enhancements:

| | 2024 | | 2023 | |
|------------------------------|----------------------|------------------------|----------------------|------------------------|
| | Carrying value \$ | Maximum exposure \$ | Carrying value \$ | Maximum exposure \$ |
| Cash and cash equivalents | 128,670 | 128,670 | 60,201 | 60,201 |
| Investments | 585,755 | 585,755 | 480,251 | 480,251 |
| Loans | 6,565,239 | 6,565,239 | 6,929,362 | 6,929,362 |
| Undisbursed loans | — | 370,189 | — | 532,205 |
| Unutilized lines of credit | — | 273,311 | — | 273,954 |
| Unutilized letters of credit | — | 10,809 | — | 10,919 |
| | 7,279,664 | 7,933,973 | 7,469,814 | 8,286,892 |

A sizable portfolio of the loan book is secured by residential property in Southern Ontario. Therefore, the Credit Union is exposed to the risk of reduction in loan to value coverage should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

[c] Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

[i] Risk measurement

The assessment of the Credit Union's liquidity position reflects Management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviours of its Members and counterparties.

[ii] Objectives, policies and procedures

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.

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Provisions of the Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet Member withdrawals, which includes the Liquidity Coverage Ratio ["LCR"], Net Cumulative Cash Flow ["NCCF"], and Net Stable Funding Ratio ["NSFR"].

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; and
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

The LCR is a measure that aims to ensure that the Credit Union has an adequate stock of unencumbered HQLA that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar-day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the institution to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by Management. DUCA's LCR as at December 31, 2024 was 530% [2023 – 401%] compared with a regulatory minimum of 100% and a policy minimum of 125%.

The NCCF is a liquidity metric that measures the Credit Union's survival horizon based on its net cumulative cash flows. It identifies potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon. DUCA's NCCF as at December 31, 2024 was coverage over 12 months [2023 – 12 months] compared with a policy minimum of coverage over 6 months.

The NSFR is a standard that will require credit unions to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a credit union's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR aims to limit over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. DUCA's NSFR as at December 31, 2024 was 147% [2023 – 141%] compared with a regulatory minimum of 100% and a policy minimum of 110%.

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The following tables demonstrate the Credit Union's ability to pay future obligations as financial assets and liabilities mature as at December 31, 2024 and 2023:

| | 2024 | | | | | | | Total |
|--|------------------|----------------|------------------|------------------|------------------|----------------|----------------|------------------|
| | On demand | Within 1 month | 2-12 months | 1-3 years | 3-5 years | Over 5 years | Not specified | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | | | | |
| Loans | 311,576 | 576,256 | 2,371,089 | 2,894,455 | 304,906 | 79,580 | 27,377 | 6,565,239 |
| Cash and cash equivalents | 50,507 | 49,460 | 28,703 | — | — | — | — | 128,670 |
| Investments | — | 90,933 | 229,267 | 230,454 | 5,480 | 20,537 | 9,084 | 585,755 |
| Other assets | — | — | — | — | — | — | 267,608 | 267,608 |
| | 362,083 | 716,649 | 2,629,059 | 3,124,909 | 310,386 | 100,117 | 304,069 | 7,547,272 |
| Liabilities and Members' equity | | | | | | | | |
| Deposits | 976,142 | 683,523 | 2,582,408 | 1,221,993 | 620,937 | 35,958 | 115,207 | 6,236,168 |
| Securitization liabilities | — | — | 100,300 | 650,890 | 4,213 | — | 15,268 | 770,671 |
| Other liabilities | — | — | — | — | — | 75,000 | 107,265 | 182,265 |
| Equity | — | — | — | — | — | — | 358,168 | 358,168 |
| | 976,142 | 683,523 | 2,682,708 | 1,872,883 | 625,150 | 110,958 | 595,908 | 7,547,272 |
| 2023 | | | | | | | | |
| | On demand | Within 1 month | 2-12 months | 1-3 years | 3-5 years | Over 5 years | Not specified | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | | | | |
| Loans | 258,975 | 331,546 | 2,036,553 | 2,791,515 | 1,450,432 | 28,696 | 31,645 | 6,929,362 |
| Cash and cash equivalents | 54,408 | 5,236 | 557 | — | — | — | — | 60,201 |
| Investments | — | 14,158 | 205,430 | 94,547 | 80,721 | 5,699 | 79,696 | 480,251 |
| Other assets | — | — | — | — | — | — | 202,327 | 202,327 |
| | 313,383 | 350,940 | 2,242,540 | 2,886,062 | 1,531,153 | 34,395 | 313,668 | 7,672,141 |
| Liabilities and Members' equity | | | | | | | | |
| Deposits | 1,949,234 | 197,257 | 1,776,516 | 1,300,673 | 545,629 | 120,936 | 72,728 | 5,962,973 |
| Securitization liabilities | — | — | 59,732 | 131,499 | 632,223 | — | 456 | 823,910 |
| Borrowings | — | 30,000 | 295,000 | — | — | — | 54,319 | 379,319 |
| Other liabilities | — | — | — | — | — | 75,000 | 62,056 | 137,056 |
| Equity | — | — | — | — | — | — | 368,883 | 368,883 |
| | 1,949,234 | 227,257 | 2,131,248 | 1,432,172 | 1,177,852 | 195,936 | 558,442 | 7,672,141 |

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[d] Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk and equity risk.

[i] Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments 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 and on its investments.

The Credit Union's goal is to manage the interest rate risk of the consolidated statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

[1] Risk measurement

The Credit Union's interest rate risk position is measured monthly. Measurement of risk is based on rates charged to borrowers, as well as rates paid to depositors.

[2] Objectives, policies and procedures

The Credit Union's major source of income is net interest margin, the difference between interest earned on investments and loans and interest paid on deposits. The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. Management calculates and reports monthly the value-at-risk measure of net interest margin in accordance with the Credit Union's Structural Risk Management Policy. The Credit Union can enter into interest rate swaps in order to hedge against exposure to interest rate fluctuations in accordance with the Credit Union's Interest Rate Risk Management Policy.

Key metrics involved in management of interest rate risk include the use of Earnings at Risk ["EaR"] and Economic Value at Risk ["EVaR"]. EaR is defined as the change in the net interest income from a 100-basis point ["bps"] shock to interest rates. This exposure is measured over a 12-month period. EVaR is defined as the difference in the change in the present value of the asset portfolio and the change in the present value of the liability portfolio resulting from a 100-bps interest rate shock.

The following table summarizes the EaR and EVaR as follows:

| | 2024 | 2023 |
|---------------------|----------|-------|
| | \$ | \$ |
| EaR – up 100 bps | 3,061 | (190) |
| EaR – down 100 bps | (620) | 5,929 |
| EVaR – up 100 bps | 15,709 | (986) |
| EVaR – down 100 bps | (16,484) | 1,190 |

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Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union Management and reported to FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with FSRA by Credit Union regulations. For the year ended December 31, 2024, the Credit Union was in compliance with this policy.

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

| As at December 31, 2024 | | | | |
|--------------------------------|------------------------------|-------------------------------------|------------------------------|----------------------------|
| Assets | Weighted average rate | Liabilities/ Members' equity | Weighted average rate | Asset/liability gap |
| \$ | % | \$ | % | \$ |
| Maturity dates | | | | |
| Interest-sensitive: | | | | |
| 0–3 months | 1,432,217 | 6.38 | 2,503,259 | 3.88 (1,071,042) |
| 4–12 months | 2,101,698 | 6.04 | 1,839,113 | 4.72 262,585 |
| 1–2 years | 1,619,494 | 4.40 | 929,449 | 4.95 690,045 |
| 2–5 years | 2,089,794 | 4.66 | 1,679,542 | 4.43 410,252 |
| | 7,243,203 | | 6,951,363 | 291,840 |
| Non-interest sensitive | 304,069 | | 595,908 | |
| | 7,547,272 | | 7,547,272 | |

| As at December 31, 2023 | | | | |
|--------------------------------|------------------------------|-------------------------------------|------------------------------|----------------------------|
| Assets | Weighted average rate | Liabilities/ Members' equity | Weighted average rate | Asset/liability gap |
| \$ | % | \$ | % | \$ |
| Maturity dates | | | | |
| Interest-sensitive: | | | | |
| 0–3 months | 893,725 | 6.86 | 2,698,527 | 4.08 (1,804,802) |
| 4–12 months | 1,897,683 | 6.21 | 1,609,217 | 5.07 288,466 |
| 1–2 years | 1,502,285 | 4.94 | 875,540 | 4.48 626,745 |
| 2–5 years | 3,064,780 | 4.27 | 1,930,415 | 4.04 1,134,365 |
| | 7,358,473 | | 7,113,699 | 244,774 |
| Non-interest sensitive | 313,668 | | 558,442 | |
| | 7,672,141 | | 7,672,141 | |

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Interest-sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union may utilize interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

[ii] Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

[1] Risk measurement

The Credit Union's currency risk position is measured daily. Measurement of risk is based on rates charged to clients, as well as currency purchase costs.

[2] Objectives, policies and procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to the lesser of \$1,000 or 5% of total Member foreign currency deposits in Canadian funds.

For the year ended December 31, 2024, the Credit Union's exposure to foreign exchange risk is within policy.

[iii] Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The total investment in preferred shares and dividend-bearing equities cannot exceed the lesser of \$15,000 or 1% of assets, excluding the Credit Union's investment in Central 1.

For the year ended December 31, 2024, the Credit Union's exposure to equity risk is within policy.

[e] Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. This includes responding to external events including legal or regulatory actions. The Credit Union has a number of programs that manage specific risks under the operational risk framework, including business resilience planning, disaster recovery planning, information technology risk management, anti-money laundering and anti-terrorist financing procedures, external fraud mitigation, employee hiring and retention measures and vendor and third-party relationship risk management.

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22. Capital management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The Credit Union considers its capital to include Membership shares, Class A shares and Class B investment shares, retained earnings and subordinated debt.

The Credit Union establishes the risk-weighted equivalent value of its assets in accordance with the regulations of the Act, which establishes the applicable percentage for each class of assets. The Credit Union's risk-weighted equivalent value of its assets as at December 31, 2024 was \$3,614,713 [2023 – \$3,735,210].

Regulatory capital consists of the following:

| | 2024 | 2023 |
|--|----------------|----------------|
| | \$ | \$ |
| Tier I capital | | |
| Members' shares – liability | 802 | 861 |
| Members' shares – equity | | |
| Class A shares – non-redeemable portion | 28,515 | 31,682 |
| Class B shares Series 1 – non-redeemable portion | 25,880 | 28,798 |
| Class B shares Series 4 – non-redeemable portion | 155,619 | 158,515 |
| Retained earnings | 151,097 | 154,955 |
| Contributed surplus | 640 | 626 |
| Applicable portion of AOCI | 741 | (127) |
| Goodwill | (9,491) | (9,491) |
| Defined benefit pension plan assets | (159) | (114) |
| | 353,644 | 365,705 |
| Tier II capital | | |
| Subordinated debt | 75,000 | 75,000 |
| Collective loan provision | 5,910 | 5,844 |
| | 80,910 | 80,844 |
| Total regulatory capital | 434,554 | 446,549 |

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| | 2024 | | | 2023 | | |
|---|-------------|--------------------------------------|------------------------------------|-------------|--------------------------------------|------------------------------------|
| | Actual % | Regulatory policy minimum % | Internal policy minimum % | Actual % | Regulatory policy minimum % | Internal policy minimum % |
| Leverage ratio | 5.74 | 3.00 | 4.00 | 5.80 | 3.00 | 4.00 |
| Retained earnings to risk weighted asset ratio | 4.22 | 3.00 | 3.25 | 4.16 | 3.00 | 3.25 |
| Tier 1 capital ratio | 9.78 | 6.50 | 7.00 | 9.79 | 6.50 | 7.00 |
| Capital conservation buffer ratio | 3.28 | 2.50 | 2.50 | 3.29 | 2.50 | 2.50 |
| Total supervisory capital ratio | 12.02 | 10.50 | 11.00 | 11.96 | 10.50 | 11.00 |

As at December 31, 2024, the Credit Union met the capital requirements of the Act.

On February 28, 2024, the Board of Directors declared a dividend of 3.53% on the outstanding amount of the Class B Series 1 investment shares, and a dividend of 4.25% on the outstanding amount of the Class B Series 4 investment shares to the holders of record as at December 31, 2023. The dividends were paid on April 2, 2024.

23. Commitments

[a] Credit facilities

A comprehensive credit facility is maintained with Bank of Montreal up to a maximum of \$14,000 [2023 – \$14,000] and is secured by bank deposit notes amounting to \$10,141 [2023 – \$10,141] [notes 7]. The Credit Union has an unused credit facility of \$14,000 [2023 – \$14,000] as at year-end.

A line of credit is maintained with Central 1 up to a maximum of \$300,377 [2023 – \$300,152], of which \$90,000 [2023 – \$90,000] is prescribed for the guarantee of payment on third-party municipalities, universities, school boards and hospitals deposits with the Credit Union as agreed to by Central 1 and \$25,000 [2023 – \$25,000] is prescribed towards letters of credit issued on behalf of the Credit Union. The line of credit is secured by a general security agreement covering all the assets of the Credit Union. The unused credit facility as at December 31, 2024 is \$247,191 [2023 – \$143,544].

A line of credit facility is maintained with Desjardins up to a maximum of \$250,000 [2023 – \$250,000] and is secured by a pledge of residential mortgages. The Credit Union has an unused credit facility of \$250,000 [2023 – nil] as at year-end.

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On March 4, 2019, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with National Bank Financial Inc., which gives the Credit Union access to an uncommitted credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2024 and 2023, the Credit Union has not drawn on this credit facility.

On May 29, 2020, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with Bank of Montreal, which gives the Credit Union access to an uncommitted \$400,000 [2023 – \$400,000] credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2024 and 2023, the Credit Union has not drawn on this credit facility.

On July 28, 2020, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with Central 1, which gives the Credit Union access to an uncommitted credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2024 and 2023, the Credit Union has not drawn on this credit facility.

On June 17, 2022, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with Royal Bank of Canada, which gives the Credit Union access to an uncommitted credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2024 and 2023, the Credit Union has not drawn on this credit facility.

On January 19, 2024, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with CIBC, which gives the Credit Union access to an uncommitted credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2024, the Credit Union has not drawn on this credit facility.

[b] Loans

The Credit Union has the following loan commitments as at the year-end date on account of loans, unused lines of credit and letters of credit:

| | 2024 | 2023 |
|------------------------------|----------------|----------------|
| | \$ | \$ |
| Undisbursed loans | 370,189 | 532,205 |
| Unutilized lines of credit | 273,311 | 273,954 |
| Unutilized letters of credit | 10,809 | 10,919 |
| | 654,309 | 817,078 |

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24. Subordinated debt

Subordinated debt consists of direct unsecured obligations of the Credit Union and is subordinated in right of payment to the claims of depositors and certain other creditors. Subordinated debt is presented net of unamortized issuance costs of \$335 [2023 – \$484] on the consolidated statement of financial position.

| Maturity date | Interest rate | Earliest par redemption date | Balance, December 31, 2024 | Balance, December 31, 2023 |
|----------------------|----------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| | % | \$ | \$ | \$ |
| March 29, 2032 | 7.869 | March 29, 2027 | 75,000 | 75,000 |

25. Accounts payable and other liabilities

| | 2024 | 2023 |
|-------------------------------|---------------|-------------|
| | \$ | \$ |
| Lease liabilities | 12,498 | 11,774 |
| Accrued and other liabilities | 2,777 | 5,798 |
| Accounts payable | 10,024 | 14,774 |
| | 25,299 | 32,346 |

Set out below are the carrying amounts of lease liabilities and the movements during the year:

| | 2024 | 2023 |
|----------------------------------|----------------|-------------|
| | \$ | \$ |
| Balance as at January 1 | 11,774 | 11,970 |
| Additions and adjustments | 3,611 | 2,760 |
| Accretion of interest | 707 | 538 |
| Payments | (3,594) | (3,494) |
| Balance as at December 31 | 12,498 | 11,774 |

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26. Intangible assets

The Credit Union's intangible assets consist of [i] internally developed software from the implementation of systems and applications and [ii] core deposit intangible assets acquired through business combination (note 28). The balances are as follows:

| | 2024 | | | 2023 | | |
|------------------------------------|----------------|-------------------------------|----------------|----------------|-------------------------------|----------------|
| | Software | Core deposit intangible asset | Total | Software | Core deposit intangible asset | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | |
| Balance as at January 1 | 17,411 | 1,600 | 19,011 | 12,843 | — | 12,843 |
| Additions | 2,418 | — | 2,418 | 4,568 | 1,600 | 6,168 |
| Balance as at December 31 | 19,829 | 1,600 | 21,429 | 17,411 | 1,600 | 19,011 |
| Amortization and impairment | | | | | | |
| Balance as at January 1 | (5,214) | — | (5,214) | (3,824) | — | (3,824) |
| Amortization | (1,577) | (229) | (1,806) | (1,390) | — | (1,390) |
| Balance as at December 31 | (6,791) | (229) | (7,020) | (5,214) | — | (5,214) |
| Net book value | | | | | | |
| Balance as at January 1 | 12,197 | 1,600 | 13,797 | 9,019 | — | 9,019 |
| Balance as at December 31 | 13,038 | 1,371 | 14,409 | 12,197 | 1,600 | 13,797 |

27. Goodwill

Goodwill acquired on business combinations is assessed for impairment annually, or more frequently, if events or circumstances occur that may result in the recoverable amount of the CGU falling below its carrying value. Goodwill was assessed for annual impairment and no impairment was determined to exist.

| | 2024 | 2023 |
|--|--------------|--------------|
| | \$ | \$ |
| Balance as at January 1 | 9,491 | 10,055 |
| Adjustments: Deferred tax liability related to CCE acquisition | — | (564) |
| Balance as at December 31 | 9,491 | 9,491 |

Additional true-up adjustments related to the acquisition of CCE were recorded during 2023, which resulted in a reduction in goodwill of \$564 with a corresponding reduction in deferred tax liability.

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28. Business combinations

On December 21, 2023, DUCA completed the acquisition of all outstanding member shares and investment shares of United, and the results of its operations have been included in the consolidated financial statements since the acquisition date. At the acquisition date, the consideration transferred totalled \$700, which included \$70 in cash and 3,229 member shares issued with a fair value of \$630. A contributed surplus of \$626, representing the difference between fair value and par value of member shares, was recorded on the consolidated statement of financial position.

The transaction was accounted for as a business combination under the purchase method. DUCA recognized, in its consolidated statement of financial position, the identifiable acquired assets of \$52,646 and assumed liabilities of \$42,644 of United at their fair values as at the acquisition date. The identified assets consist primarily of cash and investments, loans, property and equipment and other assets which include a core deposits intangible asset of \$1,600 that was previously not recognized. A gain on acquisition of \$9,303, representing the excess of fair value of net assets acquired over consideration transferred, and a tax on acquisition gain of \$1,246 were recognized in the consolidated statement of income.

29. Comparative figures

Certain comparative figures have been reclassified to reflect the presentation adopted in the current year.

30. Subsequent events

Subsequent to December 31, 2024, the Credit Union received and processed redemption requests for Class B Series 1 investment shares, Class B Series 4 investment shares and Class A shares amounting to \$2,596, \$11,977 and \$1,236, respectively.