Financial Statements of

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

And Independent Auditor's Report thereon

Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of Newfoundland and Labrador Credit Union Limited

Opinion

We have audited the financial statements of Newfoundland and Labrador Credit Union Limited (the "Entity"), which comprise:

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

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

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other 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 for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

St. John's, Canada

March 20, 2023

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Cash and cash equivalents (note 3)	$ 4,831,219	$ 6,894,489
Investments (note 4)	67,587,297	93,519,997
Loans and mortgages receivable (note 5):		
Personal loans	94,072,646	86,473,224
Mortgage loans	509,436,356	437,424,373
Commercial loans and mortgages	40,608,438	38,205,243
	644,117,440	562,102,840
Less allowance for impaired loans and mortgages (note 10)	(2,719,370)	(4,355,099)
	641,398,070	557,747,741
Property and equipment (note 8)	16,441,761	16,987,225
Derivative financial instruments (note 16)	1,661,721	2,562,823
Other assets (note 9)	3,937,061	3,166,379
	$ 735,857,129	$ 680,878,654
Liabilities and Retained Earnings		
Liabilities:		
Members' deposits (note 11)	$ 688,624,640	$ 649,569,288
Note payable (note 3)	15,468,270	-
Accounts payable and accrued liabilities	1,826,925	1,837,025
Severance provisions	2,117,586	2,117,360
Derivative financial instruments (note 16)	1,661,721	2,562,823
	709,699,142	656,086,496
Retained earnings	26,157,987	24,792,158
	$ 735,857,129	$ 680,878,654

See accompanying notes to financial statements.

On behalf of the Board:

____________________ Director ____________________ Director

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Comprehensive Income

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

	2022	2021
Revenue:		
Interest income (note 6)	$ 21,517,364	$ 19,231,180
Investment income	1,610,314	1,226,039
	23,127,678	20,457,219
Financial expenses:		
Provision for credit losses	360,120	974,215
Interest on members' deposits (note 7)	6,772,435	4,891,816
	7,132,555	5,866,031
Financial margin	15,995,123	14,591,188
Other income:		
Service charges	3,871,326	3,782,256
Other	205,891	147,420
Insurance commissions	755,581	637,078
Rental	69,131	83,564
	4,901,929	4,650,318
Financial margin and other income	20,897,052	19,241,506
Non interest expenses:		
Personnel	10,910,159	9,982,865
General business	4,180,409	3,759,413
Occupancy	1,443,887	1,410,996
Members' security	1,322,451	1,245,535
Depreciation	1,093,741	1,125,460
	18,950,647	17,524,269
Income before income taxes	1,946,405	1,717,237
Income taxes (note 12)	580,576	482,022
Net income and comprehensive income for the year	$ 1,365,829	$ 1,235,215

See accompanying notes to financial statements.

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Retained Earnings

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

	2022	2021
Retained earnings, beginning of year	$ 24,792,158	$ 23,709,439
Net income and comprehensive income for the year	1,365,829	1,235,215
Dividends	-	(152,496)
Retained earnings, end of year	$ 26,157,987	$ 24,792,158

See accompanying notes to financial statements.

NEWFOUNDLAND AND LABRADOR CREDIT UNION LIMITED

Statement of Cash Flows

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

	2022	2021
Cash provided by (used in):		
Operations:		
Net income and comprehensive income for the year	$ 1,365,829	$ 1,235,215
Items not involving cash:		
Depreciation	1,093,741	1,125,460
Provision for impaired loans and mortgages	390,933	974,215
Financial margin, excluding provision for credit losses	(16,355,243)	(15,565,403)
Increase in severance provision	226	106,161
Income taxes	580,576	482,022
	(12,923,938)	(11,642,330)
Changes in operating assets / liabilities:		
Change in accounts payable and accrued liabilities	(2,244)	94,920
Change in members' deposits	37,898,305	15,267,666
Change in note payable	15,468,270	-
Change in loans and mortgages receivable	(83,727,703)	(30,519,871)
Change in other assets	(735,215)	(1,348,866)
Interest received	22,814,119	20,451,931
Interest paid	(5,615,388)	(5,510,896)
Taxes paid	(623,899)	(665,042)
	(27,447,693)	(13,872,488)
Investing activities:		
Purchases/sales of investments (net)	25,932,700	5,220,102
Purchase of property and equipment	(499,577)	(523,787)
Disposal of property and equipment	(48,700)	-
	25,384,423	4,696,315
Financing activities:		
Dividends paid on membership shares	-	(152,496)
Net decrease in cash and cash equivalents	(2,063,270)	(9,328,669)
Cash and cash equivalents, beginning of year	6,894,489	16,223,158
Cash and cash equivalents, end of year	$ 4,831,219	$ 6,894,489

See accompanying notes to financial statements.

Newfoundland and Labrador Credit Union Limited ("NLCU") is incorporated under the Credit Union Act of Newfoundland and Labrador (the "Act") and is a member of the Credit Union Deposit Guarantee Corporation of Newfoundland and Labrador. NLCU commenced operations in 1957. It currently operates twelve branches that offer a full range of financial services to the people of Newfoundland and Labrador. The registered office of NLCU is at 240 Water Street, St. John's, Newfoundland and Labrador.

1. Basis of preparation and statement of compliance:

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

These financial statements have been approved and authorized for issue by the Board of Directors (the "Board") on February 16, 2023.

Basis of preparation

These financial statements are presented in Canadian dollars, which is NLCU’s functional currency. They are prepared on the historical cost basis except for certain financial instruments carried at fair value.

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates and judgments made by management in the application of IFRS have a significant effect on these financial statements. Areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to NLCU's financial statements are as follows:

1. Basis of preparation and statement of compliance (continued):

(a) Impairment losses on loans and mortgages

Impairment of financial instruments assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL (expected credit losses). See note 16.

(b) Business model

As outlined in Note 2(a)(i) management is required to make an assessment of the business model and its impact on the assessment of the classification of financial assets.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ materially from those reported.

2. Significant accounting policies:

The following significant accounting policies have been applied consistently by NLCU to all periods presented in these financial statements without exception.

(a) Financial instruments:

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

NLCU initially recognizes loans, mortgages, and member deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which NLCU 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.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification

Financial assets

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

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

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

On initial recognition of an equity investment that is not held for trading, NLCU may irrevocably elect to present subsequent changes in fair value in 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, NLCU may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued)

Business model assessment

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

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

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.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Classification (continued)

Solely Payments of Principal and Interest

Assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, NLCU 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, NLCU considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;

NLCU has classified financial instruments as follows: Cash and Cash equivalents, investments - interest bearing, loans and mortgage receivables, and other assets at amortized cost and investments- equity and derivative financial instruments at FVTPL.

Reclassifications

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

Financial liabilities

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

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Derecognition:

Financial assets

NLCU 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 NLCU 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 with the exception of equity investments designated as FVOVI, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investments designated as FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by NLCU is recognized as a separate asset or liability.

In transactions in which NLCU neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, NLCU 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.

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

Financial liabilities

NLCU derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Derecognition (continued)

Membership shares, surplus shares and incentive shares

In accordance with IFRIC 2, NLCU's membership shares, surplus shares, and incentive shares are presented in the statement of financial position as financial liabilities. These liabilities qualify as equity for regulatory purposes, notwithstanding their financial statement classification. They are classified as financial liabilities unless NLCU has the unconditional right to refuse redemption as a result of regulatory requirements outlined in their bylaws. Discretionary dividends on these shares will be recorded as a reduction in retained earnings, if and when declared.

(iii) Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is held for trading or it is designated as FVTPL, if certain criteria are met.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in comprehensive income. NLCU's financial instruments designated as FVTPL consist of derivative financial instruments.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, NLCU 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, NLCU 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. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iv) Modifications of financial assets and financial liabilities (continued)

Financial liabilities

NLCU 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) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, NLCU has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(vi) Impairment

NLCU recognizes loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (loans and advances and certain investment securities);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

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

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

NLCU considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The main factors considered in determining a significant increase in credit risk include relative changes in probability of default since origination and certain other criteria such as 30 day past due and watch-list status.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vi) Impairment (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

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

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

The amount of impairment on financial assets carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members, where the carrying amount is reduced using an allowance account. The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and, where applicable, a collective provision, established for groups of loans with similar risk characteristics. Changes in the carrying amount of the allowance account are recognized in profit and loss.

2. **Significant accounting policies (continued):**

(a) Financial instruments (continued):

(vi) Impairment (continued)

Subsequent to an impairment loss, events can occur that provide objective evidence that the financial asset is no longer impaired. When this occurs the previously recognized impairment loss is reversed through comprehensive income to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed the amortized cost that would have resulted had the impairment not been recognized.

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 are 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.
- 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.

Credit-impaired financial assets

At each reporting date, NLCU 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.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vi) Impairment (continued)

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event (a loan overdue for 90 days is considered credit impaired);
- the restructuring of a loan or advance by NLCU on terms that NLCU 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. In addition, a loan that is overdue for more than 90 days is considered impaired.

Presentation of allowance for ECL in the statement of financial position

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

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

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(vi) Impairment (continued)

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 NLCU 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 NLCU's procedures for recovery of amounts due.

(vii) Designation of fair value through profit or loss

Financial assets

At initial recognition, NLCU may designate certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

NLCU 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.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(viii) Amortized cost and gross carrying amount

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The ‘gross carrying amount of a financial asset’ is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note 10.

2. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ix) Membership shares

Membership shares recorded as liabilities are classified as measured at amortized cost under IFRS 9. Payments of dividends on special shares presented as a financial liability are recognized as a distribution of income.

(x) Fair value measurements

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

2. Significant accounting policies (continued):

(b) Leases:

(i) Right-of-use assets

NLCU recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over its lease term. Right-of-use assets are subject to evaluation of potential impairment.

(ii) Lease liabilities

At the commencement date of the lease, NLCU recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

The lease payments also include the exercise price of purchase options, if any, reasonably certain to be exercised by NLCU and payments of penalties for terminating a lease, if the lease term reflects NLCU exercising the option to terminate. The variable lease payment that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, NLCU uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the tease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

(iii) Short-term leases on leases of low-value assets

NLCU applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits with banks and Credit Union Central and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

(d) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When parts of a capital asset have different useful lives, they are accounted for as separate assets.

Depreciation is recognized in profit or loss on a straight-line basis over the respective assets' estimated useful lives with the exception of depreciation of paved areas and furniture and equipment, which is recognized using the declining balance method.

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

The Credit Union performs impairment testing on property and equipment annually to determine whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, an impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use.

If there is any indication that an impairment loss recognized for an asset in prior periods may no longer exist or may have decreased, the impairment loss is reversed to an amount not in excess of the initial carrying amount.

2. Significant accounting policies (continued):

(e) Employee benefits:

a) Short-term employee benefits

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

b) Long service provisions

Severance provisions are calculated based on management's best estimate of long service payment for years of service and current salary levels discounted from the expected payment date. The right to be paid long service award pay vests with employees with twenty years of continual service with NLCU. Severance is payable when the employee ceases employment with NLCU. The severance provision is unfunded.

(f) Revenue recognition:

Interest income is accrued on a time basis, in calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired).

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Dividend income is recognized when the right to receive payment is established. Dividends are included in interest income on the statement of comprehensive income.

Other fees and commission income include account service fees, investment management fees, and insurance fees, which are recognized as services performed, amounts are fixed or can de determined and the ability to collect is reasonable assured.

2. Significant accounting policies (continued):

(g) Income taxes:

Income tax expense comprises current and deferred tax.

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

Deferred income tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not included in comprehensive income.

(h) Foreign currency translation:

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the Statement of Financial Position date.

Translation gains and losses are recognized immediately in comprehensive income and are included in the 'other income' line item in the Statement of Comprehensive Income.

3. Cash and cash equivalents:

	2022	2021
Cash on hand	$ 3,476,640	$ 3,431,280
Cash held with Credit Union Central	1,187,079	3,117,614
Cash held with other chartered banks	167,500	345,595
	$ 4,831,219	$ 6,894,489

NLCU has available lines of credit with Central 1 in the amounts of $40,800,000 (CDN) and $200,000 (USD). As at December 31, 2022, there was $15,468,270, drawn on these facilities (2021 - $nil).

4. Investments:

The following table provides information on the investments held by NLCU.

	2022	2021
Amortized cost:		
Mandatory liquidity reserve deposits	$ 42,417,000	$ 39,321,000
Concentra Investment	16,000,000	34,000,000
TD Investment	-	10,764,868
Syndicated loan	6,557,874	6,576,700
Consumer loan pool	538,482	880,596
Other deposits	1,126,703	1,311,510
FVTPL:		
Equity investments	607,134	457,106
	67,247,193	93,311,780
Accrued interest	340,104	208,217
	$ 67,587,297	$ 93,519,997

4. Investments (continued):

As a condition required under Newfoundland and Labrador Regulations 56/09 Credit Union Regulation 2009 Section 19, NLCU is required to maintain on deposit with Central 1 an amount equal to 6% of NLCU's total liabilities as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in NLCU's liabilities or upon withdrawal of membership from Central 1.

Mandatory liquidity reserve deposits are fixed rate notes with maturity dates ranging between 2023 and 2025 and earn a weighted average interest rate of 3.54% (2021 - 0.92%)

The syndicated loans have maturity dates between 2023 and 2027 and earn a fixed rate weighted average interest rate of 4.71% (2021 - 3.96%).

Consumer loan pool held with Concentra Bank contains fixed and variable loans with maturity dates ranging from 2023 to 2034, and earns a weighted average interest rate of 7.88% (2021 - 4.27%).

The investment with TD Bank matured in 2022 and earned interest at a rate of 0.70% (2021 - 0.69%).

The investment with Concentra has maturity dates ranging from January 2023 to November 2023 and earns a weighted average interest rate of 1.28% (2021-1.14%).

Other deposits include:

Deposit with the Co-operators with no fixed maturity period and earns interest at a rate of 1.52% (2021 - 1.52%).

Lease financing through Concentra Bank maturing in January 2026 earning interest at a rate of 4.00% (2021 - 3.50%).

Interest on mandatory reserve deposits and other deposits generated an average annual return of 3.14% (2021 - 1.25%).

4. Investments (continued):

Equity investments

Equity investment shares are issued and redeemable at par value. The equity investments have no active market as they represent the credit union's investment in support organizations that were created to support their delivery of services to members. The investments are considered due on demand and therefore par value approximates fair value. The credit union has no intention of redeeming these units.

5. Loans to members:

Personal and commercial mortgages are repayable in monthly blended principal and interest installments over a maximum term of seven years up to the maximum amortization period as prescribed by Provincial law. Mortgages are secured by residential and commercial properties as noted below. Mortgages earn a weighted average interest rate of 3.13% (2021 - 2.88%). Many of the loans are insured.

Personal loans, including line of credit loans, are repayable in monthly blended principal and interest installments over a period acceptable by Provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by NLCU include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees. Personal loans earn a weighted average interest rate of 6.96% (2021 - 5.19%).

As of December 31, 2022 NLCU had $87,161,020 (2021 - $84,090,959) in approved lines of credit that had not been disbursed. See note 16 for additional disclosures related to managements policies and procedures to manage credit risk.

Commercial loans are repayable in periodic blended principal and interest installments and earn a weighted average interest rate of 6.17% (2021 - 4.98%).

5. Loans to members (continued):

Loans on a portfolio basis are as follows:

	2022	2021
Insured mortgages	$ 243,173,274	$ 217,706,694
Uninsured mortgages	288,279,263	243,752,748
Secured loans	77,644,524	72,518,189
Unsecured loans	35,020,379	28,125,209
	$ 644,117,440	$ 562,102,840

Loans to members are classified as measured at amortized cost under IFRS 9. See note 16 for additional information related to maturity and interest rate risk.

6. Financial revenue - members' loans and mortgages:

	2022	2021
Personal loans	$ 5,222,900	$ 4,606,888
Mortgage loans	14,390,052	12,925,661
Commercial loans and mortgages	1,904,412	1,698,631
	$ 21,517,364	$ 19,231,180

Total interest income reported is calculated using the effective interest method.

7. Interest on members' deposits:

	2022	2021
Personal chequing accounts	$ 86,381	$ 4,550
Savings accounts	411,407	112,733
Term deposits	2,631,845	2,269,248
Registered savings accounts	1,891,214	1,650,474
Tax free savings accounts	911,916	609,756
Index - linked deposits	260,959	244,011
Other	578,713	1,044
	$ 6,772,435	$ 4,891,816

Terms disclosed in note 11.

8. Property and equipment:

	Land	Buildings	Roof and Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and equipment	Computer terminals	Automated banking machines	Automobile	Personal computers and software	Right of use assets	Total 2022
Rate		50 years	25 years	8%	5 years	20%	5 years	5 years	5 years	3 years	3 years	
Cost												
Balance, beginning of year	$ 3,951,343	$ 16,148,865	$ 2,437,405	$ 779,999	$ 1,745,719	$ 6,966,209	$ 998,327	$ 2,666,816	$ 52,755	$ 2,484,354	$ 612,661	$ 38,844,453
Additions	-	18,458	-	-	-	183,234	-	5,682	-	109,864	40,343	357,581
Balance, end of year	3,951,343	16,167,323	2,437,405	779,999	1,745,719	7,149,443	998,327	2,672,498	52,755	2,594,218	653,004	39,202,034
Accumulated depreciation												
Balance, beginning of year	-	6,237,738	1,073,109	499,976	1,742,869	6,361,583	811,065	2,367,935	52,755	2,360,002	350,196	21,857,228
Depreciation expense	-	404,620	101,658	22,402	858	157,572	75,570	80,735	-	123,322	127,014	1,093,751
Disposals	-	-	-	-	-	-	-	-	-	-	(190,706)	(190,706)
Balance, end of year	-	6,642,358	1,174,767	522,378	1,743,727	6,519,155	886,635	2,448,670	52,755	2,483,324	286,504	22,760,273
Net Book Value	$ 3,951,343	$ 9,524,965	$ 1,262,638	$ 257,621	$ 1,992	$ 630,288	$ 111,692	$ 223,828	$ -	$ 110,894	$ 366,500	$ 16,441,761

8. Property and equipment (continued):

	Land	Buildings	Roof and Air Conditioning	Paved Areas	Leasehold Improvements	Furniture and equipment	Computer terminals	Automated banking machines	Automobile	Personal computers and software	Right of use assets	Total 2021
Rate		50 years	25 years	8%	5 years	20%	5 years	5 years	5 years	3 years	3 years	
Cost												
Balance, beginning of year	$ 3,951,343	$ 16,144,385	$ 2,425,589	$ 779,197	$ 1,744,361	$ 6,943,072	$ 831,163	$ 2,464,878	$ 52,755	$ 2,371,262	$ 612,661	$ 38,320,666
Additions	-	4,480	11,816	802	1,358	23,137	167,164	201,938	-	113,092	-	523,787
Balance, end of year	3,951,343	16,148,865	2,437,405	779,999	1,745,719	6,966,209	998,327	2,666,816	52,755	2,484,354	612,661	38,844,453
Accumulated depreciation												
Balance, beginning of year	-	5,834,796	971,451	475,627	1,742,011	6,210,427	735,495	2,258,070	52,755	2,224,222	226,914	20,731,768
Depreciation expense	-	402,942	101,658	24,349	858	151,156	75,570	109,865	-	135,780	123,282	1,125,460
Balance, end of year	-	6,237,738	1,073,109	499,976	1,742,869	6,361,583	811,065	2,367,935	52,755	2,360,002	350,196	21,857,228
Net Book Value	$ 3,951,343	$ 9,911,127	$ 1,364,296	$ 280,023	$ 2,850	$ 604,626	$ 187,262	$ 298,881	$ -	$ 124,352	$ 262,465	$ 16,987,225

9. Other assets:

	2022	2021
Other receivables	$ 250,129	$ 401,993
Prepaid expenses	3,048,280	2,161,201
Deferred income tax	638,652	603,185
	$ 3,937,061	$ 3,166,379

10. Allowance for impaired loans and mortgages:

	Personal	Mortgages	Commercial	2022 Total
Stage 1	$ 83,065,357	$ 447,823,421	$ 34,945,587	$ 565,834,365
Stage 2	9,641,004	55,592,952	4,517,028	69,750,984
Stage 3	1,366,285	6,019,983	1,145,823	8,532,091
	94,072,646	509,436,356	40,608,438	644,117,440
Less: allowances	(2,182,121)	(313,244)	(224,005)	(2,719,370)
	$ 91,890,525	$ 509,123,112	$ 40,384,433	$ 641,398,070

	Personal	Mortgages	Commercial	2021 Total
Stage 1	$ 77,201,175	$ 382,884,484	$ 28,067,764	$ 488,153,423
Stage 2	7,688,547	53,564,377	6,870,734	68,123,658
Stage 3	1,583,502	975,512	3,266,745	5,825,759
	86,473,224	437,424,373	38,205,243	562,102,840
Less: allowances	(2,289,347)	(427,154)	(1,638,598)	(4,355,099)
	$ 84,183,877	$ 436,997,219	$ 36,566,645	$ 557,747,741

10. Allowance for impaired loans and mortgages (continued):

During the year, $390,933 (2021 - $974,215) representing the change in expected credit loss provisions, net of recoveries, has been recognized in provision for expected credit losses expense.

Personal loans to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2022 Total
Allowance January 1, 2022	$ 255,141	$ 513,061	$ 1,521,145	$ 2,289,347
Transfer to Stage 1	160,598	(126,845)	(33,753)	-
Transfer to Stage 2	(13,121)	26,492	(13,371)	-
Transfer to Stage 3	(158)	(2,947)	3,105	-
Net remeasure	(169,667)	259,438	451,069	540,840
New financial assets	69,127	125,118	2,801	197,046
Derecognized	(21,601)	(44,457)	(438,872)	(504,930)
Write-offs	-	-	(340,182)	(340,182)
Allowance December 31, 2022	$ 280,319	$ 749,860	$ 1,151,942	$ 2,182,121

Personal mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2022 Total
Allowance January 1, 2022	$ 19,582	$ 115,016	$ 292,556	$ 427,154
Transfer to Stage 1	31,622	(31,622)	-	-
Transfer to Stage 2	(1,031)	1,086	(55)	-
Transfer to Stage 3	-	(2,667)	2,667	-
Net remeasure	(37,172)	78,604	34,413	75,845
New financial assets	4,988	28,523	-	33,511
Derecognized	(2,234)	(12,705)	(27,675)	(42,614)
Write-offs	-	-	(180,652)	(180,652)
Allowance December 31, 2022	$ 15,755	$ 176,235	$ 121,254	$ 313,244

10. Allowance for impaired loans and mortgages (continued):

Commercial loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2022 Total
Allowance January 1, 2022	$ 10,621	$ 12,502	$ 1,615,475	$ 1,638,598
Transfer to Stage 1	2,828	(2,828)	-	-
Transfer to Stage 2	(108)	108	-	-
Transfer to Stage 3	-	-	-	-
Net remeasure	(425)	235	89,014	88,824
New financial assets	4,504	259	-	4,763
Derecognized	(1,204)	(784)	(29,119)	(31,107)
Write-offs	-	-	(1,477,073)	(1,477,073)
Allowance December 31, 2022	$ 16,216	$ 9,492	$ 198,297	$ 224,005

Total loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2022 Total
Allowance January 1, 2022	$ 285,344	$ 640,579	$ 3,429,176	$ 4,355,099
Transfer to Stage 1	195,048	(161,295)	(33,753)	-
Transfer to Stage 2	(14,259)	27,686	(13,427)	-
Transfer to Stage 3	(158)	(5,615)	5,773	-
Net remeasure	(207,264)	338,278	574,495	705,509
New financial assets	78,619	153,900	2,801	235,320
Derecognized	(25,040)	(57,946)	(495,665)	(578,651)
Write-offs	-	-	(1,997,907)	(1,997,907)
Allowance December 31, 2022	$ 312,290	$ 935,587	$ 1,471,493	$ 2,719,370

10. Allowance for impaired loans and mortgages (continued):

Personal loans to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2021 Total
Allowance January 1, 2021	$ 265,349	$ 318,808	$ 1,386,452	$ 1,970,609
Transfer to Stage 1	128,372	(128,372)	-	-
Transfer to Stage 2	(6,309)	6,309	-	-
Transfer to Stage 3	(349)	(16,033)	16,382	-
Net remeasure	(146,805)	272,174	252,643	378,012
New financial assets	39,926	91,286	40,454	171,666
Derecognized	(25,043)	(31,111)	(13,641)	(69,795)
Write-offs	-	-	(161,145)	(161,145)
Allowance December 31, 2021	$ 255,141	$ 513,061	$ 1,521,145	$ 2,289,347

Personal mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2021 Total
Allowance January 1, 2021	$ 26,688	$ 190,378	$ 380,387	$ 597,453
Transfer to Stage 1	51,296	(51,296)	-	-
Transfer to Stage 2	(778)	778	-	-
Transfer to Stage 3	(107)	(7,413)	7,520	-
Net remeasure	(59,816)	50,756	11,065	2,005
New financial assets	5,470	16,903	-	22,373
Derecognized	(3,171)	(85,090)	(103,651)	(191,912)
Write-offs	-	-	(2,765)	(2,765)
Allowance December 31, 2021	$ 19,582	$ 115,016	$ 292,556	$ 427,154

10. Allowance for impaired loans and mortgages (continued):

Commercial loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2021 Total
Allowance January 1, 2021	$ 6,013	$ 2,313	$ 968,241	$ 976,567
Transfer to Stage 1	307	(307)	-	-
Transfer to Stage 2	(71)	71	-	-
Transfer to Stage 3	-	-	-	-
Net remeasure	3,466	9,489	647,234	660,189
New financial assets	982	1,784	-	2,766
Derecognized	(76)	(848)	-	(924)
Write-offs	-	-	-	-
Allowance December 31, 2021	$ 10,621	$ 12,502	$ 1,615,475	$ 1,638,598

Total loans and mortgages to members	12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	2021 Total
Allowance January 1, 2021	$ 298,050	$ 511,499	$ 2,735,080	$ 3,544,629
Transfer to Stage 1	179,975	(179,975)	-	-
Transfer to Stage 2	(7,158)	7,158	-	-
Transfer to Stage 3	(456)	(23,446)	23,902	-
Net remeasure	(203,155)	332,419	910,942	1,040,206
New financial assets	46,378	109,973	40,454	196,805
Derecognized	(28,290)	(117,049)	(117,292)	(262,631)
Write-offs	-	-	(163,910)	(163,910)
Allowance December 31, 2021	$ 285,344	$ 640,579	$ 3,429,176	$ 4,355,099

11. Members' deposits:

	2022	2021
Personal and commercial chequing accounts	$ 170,036,862	$ 158,907,976
Savings accounts	142,197,639	144,802,124
Term deposits	147,121,186	126,450,854
Registered retirement savings plans	87,237,710	87,800,542
Registered retirement income funds	42,876,456	40,861,096
Tax free savings accounts	92,942,355	84,427,499
Share accounts	6,212,432	6,319,197
	$ 688,624,640	$ 649,569,288

Unregistered deposits

Personal and Commercial chequing accounts are due on demand and pay an average interest rate of 0.08% (2021 - nil%).

Savings accounts are due on demand and pay an average interest rate of 0.54% (2021 - 0.078%).

Term deposits are for periods of 30 days to seven years and generally may not be withdrawn prior to maturity. During the year ended 2022, they paid an average interest rate of 2.95% (2021 - 1.63%).

Registered retirement plans

NLCU has engaged a third party to act as the trustee for the registered retirement plans offered to members. Under an agreement with the third party, members' contributions to these plans, as well as income earned on them, are deposited in NLCU. On withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by NLCU, on behalf of the trustee. Registered retirement savings plans have terms of 6 months to 7 years or are due on demand. During the year ended 2022, they paid an average interest rate of 2.06% (2021 - 1.27%). Retirement income funds have terms of 6 months to 5 years or are due on demand. During the year ended 2022, they paid an average interest rate of 2.26% (2021 - 1.38%).

Tax free savings account

Tax free savings accounts have terms of 6 months to seven years or are due on demand. During the year they paid an average interest rate of 1.81% (2021 - 0.72%).

11. Members' deposits (continued):

Share accounts

Each member equity shares consist of 20 shares at a par value of five dollars ($5.00) per share. The holders of member equity shares have all of the rights and privileges and are subject to the restrictions of a member. Currently, there are 17,267 (2021 - 16,817) fully paid equity share accounts with an aggregate value of $3,178,194 (2021 - $3,187,278). Maximum issuable share are "unlimited". Member equity shares are voting shares and are redeemable at the option of the member upon closing all accounts.

Surplus shares may be issued in an unlimited number at par value of five dollars ($5.00) per share. The holders of surplus shares have all of the rights and privileges and are subject to the restrictions applicable to members, as outlined in the Credit Union Act and Regulations and in the By-laws of NLCU. Currently, there are 2,164 (2021 - 2,264) fully paid surplus share accounts with an aggregate value of $10,939 (2021 - $11,419).

Incentive shares may be issued by NLCU to a maximum number of ten thousand shares as approved by the Regulator in accordance with the Credit Union Act and Regulations and in the By-laws of NLCU. Currently, there are 672 (2021 - 691) share accounts outstanding with an aggregate value of $3,022,900 (2021 - $3,120,500). Incentive shares are non-voting shares and are redeemable at par at the option of the member upon giving 90 days notice.

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation, however, they qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

Dividends

Dividends on shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory requirements of the Act as described in note 12.

The Board of Directors declared a dividend of nil in fiscal 2022 (2021 - $152,496) and elected to present as a financing cash flow.

12. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory tax rates of 30% (2021 - 30%) to the income before income taxes. The reasons for the differences and related tax effects are as follows:

	2022	2021
Income before income taxes	$ 1,946,405	$ 1,717,237
Income taxes on income before income taxes, at above basic rate	$ 583,922	$ 515,171
Increase (decrease) in taxes resulting from:		
Effect of non-deductible expenses	4,557	(41,192)
Other	(7,903)	8,043
	$ 580,576	$ 482,022

	2022	2021
Current income tax	$ 616,043	$ 531,344
Deferred income tax	(35,467)	(49,322)
	$ 580,576	$ 482,022

Temporary differences, which give rise to the deferred income tax asset, are as follows:

	2022	2021
Deferred income tax assets (liabilities)		
Property and equipment and other	$ (415,132)	$ (412,675)
Severance	635,276	635,208
Loan impairment	418,508	380,652
Deferred income tax asset	$ 638,652	$ 603,185

13. Capital adequacy:

Capital management

The Board approves annually the capital management policy and the annual business plan. This policy outlines NLCU's overall objectives and guidelines to ensure that NLCU has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of NLCU and to support the current and future operating plans.

The Credit Union Act 2009 requires credit unions to maintain a minimum capital adequacy reserve (consists of share capital and retained earnings) of 5% of total assets. Alternatively, credit unions are able to use a risk weighted model when evaluating capital adequacy reserve that requires a minimum of 10.5%. Additionally, retained earnings cannot be less than 3% of NLCU's total assets and common equity cannot be less than 7% of risk weighted assets.

NLCU is in compliance with its policies and those of the Act regarding regulatory capital as at December 31, 2022 as outlined in the following table based on the alternative capital adequacy revenue model.

	2022	2021
Retained earnings (common equity)	$ 26,157,987	$ 24,792,158
Members' shares	6,212,432	6,319,197
Deferred tax asset	(638,652)	(603,185)
	$ 31,731,767	$ 30,508,170
Risk weighted assets	$ 214,581,054	$ 187,687,537
Risk weighted capital ratio		
Actual	14.79 %	16.25 %
Regulatory requirement	10.50 %	10.50 %
Common equity capital ratio		
Actual	12.19 %	13.21 %
Regulatory requirement	7.00 %	7.00 %

13. Capital adequacy (continued):

	2022	2021
Retained earnings as a percentage of assets		
Actual	3.56 %	3.64 %
Regulatory requirement	3.00 %	3.00 %

14. Related party transactions:

At December 31, 2022, the aggregate value of personal and mortgage loans outstanding to directors, key management personnel and all related parties totaled $1,615,627 (2021 - $2,097,660). The maximum balances of these loans during the year was $1,748,767 (2021 - $2,278,952). The aggregate value of deposits outstanding to directors, key management personnel and other related parties totaled $6,160,333 (2021 - $7,832,288).

The interest rates charged on balances outstanding from directors and other related parties are the same as those charged in an arm's length transaction. Loans to key management personnel are granted at a discount rate, consistent with industry practices and in accordance with board approved policy. Loan and mortgage balances with directors, key management personal and all related parties are secured as per NLCU's lending policies.

There were no impaired loans with respect to these related parties as at December 31, 2022 and December 31, 2021.

Key management personnel received salaries and other short-term employee benefits during the year of $4,361,329 (2021 - $4,045,847).

At December 31, 2022, directors received expense reimbursement of $15,798 (2021 - $2,107) and remuneration of $82,500 (2021 - $84,450) for serving NLCU.

15. Fair value of financial instruments:

NLCU's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets/liabilities that are not considered financial instruments, such as prepaids, property and equipment, deferred tax asset and accrued severance liability.

Equity investments are measured at FVTPL. These shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. As there is no active market for these shares, fair value is not reliably determinable as future cash flows cannot be reasonably predicted with a standard valuation technique. Fair value is approximated by redemption value as the shares can be redeemed at any time.
NLCU holds derivative financial instruments including embedded derivatives classified as FVTPL. These are classified as Level 2 financial instruments. Their fair value is determined by option pricing models that take into account changes in respective equity indices.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ended December 31, 2022 and 2021.

Additionally, there are no financial instruments classified in Level 1 or 3.

Interest rate sensitivity is the main reason for changes in fair values of NLCU's financial instruments with the exception of derivative assets.

The fair value of cash and cash equivalents, interest receivable, accounts payables and accrued liabilities, loans to members due on demand, deposits from members due on demand and member share accounts redeemable on demand approximate their carrying amount due to short term to maturity.

The fair value of deposit investments is approximated by its carrying amounts due to the short - term maturity and repricing of the investments at market rates of return.

15. Fair value of financial instruments (continued):

The fair values of loans to members, and members' deposits are determined by two methods. Variable rate loans to members and demand deposit members' accounts are estimated to be at fair value, as the interest rates of these financial instruments vary with market interest rates. Fixed rate loans to members, and fixed term deposit members' deposits fair value is determined by discounting the expected future cash flows of these financial instruments at current market rates for products with similar terms and credit risks. The expected fair value of these loans to members, direct financing lease, fixed term deposits may differ with changes in interest rates.

2022	Carrying amount	Fair value	Fair value difference
Financial assets			
Loans and mortgages receivable	$ 641,398,070	$ 605,619,021	$ (35,779,049)
Cash and cash equivalents	4,831,219	4,831,219	-
Investments	67,587,297	67,587,297	-
Financial liabilities			
Members' deposits	$ 688,624,640	$ 683,453,858	$ 5,170,782
Accounts payable and accrued liabilities	1,618,345	1,618,345	-
Note payable	15,468,270	15,468,270	-

2021	Carrying amount	Fair value	Fair value difference
Financial assets			
Loans and mortgages receivable	$ 557,747,741	$ 552,394,924	$ (5,352,817)
Cash and cash equivalents	6,894,489	6,894,489	-
Investments	93,519,997	93,519,997	-
Financial liabilities			
Members' deposits	$ 649,569,288	$ 654,328,956	$ (4,759,668)
Accounts payable and accrued liabilities	1,837,025	1,837,025	-

16. Nature and extent of risks arising from financial instruments:

NLCU is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how NLCU manages its exposure to these risks.

Credit risk

The business of NLCU necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its contractual obligations.

The Board of Directors of NLCU oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of NLCU and reviews the effectiveness of internal control processes.

NLCU uses a lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist NLCU in assessing the borrower's ability to repay.

NLCU mitigates credit risk by obtaining quality collateral and requiring higher risk loans to be CMHC insured. NLCU considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. NLCU's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by NLCU include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, NLCU monitors its loan concentration to ensure that it is in compliance with its policies.

Inputs, assumptions and techniques used for estimating impairment

Credit Risk Model:

NLCU uses a credit risk based predictive model to calculate Expected Credit Losses (ECL). This model incorporates the following concepts to calculate ECL:

- Significant Increase in Risk – This factor measures the change in the probability a facility will go into default.
- Staging – All facilities have been classified into one of three stages which represent their risk of default.
- Exposure at Default (EAD) – On a consolidated basis, the EAD looks at the future value of facilities using scheduled payments, facility interest rates and reasonable assumptions on prepayments. The present values of these future exposures are then used as the potential EAD.

16. Nature and extent of risks arising from financial instruments (continued):

NLCU 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.

NLCU considered changes in forecasted interest rates and unemployment as being key factors in risk adjusting the historical loan provision. As a result, management reviewed information to consider if there were indicators that would suggest they increase or decrease the risk adjustment factor relative to the prior year. In the current year, management considered that member credit scores have been increasing, potentially as a result of excess liquidity due to reduced spending during the pandemic. Management hypothesizes that this could be temporary, and that credit score may return to previous levels in future and as such has adjusted the risk adjustment factor in the model.

Credit Classification and Staging:

For the purposes of determining our Expected Credit Loss (ECL) in accordance with IFRS 9, NLCU has classified all loans and mortgages of members in the following categories: Personal Loans, Personal Lines of Credit, Chequing Account credit limits, Retail Insured Mortgages, Retail Uninsured Mortgages, Commercial Loans, Commercial Mortgages, and Commercial Lines of Credit.

In addition, NLCU has classified all loans and mortgages of members in three stages. Each stage is based on the change in credit risk of the facility in comparison to the risk at origination or previous reporting period. Variables and data used to assess a change in credit risk include: knowledge of credit facility, current and historical data collected related to the facility such as payment history and current payment status, external data from credit agencies and macroeconomic factors. The three stages used by NLCU for classification of facilities are:

Stage 1:
Stage 1 represents facilities with the lowest risk rating for NLCU. These consist of facilities where the credit risk has not significantly changed from that identified at origination. ECL for facilities included in stage 1 have been estimated for a twelve month period.

Stage 2:
Stage 2 represents facilities where the credit risk has significantly changed from that identified at origination. ECL for facilities included in stage 2 have been estimated for the life of the facility.

Stage 3:
Stage 3 represents facilities for members who are in default or who are being monitored by NLCU. ECL for facilities included in stage 3 have been estimated for the life of the facility.

16. Nature and extent of risks arising from financial instruments (continued):

Probability of Default (PD):

To estimate a reasonable PD ratio NLCU examines historical data and specific facilities that have experienced default. The data was reviewed to determine default time frames in relation to year of origination. Statistical analysis was then completed to predict future probability of default. Additional weighting was given to more current data to more accurately reflect current economic conditions. The probabilities were adjusted statistically to represent twelve month and life time circumstances associated with each stage.

As stage 3 facilities were already in default or deemed to be high risk of default, these were included at a PD of 100%.

Loss Given Default (LGD):

At the point of default, NLCU needed to determine the percentage of each credit class that would be deemed uncollectable. To determine this ratio NLCU analyzed historical data including recovery rates and collateral values.

Liquidity risk

The business of NLCU necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

NLCU's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, NLCU's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

16. Nature and extent of risks arising from financial instruments (continued):

	2022	2021
Cash and cash equivalents	$ 4,831,219	$ 6,894,489
Concentra Investment (Matures May 2022)	-	4,000,000
Concentra Investment (Matures September 2022)	-	6,500,000
Concentra Investment (Matures November 2022)	-	7,500,000
Concentra Investment (Matures January 2023)	5,000,000	5,000,000
Concentra Investment (Matures March 2023)	3,000,000	3,000,000
Concentra Investment (Matures May 2023)	4,000,000	4,000,000
Concentra Investment (Matures November 2023)	4,000,000	4,000,000
TD Bank Investment (Matures February 2022)	-	4,250,000
TD Bank Investment (Matures March 2022)	-	6,514,868
Liquidity reserve deposit	42,417,000	39,321,000
Total assets held for liquidity	$ 63,248,219	$ 90,980,357

Contractual maturities of financial liabilities are shown under interest rate risk. NLCU has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates and market prices. NLCU is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with NLCU's Asset and Liability Management and Investment Policy set by the Board. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by NLCU. All exceptions noted are reported to the Board.

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

16. Nature and extent of risks arising from financial instruments (continued):

Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on NLCU's earnings. It is the policy of NLCU to keep exposure to interest rate fluctuations within limits set by the Board and regulations by matching, when possible, the maturity of interest bearing liabilities and assets and pricing interest rate assets consistent with the basis used for liabilities.

The following table summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates.

2022	Investments	Loans and advances to members	Deposits from members
On Demand	$ -	$ 81,485,800	$ 155,106,947
Less than three months	11,754,968	12,635,012	36,574,504
Three months to a year	42,764,637	85,113,540	121,276,572
One to five years	12,626,018	463,723,879	176,477,154
Non-rate sensitive	441,674	1,159,209	199,348,373
Effective interest rate	3.14 %	3.77 %	1.38 %
Total	$ 67,587,297	$ 644,117,440	$ 688,783,550

2021	Investments	Loans and advances to members	Deposits from members
On Demand	$ -	$ 83,702,616	$ 160,334,863
Less than three months	16,220,025	19,176,742	45,500,902
Three months to a year	43,600,260	82,700,060	130,059,417
One to five years	33,408,065	375,247,930	123,390,105
Non-rated sensitive	291,647	1,275,492	190,284,001
Effective interest rate	1.25 %	3.29 %	0.69 %
Total	$ 93,519,997	$ 562,102,840	$ 649,569,288

At December 31, 2022, if interest rates at that date had been 100 (2021 - 25) basis points lower with all other variables held constant, after-tax net income for the year would have been approximately $91,491 (2021 - $ -92,958) lower, arising mainly as a result of lower interest revenue on variable loans and mortgages, and lower interest revenue on liquidity investments. If interest rates had been 100 (2021 - 100) basis points higher, with all other variables held constant, after-tax net income would have been approximately $ -90,767 (2021 - $1,785) higher, arising mainly as a result of higher interest revenue on variable loans and mortgages, and higher interest on liquidity investments.

16. Nature and extent of risks arising from financial instruments (continued):

Market price risk

Market price risk refers to the potential impact of changes in foreign exchange rates on NLCU's earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of NLCU to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. NLCU does not hold foreign investments beyond cash required to meet daily operational requirements.

At December 31, 2022, NLCU has issued $15,861,097 (2021 - $17,073,197) of index-linked term deposits (registered and non-registered deposits) to its members. These term deposits have maturities of three and five years and pay interest to the depositors at the end of the term based on the performance of various Toronto Stock Exchange ("TSX") indices.

The interest feature of these term deposits have been accounted for by an embedded derivative liability of fair value separate from the host deposit

NLCU has entered into derivative agreements with the Central 1 to offset or hedge the exposure to these indices associated with these products. NLCU pays the Central 1 a fixed amount on the face value of these term deposit products. At the end of the respective terms, NLCU receives payments from the counterparty, the Central 1, equal to the amount that will be paid to the depositors based on the performance of various TSX indices.

These agreements have a fair value that varies based on the particular contract and changes in linked indices. The fair value of these agreements is $1,661,721 (2021 - $2,562,823 at year end and has been accounted for as derivative in accordance with NLCU's accounting policy.

16. Nature and extent of risks arising from financial instruments (continued):

Credit quality analysis

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2022 Total	2021 Total
Personal loans to members at amortized cost:					
Low to Fair Risk	$ 83,065,357	$ 9,641,004	$ -	$ 92,706,361	$ 84,688,441
Watch List Loans	-	167,328	115,924	283,252	306,200
Loans in Default	-	-	1,083,033	1,083,033	1,478,583
	83,065,357	9,808,332	1,198,957	94,072,646	86,473,224
Allowance for loan loss	(280,320)	(749,858)	(1,151,943)	(2,182,121)	(2,289,347)
Carrying amount	$ 82,785,037	$ 9,058,474	$ 47,014	$ 91,890,525	$ 84,183,877

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2022 Total	2021 Total
Personal mortgages to members at amortized cost:					
Low to Fair Risk	$ 447,823,421	$ 55,592,952	$ -	$ 503,416,373	$ 430,275,064
Watch List Loans	-	5,733,578	-	5,733,578	6,295,976
Loans in Default	-	-	286,405	286,405	853,333
	447,823,421	61,326,530	286,405	509,436,356	437,424,373
Allowance for loan loss	(15,754)	(176,236)	(121,254)	(313,244)	(427,154)
Carrying amount	$ 447,807,667	$ 61,150,294	$ 165,151	$ 509,123,112	$ 436,997,219

16. Nature and extent of risks arising from financial instruments (continued):

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2022 Total	2021 Total
Commercial loans and mortgages to members at amortized cost:					
Low to Fair Risk	$ 34,945,587	$ 4,517,028	$ -	$ 39,462,615	$ 34,890,557
Watch List Loans	-	46,777	-	46,777	47,941
Loans in Default	-	-	1,099,046	1,099,046	3,266,745
	34,945,587	4,563,805	1,099,046	40,608,438	38,205,243
Allowance for loan loss	(16,216)	(9,492)	(198,297)	(224,005)	(1,638,598)
Carrying amount	$ 34,929,371	$ 4,554,313	$ 900,749	$ 40,384,433	$ 36,566,645

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	2022 Total	2021 Total
Total loans and mortgages to members at amortized cost:					
Low to Fair Risk	$ 565,834,365	$ 69,750,984	$ -	$ 635,585,349	$ 549,854,061
Watch List Loans	-	5,947,683	115,924	6,063,607	6,650,117
Loans in Default	-	-	2,468,484	2,468,484	5,598,662
	565,834,365	75,698,667	2,584,408	644,117,440	562,102,840
Allowance for loan loss	(312,290)	(935,586)	(1,471,494)	(2,719,370)	(4,355,099)
Carrying amount	$ 565,522,075	$ 74,763,081	$ 1,112,914	$ 641,398,070	$ 557,747,741