



Financial Statements

Tandia Financial Credit Union Limited

December 31, 2023

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Independent Auditor's Report

To the Members of
Tandia Financial Credit Union Limited:

Opinion

We have audited the financial statements of Tandia Financial Credit Union Limited ("the Credit Union"), which comprise the statement of financial position as at December 31, 2023, and the statement of comprehensive income, statement of changes in members' equity and statement of cash flow for the year then ended, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Tandia Financial Credit Union Limited as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to a 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 to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

We also:

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

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

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

Mississauga, Canada
February 28, 2024

Chartered Professional Accountants
Licensed Public Accountant

Tandia Financial Credit Union Limited

Statement of Financial Position

(In thousands of dollars)

December 31 2023 2022

Assets

Cash and cash equivalents (Note 5)	\$ 85,026	\$ 30,273
Investments (Note 6)	87,968	129,336
Loans to members (Note 7)	1,311,347	1,346,329
Other assets (Note 10)	4,308	6,069
Income taxes receivable	-	230
Prepaid securitization fees	1,235	1,725
Derivative financial instruments (Note 11)	167	168
Property and equipment (Note 9)	20,779	23,008
Deferred income taxes (Note 17)	<u>294</u>	<u>334</u>
	<u>\$ 1,511,124</u>	<u>\$ 1,537,472</u>

Liabilities

Secured borrowings (Note 8)	\$ 269,531	\$ 310,880
External borrowings (Note 12)	-	3,000
Payables and accruals	2,031	1,517
Income taxes payable	7	-
Deposits of members (Note 13)	1,132,354	1,114,151
Derivative financial instruments (Note 11)	506	123
Lease liability (Note 14)	13,197	13,885
Shares (Note 15)	<u>3,844</u>	<u>3,950</u>
	<u>1,421,470</u>	<u>1,447,506</u>

Members' Equity

Shares (Note 15)	45,069	46,027
Retained earnings	30,219	29,573
Contributed surplus	<u>14,366</u>	<u>14,366</u>
	<u>89,654</u>	<u>89,966</u>
	<u>\$ 1,511,124</u>	<u>\$ 1,537,472</u>

Commitments (Note 21)

On behalf of the board

_____ Director _____ Director

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited

Statement of Comprehensive Income

(In thousands of dollars)

Year ended December 31	2023	2022
Financial income		
Interest on member loans	\$ 48,430	\$ 37,196
Interest on securitized loans	7,913	8,617
Other interest revenue	6,245	3,008
	<u>62,588</u>	<u>48,821</u>
Financial expense		
Interest on member deposits	29,827	16,725
Securitized expense	6,696	6,341
Other interest expense	164	421
	<u>36,687</u>	<u>23,487</u>
Financial margin	25,901	25,334
Other income (Note 18)	5,435	5,345
Provision for impaired loans (Note 7)	<u>258</u>	<u>989</u>
Operating margin	<u>31,078</u>	<u>29,690</u>
Operating expenses		
Salaries and benefits	15,365	14,694
Computer, office and other equipment	4,340	4,477
Occupancy	3,128	3,881
Administration	1,617	1,819
Advertising and communications	752	817
Member security	1,280	1,321
Other	1,147	1,033
	<u>27,629</u>	<u>28,042</u>
Net income before taxes	3,449	1,648
Income taxes (Note 17)	<u>210</u>	<u>(179)</u>
Net income and comprehensive income for the year	\$ <u>3,239</u>	\$ <u>1,827</u>

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited

Statement of Changes in Members' Equity

(In thousands of dollars)

Year ended December 31, 2023

	<u>Shares</u>	<u>Retained earnings</u>	<u>Contributed surplus</u>	<u>Total</u>
Balance at December 31, 2021	\$ 44,674	\$ 29,645	\$ 14,366	\$ 88,685
Net income	-	1,827	-	1,827
Distributions to members (Note 16)	-	(1,899)	-	(1,899)
Issue of profit shares	18	-	-	18
Issue of investment shares	1,448	-	-	1,448
Redemption of profit shares	(113)	-	-	(113)
Balance at December 31, 2022	\$ 46,027	\$ 29,573	\$ 14,366	\$ 89,966
Net income	-	3,239	-	3,239
Distributions to members (Note 16)	-	(2,593)	-	(2,593)
Issue of profit shares	30	-	-	30
Issue of investment shares	1,846	-	-	1,846
Redemption of profit shares	(110)	-	-	(110)
Redemption of investment shares	(2,724)	-	-	(2,724)
Balance at December 31, 2023	<u>\$ 45,069</u>	<u>\$ 30,219</u>	<u>\$ 14,366</u>	<u>\$ 89,654</u>

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited

Statement of Cash Flows

(In thousands of dollars)

Year ended December 31

2023

2022

Increase (decrease) in cash and cash equivalents

Operating Activities

Net income	\$ 3,239	\$ 1,827
Provision for impaired loans	258	989
Depreciation and amortization	2,501	3,286
Loss on disposal of capital assets (net)	-	75
Deferred income taxes	40	(350)
Fair value of interest rate swap contracts	384	(65)
Interest paid on lease payments	355	396
Changes in members' activities:		
Decrease/(increase) in loans to members (net)	34,724	(2,740)
Increase/(decrease) in deposits of members (net)	18,203	(59,587)
Other non-cash items (Note 22)	3,002	2,245
	<u>62,706</u>	<u>(53,924)</u>

Financing Activities

Distributions to members	(2,593)	(1,899)
Repayment of external borrowing	(3,000)	(2,700)
Decrease in secured borrowings	(41,349)	(39,991)
Principal repayments of lease liability	(1,043)	(1,192)
(Decrease)/increase in shares (net)	(1,064)	1,402
	<u>(49,049)</u>	<u>(44,380)</u>

Investing Activities

Proceeds from investments (net)	41,368	84,639
Proceeds from tenant inducement	-	59
Purchase of property and equipment	(272)	(508)
	<u>41,096</u>	<u>84,190</u>

Net increase/(decrease) in cash and cash equivalents

54,753

(14,114)

Cash and cash equivalents

Beginning of year	<u>30,273</u>	<u>44,387</u>
End of year	\$ <u>85,026</u>	\$ <u>30,273</u>

Interest received	\$ <u>62,485</u>	\$ <u>48,249</u>
Interest paid	\$ <u>30,718</u>	\$ <u>20,942</u>
Income taxes paid	\$ <u>139</u>	\$ <u>563</u>
Patronage dividends paid	\$ <u>33</u>	\$ <u>18</u>

See accompanying notes to the financial statements.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

1. Governing legislation and nature of operations

Tandia Financial Credit Union (“Tandia”) is incorporated under the Credit Unions and Caisses Populaires Act (the “Act”) and its operations are subject to the Financial Institutions Act of Ontario. Tandia is a member of Central 1 Credit Union (“Central 1”) and it serves Members in southern Ontario. The location of the head office is 3455 North Service Road, Burlington, Ontario, Canada.

Tandia exists to help members meet their financial needs in their local communities. Tandia’s principal activities are the provision of deposit-taking and other financial services on a co-operative basis.

Tandia’s Member deposits are insured by the Financial Services Regulatory Authority of Ontario (“FSRA”) under a mandatory program, the expense for which amounted to \$661,000 (2022 - \$764,000).

These financial statements have been approved and authorized for issue by the Board of Directors on February 28, 2024.

2. Basis of presentation and compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) as well as interpretations issues by the IFRS Interpretations Committee (“IFRIC”).

These financial statements were prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial instruments measured at fair value.

Tandia’s functional and presentation currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying Tandia’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. Summary of material accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with Central 1 Credit Union (“Central 1”), net of bank indebtedness and short-term deposits with original maturities of three months or less from the date of acquisition.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Financial Instruments

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Under IFRS 9, all financial instruments are initially measured at fair value. Subsequent to initial recognition, all financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost. Financial assets are reclassified between measurement categories only when the business model for managing them changes.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and whether its contractual cash flow characteristics represent solely payments of principal and interest ("SPPI"). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated and instead, the financial instrument as a whole is assessed for classification.

Financial assets at amortized cost

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

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

After initial recognition, these are measured at amortized cost using the effective interest method.

Tandia measures loans to members, cash and cash equivalents, high quality liquid assets (HQLA) and liquidity reserves at amortized cost.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply, as disclosed below.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Financial Instruments (continued)

Financial assets at fair value through profit or loss (FVTPL) (continued)

Tandia's derivative financial instruments, guaranteed investment certificates (GICs), corporate bonds, corporate equities, Central 1 Credit Union shares, deposit notes, portfolio investments and other investments are classified as FVTPL.

Financial assets at fair value through other comprehensive income (FVOCI)

Tandia accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to “hold to collect” the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income (“OCI”) will be recycled upon derecognition of the asset. Tandia does not have any financial assets categorized as FVOCI.

Recognition and derecognition

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

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial liabilities

Under IFRS 9, those fair value changes are generally presented as follows: (i) the amount that is attributable to changes in the credit risk of the liabilities is presented in OCI and (ii) the remaining amount of change in the fair value is presented in earnings or loss.

Tandia's financial liabilities include secured borrowings, deposits of members, payables and other liabilities, shares and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless Tandia designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Financial Instruments (continued)

Financial liabilities (continued)

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Impairment of financial assets

Under IFRS 9, impairment requires the use of more forward-looking information to recognize expected credit losses – the 'expected credit loss ("ECL") model. Recognition of credit losses requires Tandia consider a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. The calculation of ECL allowances is based on the expected value of three probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that Tandia expects to receive. The key inputs in the measurement of ECL allowances are as follows:

- The probability of default ("PD") is an estimate of the likelihood of default over a given time horizon;
- The loss given default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time; and
- The exposure at default ("EAD") is an estimate of the exposure at a future default date.

ECL stage development

The model has three stages:

(Stage 1) On initial recognition of the financial instrument, a loss allowance is recognized and maintained equal to 12 months of ECL. 12-month ECL is defined as the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on the financial instrument that are possible within the 12 months after the reporting date.

(Stage 2) If credit risk increases significantly relative to initial recognition of the financial instrument, the loss allowance is increased to cover full lifetime ECL. In assessing whether credit risk has increased significantly, Tandia compares the risk of a default occurring on the financial instrument as at the reporting date, with the risk of default occurring on the financial instrument as at the date of its initial recognition. Evidence of increased credit risk is observed when the financial instrument is 30 days or more past due on its contractual payment obligations or the financial instrument has had an unfavorable movement in internal risk ratings. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, Tandia places the financial instrument in the Stage 1 category and reverts to recognizing 12 months of ECL.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Impairment of financial assets (continued)

ECL stage development (continued)

(Stage 3) When a financial instrument is considered credit-impaired, the loss allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Tandia considers a financial instrument as impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears is automatically considered impaired. Any financial instruments where the borrower has filed for bankruptcy or consumer proposal will also be re-staged to Stage 3.

Due to the inclusion of relative credit deterioration criteria and consideration of forward-looking information ("FLI"), lifetime credit losses are generally recognized earlier under IFRS 9. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Changes in the loss allowance, including the movement between 12 months and lifetime expected credit losses, is recorded in the statement of comprehensive income.

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery. When financial instruments are secured, this is generally after all collateral has been realized or transferred to Tandia, or in certain circumstances, when the net realizable value of any collateral and other available information suggests that there is no reasonable expectation of further recovery. In events where a bankruptcy or consumer proposal occurs, management will file all required documentation with the Trustee and realize on any available security with the unrecoverable balance being immediately written off. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for losses.

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from Tandia and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Provisions (continued)

Any reimbursement that Tandia can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Derivative financial instruments

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Tandia periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices. Tandia's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Hedges

Tandia, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates. Tandia manages interest rate risk through interest rate swaps.

Derivative financial instruments are accounted for at fair value through profit and loss ("FVTPL") except for derivatives designated as hedging instruments which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and Tandia's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The hedged item is reliably measurable; and
- The hedging relationship meets all of the hedge effectiveness requirements described above at inception and on an ongoing basis. Tandia has chosen to test the effectiveness of its hedges on a monthly basis.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Hedges (continued)

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position. The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments.

For fair value hedges that meet the hedging documentation criteria, the hedged asset is adjusted for fair value changes attributable to the risk being hedged and the hedging instrument is measured at fair value. Gains and losses resulting from changes in the fair value are recorded in the statement of comprehensive income as other income.

If Tandia closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the accumulated other comprehensive income to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss.

Other non-hedge derivatives

Tandia classifies certain financial assets upon initial recognition at fair value through profit or loss. Financial instruments included in this category are the embedded derivatives and derivatives related to index linked term deposits, foreign exchange forward contracts and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Foreign exchange contracts are used to hedge Tandia's net US dollar liability position.

Loans to members

Loans are initially measured at fair value and subsequently re-measured at their amortized cost, net of allowance, using the effective interest rate method.

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

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Loan fees

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be material and an adjustment to loan yield are deferred and amortized using the effective interest method. Mortgage prepayment fees are recognized in other interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized over the average remaining term of the original mortgages.

Bad debts written off

Bad debts are written off from time to time as determined by management and approved by the Management Credit Committee, and reported to the Board of Directors, when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

Mortgage securitization

Loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

Interest income and expense

Interest income and expense is recognized in the statement of comprehensive income for all interest-bearing financial instruments classified as held to maturity, available for sale, loans and receivables and other financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts the expected future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. The application of this method has the effect of recognizing income and expense on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest, Tandia estimates cash flows (using projections based on its experience of members' behavior) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

Property and equipment

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

Buildings	20 to 40 years
Equipment and furniture	3 to 10 years
Electronic equipment	5 years
Capital and leasehold improvements	5 to 10 years
Vehicles	5 years

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

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

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, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net earnings, except to the extent they reverse gains previously recognized in other comprehensive income.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Leased assets

Tandia as a lessee

Tandia makes the use of leasing arrangements principally for the provision of office space and branch locations. The rental contracts for offices and branches are typically negotiated for terms of between 3 and 20 years and some of these have extension terms. Tandia assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Measurement and recognition of leases as a lessee

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

Tandia depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Tandia also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, Tandia measures the lease liability at the present value of the lease payments unpaid at that date, discounted using Tandia's incremental borrowing rate. The incremental borrowing rate is the estimated rate that Tandia would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of Tandia.

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

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is reassessed when there is a change in the lease payments. Changes in lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The revised lease payments are discounted using Tandia's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of-use asset has been reduced to zero then any excess is recognized in profit or loss.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

3. Summary of material accounting policies (continued)

Measurement and recognition of leases as a lessee (continued)

Payments under leases can also change when there is either a change in the amounts expected to be paid under residual value guarantees or when future payments change through an index or a rate used to determine those payments, including changes in market rental rates following a market rent review. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. Except for where the change in lease payments results from a change in floating interest rates, in which case the discount rate is amended to reflect the change in interest rates.

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

Tandia as a lessor

As a lessor, Tandia classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

Deposits

All Member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

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

Members' shares

Membership shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, on demand upon withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of Tandia's board of directors, the shares are classified as equity, as per *IFRIC 2 Members' Shares in Cooperative Entities and Similar Instruments*.

Distributions to members

Patronage distributions are recognized in net income or members' equity when circumstances indicate Tandia has a constructive obligation that it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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December 31, 2023

3. Summary of material accounting policies (continued)

Income taxes

Tandia follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

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

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

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

New Standards and Interpretations not yet effective:

A number of new accounting standards and amendments to accounting standards are effective for annual periods beginning after January 1, 2024 and earlier application is permitted. However, Tandia has not early adopted the new amended accounting standards in preparing their financial statements.

The following new and amended standards are not expected to have a significant impact on Tandia's financial statements:

- a. Classification of Liabilities as Current or Non-current Liabilities with Covenants (Amendments to IAS 1)
- b. Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- c. Lack of Exchangeability (Amendments to IAS 21)
- d. Lease Liability in a Sale and Leaseback (Amendment to IFRS 16)

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

4. Significant management judgment in applying accounting policies and estimation uncertainty

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

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

Estimates

Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by loan type and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 30-day past due and delinquency status. The assessment of a significant increase in credit risk requires experienced credit judgment.

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

Impairment

An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

The actual results may vary and may cause significant adjustments to Tandia's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2022, management assesses that the useful lives represent the expected utility of the assets to Tandia. The carrying amounts are analyzed in Note 9. Actual results, however, may vary due to technical obsolescence, particularly for software and electronic equipment.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

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

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Leases – determination of the appropriate discount rate to measure lease liabilities

Tandia enters into leases with third-party landlords and as a consequence the rate implicit in the relevant lease is not readily determinable. Therefore, Tandia uses its incremental borrowing rate as the discount rate for determining its lease liabilities at the lease commencement date. The incremental borrowing rate is the rate of interest that Tandia would have to pay to borrow over similar terms which requires estimations when no observable rates are available. Tandia consults with its main financial institutions to determine what interest rate they would expect to charge Tandia to borrow money to purchase a similar asset to that which is being leased. These rates are, where necessary, then adjusted to reflect the credit worthiness of the entity entering into the lease and the specific condition of the underlying leased asset.

Income taxes

Tandia periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, Tandia records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Judgments

Allowance for credit losses

In determining whether an impairment loss should be recorded in the statement of comprehensive income Tandia makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant.

Where this does not exist, Tandia uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)

December 31, 2023

5. Cash and cash equivalents

	<u>2023</u>	<u>2022</u>
Cash, current accounts, items in transit net of bank indebtedness	\$ 22,064	\$ 30,269
Net banker's acceptances maturing in three months or less	59,651	-
Net term deposits callable or maturing in three months or less	<u>3,311</u>	<u>4</u>
	<u>\$ 85,026</u>	<u>\$ 30,273</u>

Tandia maintains its current accounts, banker's acceptances and term deposits with Central 1.

6. Investments

	<u>2023</u>	<u>2022</u>
High quality liquid assets (HQLA)	\$ 82,991	\$ 97,648
Portfolio investments	2,108	12,158
Central 1 Credit Union shares	2,338	2,395
Corporate bonds	-	16,378
Corporate equities	525	634
Other investments	<u>6</u>	<u>123</u>
	<u>\$ 87,968</u>	<u>\$ 129,336</u>

The Mandatory Liquidity Pool ("MLP") consisting of high-quality liquid assets (HQLA) meets regulatory requirements and ensures the funds are bankruptcy remote and creditor-proof. The HQLA investments are due within five years. At maturity, these investments are reinvested at market rates for various terms.

The shares in Central 1 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. Tandia's of Central 1 shares is based on asset size relative to other Class "A" members. Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

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 transactions occur at par value on a regular and recurring basis. Tandia does not intend to dispose of any Central 1 shares in the near future. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

Portfolio investments are comprised of mortgage-backed securities. They are held with Community Trust Company, have varying maturity dates, and are classified as FVTPL.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

6. Investments (continued)

The corporate bonds and corporate equities investments which are held with Central 1, and National Bank, have varying maturity dates, and are classified as FVTPL.

Other investments are comprised of Genifi Inc. Units and are classified as FVTPL.

7. Loans to members

	<u>2023</u>	<u>2022</u>
Residential mortgage loans bear interest at an average annual rate of 3.77% (2022 - 3.24%) and are receivable in blended principal and interest instalments for a maximum amortization period of 30 years. Some mortgages are open and at the option of the borrower may be paid off at any time without notice or penalty. Principal amount due within one year is estimated at \$309,499 (2022 - \$346,829).	\$ 855,428	\$ 934,382
Personal loans and lines of credit bear interest at an average annual rate of 9.20% (2022 - 8.27%) and are receivable in blended principal and interest instalments for a maximum amortization period of 15 years. Principal amount due within one year is estimated at \$5,849 (2022 - \$6,301).	18,638	20,812
Commercial mortgage loans bear interest at an average annual rate of 5.87% (2022 - 5.14%) and are receivable in blended principal and interest instalments for a maximum amortization period of 30 years. Principal amount due within one year is estimated at \$208,584 (2022 - \$154,975).	437,882	391,924
Accrued interest receivable	<u>2,239</u>	<u>1,847</u>
	1,314,187	1,348,965
Less: Expected credit loss	<u>2,840</u>	<u>2,636</u>
	<u>\$ 1,311,347</u>	<u>\$ 1,346,329</u>

Concentration of risk

Tandia has an exposure to groupings of individual loans or related groups of member loans which exceed 10% of members' equity. There are 7 loan connections with balances outstanding greater than 10% of members' equity ranging from \$9,470 to \$11,953.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

7. Loans to members (continued)

Funds under administration

Canada Emergency Business Account ("CEBA")

At December 31, 2023, Tandia has disbursed loans in the amount of \$1,451 (2022 - \$2,426) on behalf of Central 1 related to the CEBA program. This amount has not been included in the loans balance on the statement of financial position.

Syndicated loans

At December 31, 2023, Tandia has syndicated loans which have been issued and are administered in the capacity as an agent in the amount of \$44,907 (2022 - \$45,299). This amount has not been included in the loans balance on the statement of financial position.

Other loans

In 2022, Tandia sold a pool of residential mortgages to another credit union, which were derecognized on the sale date. Subsequent to the sale, Tandia administers these loans in the capacity as an agent. At December 31, 2023 the balance of the remaining loans being administered is \$5,107 (2022 - \$10,533). This amount is not included in the loans balance on the statement of financial position. No such mortgages were sold during 2023.

Allowance for expected credit loss

				<u>2023</u>
	<u>Beginning Balance</u>	<u>Provision</u>	<u>Write-offs Less Recoveries</u>	<u>Ending Balance</u>
Personal loans	\$ 445	\$ 4	\$ (37)	\$ 412
Residential mortgage loans	660	74	(17)	717
Commercial loans	<u>1,531</u>	<u>180</u>	<u>-</u>	<u>1,711</u>
	<u>\$ 2,636</u>	<u>\$ 258</u>	<u>\$ (54)</u>	<u>\$ 2,840</u>
Allowance for expected credit loss				<u>2022</u>
	<u>Beginning Balance</u>	<u>Provision</u>	<u>Write-offs Less Recoveries</u>	<u>Ending Balance</u>
Personal loans	\$ 395	\$ 60	\$ (10)	\$ 445
Residential mortgage loans	377	283	-	660
Commercial loans	<u>885</u>	<u>646</u>	<u>-</u>	<u>1,531</u>
	<u>\$ 1,657</u>	<u>\$ 989</u>	<u>\$ (10)</u>	<u>\$ 2,636</u>

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

7. Loans to members (continued)

The following tables reconcile the opening and closing allowance for loans to members, by stage, for each major product category. Reconciling items include the following:

- Transfers between stages, which are presumed to occur before any corresponding re-measurement of the allowance.
- Purchases and originations, which reflect the allowance related to assets newly recognized during the period, including those assets that were derecognized following a modification of terms.
- Derecognitions and maturities, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred, including those assets that were derecognized following a modification of terms.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward looking macroeconomic conditions; partial repayments and additional draws on existing facilities; changes in the measurement following a transfer between stages; and unwinding of the time value discount due to the passage of time.
- During the twelve months ended December 31, 2023, there were no significant changes to the models used to estimate expected credit losses.

Allowance for expected credit loss

	<u>2023</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Ending Balance</u>
Personal				
Balance, beginning of year	\$ 191	\$ 149	\$ 105	\$ 445
Remeasurements	(27)	(13)	44	4
Write-offs less recoveries	-	-	(37)	(37)
Balance, ending of year	<u>\$ 164</u>	<u>\$ 136</u>	<u>\$ 112</u>	<u>\$ 412</u>
Residential				
Balance, beginning of year	\$ 235	\$ 251	\$ 174	\$ 660
Remeasurements	(69)	28	115	74
Write-offs less recoveries	-	-	(17)	(17)
Balance, ending of year	<u>\$ 166</u>	<u>\$ 279</u>	<u>\$ 272</u>	<u>\$ 717</u>

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

7. Loans to members (continued)

Allowance for expected credit loss (continued)

<u>Commercial</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Ending Balance</u>
Balance, beginning of year	\$ 844	\$ 687	\$ -	\$ 1,531
Remeasurements	98	(687)	769	180
Write-offs less recoveries	-	-	-	-
Balance, ending of year	\$ <u>942</u>	\$ <u>-</u>	\$ <u>769</u>	\$ <u>1,711</u>

There were no changes in stages during the year.

Key assumptions in determining the allowance for impaired loans collective provision

The measurement of ECL is a complex calculation that involves a large number of interrelated variables. The key drivers of changes in ECL include the following:

- Changes in the credit quality of the borrower or instrument, reflected in changes in internal or external risk ratings. Tandia's risk rating process assigns a score to each commercial loan based on industry standards as outlined by the FSRA. Residential mortgages and personal loans are assigned a risk rating collectively by product type and security. All commercial and revolving residential mortgages/personal loans are reviewed annually, and their risk ratings updated accordingly;
- Changes in forward-looking macroeconomic conditions. Management utilizes statistically significant provincial data for unemployment rates and real estate rates and national data for real GDP, household debt levels and government of Canada 3-month bond rates;
- Changes in scenario design and the weights assigned to each scenario; and
- Migration between stages, which can be triggered by changes to any of the above inputs.

At December 31st, the balances of loans in within the portfolio (excluding accrued interest and expected credit loss) were as follows:

	<u>2023</u>			
	<u>Residential Mortgages</u>	<u>Personal Loans</u>	<u>Commercial Mortgages</u>	<u>Total</u>
Current	\$ 838,807	\$ 17,802	\$ 427,657	\$ 1,284,266
Less than 30 days in arrears	13,243	795	1,595	15,633
30 – 89 days	2,819	11	2,091	4,921
90 – 179 days	-	26	6,539	6,565
More than 180 days	<u>559</u>	<u>4</u>	<u>-</u>	<u>563</u>
	\$ <u>855,428</u>	\$ <u>18,638</u>	\$ <u>437,882</u>	\$ <u>1,311,948</u>

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)
December 31, 2023

7. Loans to members (continued)

				<u>2022</u>
	<u>Residential Mortgages</u>	<u>Personal Loans</u>	<u>Commercial Mortgages</u>	<u>Total</u>
Current	\$ 921,492	\$ 19,609	\$ 389,414	\$ 1,330,515
Less than 30 days in arrears	10,963	1,168	2,510	14,641
30 - 89 days	764	23	-	787
90 - 179 days	-	2	-	2
More than 180 days	<u>1,163</u>	<u>10</u>	<u>-</u>	<u>1,173</u>
	<u>\$ 934,382</u>	<u>\$ 20,812</u>	<u>\$ 391,924</u>	<u>\$ 1,347,118</u>

8. Mortgage securitizations

Tandia enters into loan securitization transactions. In accordance with Tandia's accounting policy, the transferred financial assets continue either to be recognized in their entirety or to the extent of the continuing involvement, are derecognized in their entirety. Tandia does not have any off-balance sheet securitized loans (2022 - \$Nil).

Transferred financial assets that are not derecognized in their entirety

The table below sets out the carrying amounts related to transferred loans to members that are not derecognized in their entirety and any associated liabilities. All loans to members are classified as loans and receivables and are measured at amortized cost in the statement of financial position.

	<u>2023</u>	<u>2022</u>
Carrying amounts of assets, included in loans to members	\$ 265,438	\$ 308,473
Carrying amount of associated liabilities, recognized as secured borrowings	\$ 269,531	\$ 310,880

Tandia does not have the ability to use the transferred assets during the term of the arrangement.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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December 31, 2023

9. Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Equipment & Furniture</u>	<u>Electronic Equipment</u>	<u>Leasehold Improvements</u>	<u>Vehicles</u>	<u>Total</u>
Cost							
Balance on December 31, 2021	\$ 930	\$ 17,762	\$ 3,513	\$ 4,612	\$ 11,024	\$ 28	\$ 37,869
Additions	-	-	104	198	206	-	508
Disposals	<u>-</u>	<u>(1,309)</u>	<u>(948)</u>	<u>(158)</u>	<u>(1,283)</u>	<u>-</u>	<u>(3,698)</u>
Balance on December 31, 2022	\$ 930	\$ 16,453	\$ 2,669	\$ 4,652	\$ 9,947	\$ 28	\$ 34,679
Additions	-	-	48	199	25	-	272
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on December 31, 2023	<u>\$ 930</u>	<u>\$ 16,453</u>	<u>\$ 2,717</u>	<u>\$ 4,851</u>	<u>\$ 9,972</u>	<u>\$ 28</u>	<u>\$ 34,951</u>
Accumulated depreciation							
Balance on December 31, 2021	\$ -	\$ 3,191	\$ 2,015	\$ 2,561	\$ 3,516	\$ 28	\$ 11,311
Depreciation expense	-	1,135	296	895	960	-	3,266
Disposals	<u>-</u>	<u>(658)</u>	<u>(937)</u>	<u>(158)</u>	<u>(1,173)</u>	<u>-</u>	<u>(2,926)</u>
Balance on December 31, 2022	\$ -	\$ 3,668	\$ 1,374	\$ 3,298	\$ 3,303	\$ 28	\$ 11,671
Depreciation expense	-	588	248	710	955	-	2,501
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on December 31, 2023	<u>\$ -</u>	<u>\$ 4,256</u>	<u>\$ 1,622</u>	<u>\$ 4,008</u>	<u>\$ 4,258</u>	<u>\$ 28</u>	<u>\$ 14,172</u>
Net book value							
December 31, 2022	\$ 930	\$ 12,785	\$ 1,295	\$ 1,354	\$ 6,644	\$ -	\$ 23,008
December 31, 2023	\$ 930	\$ 12,197	\$ 1,095	\$ 843	\$ 5,714	\$ -	\$ 20,779

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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9. Property and equipment (continued)

As at December 31, 2023, right-of-use assets in the amount of \$14,464 (2022 - \$14,464) relating to nine premises leased by Tandia are included in buildings above. During the year, depreciation charged on right-of-use assets was \$538 (2022 - \$1,085), resulting in accumulated depreciation of \$3,758 (2022 - \$3,220), leaving a net book value of \$10,706 (2022 - \$11,244). The length of lease term varies lease by lease but maturities range between 2025 and 2040. Management has exercised lease extension terms on eight of the nine leases.

10. Other assets

	<u>2023</u>	<u>2022</u>
Other accounts receivable	\$ 2,604	\$ 3,588
Prepaid expenses	<u>1,704</u>	<u>2,481</u>
	<u>\$ 4,308</u>	<u>\$ 6,069</u>

11. Derivative financial instruments

a) Asset liability management

In the ordinary course of business, Tandia purchases derivative instruments from Central 1 and Concentra in order to hedge against exposure to interest rate fluctuations.

Derivative instruments have a fair value that varies based on the particular instrument and changes in interest rates; the purpose of these instruments is to provide a hedge against interest rate fluctuations by improving Tandia's matching of its asset and liability position.

b) Foreign exchange forward contracts

Tandia offers deposit products denominated in US dollars. In order to meet liquidity reserve requirements, Tandia sells US dollars and purchases US dollar foreign exchange contracts to hedge the exchange risk.

The following table summarizes the notional amounts and fair value of Tandia's derivative portfolio as at December 31, 2023 and 2022.

(in thousands)						December 31, 2023	
	Within <u>1 year</u>	1 to 5 <u>Years</u>	Over 5 <u>years</u>	<u>Total</u>	Fair Value <u>Assets</u>	<u>Liabilities</u>	
Received fixed interest rate swaps	<u>100,000</u>	<u>100,000</u>	-	<u>200,000</u>	-	<u>339</u>	
December 31, 2023 total	\$ <u>100,000</u>	\$ <u>100,000</u>	\$ -	\$ <u>200,000</u>	\$ -	\$ <u>339</u>	

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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December 31, 2023

11. Derivative financial instruments (continued)

(in thousands)					December 31, 2022	
	Within 1 year	1 to 5 Years	Over 5 years	Total	Fair Value Assets	Liabilities
Pay fixed interest rate swaps	\$ 796	\$ -	\$ -	\$ 796	\$ -	\$ 92
Received fixed interest rate swaps	-	50,000	-	50,000	-	-
Bond forwards	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>137</u>	<u>-</u>
December 31, 2022 total	\$ <u>15,796</u>	\$ <u>50,000</u>	\$ <u>-</u>	\$ <u>65,796</u>	\$ <u>137</u>	\$ <u>92</u>

Index linked term deposits

Tandia offers deposit products linked to changes in the stock exchange index. Tandia hedges the underlying risk of these products by entering into an interest rate contract with an approved counterparty.

Consequently, Tandia has entered into a hedge agreement with Central 1 to offset the exposure associated with this product, whereby Tandia pays Central 1 a fixed rate of interest for three or five years on the face value of the Index-Linked Term Deposits sold. At the end of the term, Central 1 pays to Tandia an amount equal to the amount that will be paid to the depositor based on the terms and conditions of the index linked contract. Tandia has sold \$1,876 (2022 - \$2,052) of various Index-Linked Term Deposit products to its members.

As at December 31, 2023, the hedge agreements had fair values of \$167 (2022 – \$168) which have been recorded as both an asset and liability on the statement of financial position.

12. External borrowings

Assets have been pledged as security for \$70,002 (2022 - \$70,002) of authorized credit facilities at Central 1 by an assignment of book debts and a general security agreement. As at December 31, 2023 Tandia had utilized \$Nil (2022 - \$3,000) of the available credit facilities. The loan is due on demand and in 2022 had an interest rate of 5.44%.

13. Deposits of members

	<u>2023</u>	<u>2022</u>
Term and other deposits	\$ 592,754	\$ 531,638
Registered retirement savings plan deposits	108,564	108,252
Registered retirement income fund deposits	73,918	69,935
Other registered deposits	6,839	6,942
Chequing and savings	336,539	389,613
Accrued interest on deposits	<u>13,740</u>	<u>7,771</u>
	\$ <u>1,132,354</u>	\$ <u>1,114,151</u>

The average composite interest rate in force at December 31, 2023 was 3.08% (2022 – 2.07%).

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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13. Deposits of members (continued)

Terms and conditions

Chequing and savings deposits are due on demand and bear interest at variable rates ranging from Nil up to 5.95% at December 31, 2023 (2022 – Nil up to 5.20%). Interest is calculated daily and paid on the accounts monthly.

Term deposits bear interest at fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2023 range from 0.05% to 6.00% (2022 – 0.05% to 5.51%).

Registered retirement savings plans (“RRSPs”) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 0.50% at December 31, 2023 (2022 – 0.50%).

Registered retirement income funds (“RRIFs”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make regular withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

Registered education savings plans (“RESPs”) consist of both fixed and variable products with terms and conditions similar to those of the RRSPs above and is included in other registered deposits.

Tax-free savings accounts (“TFSA”) can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above and is included in term and other deposits.

First home savings accounts (“FHSAs”) can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above and is included in other registered deposits.

14. Lease liability

	<u>2023</u>	<u>2022</u>
Present value of lease payments	\$ <u>699</u>	\$ <u>666</u>
Lease liabilities (current)	<u>699</u>	<u>666</u>
Lease liabilities (non-current)	<u>12,498</u>	<u>13,219</u>
	\$ <u>13,197</u>	\$ <u>13,885</u>

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15. Shares

	2023		2022	
	Liability	Equity	Liability	Equity
Membership shares	\$ 667	\$ -	\$ 686	\$ -
Profit shares	180	1,616	200	1,696
Investment shares	<u>2,997</u>	<u>43,453</u>	<u>3,064</u>	<u>44,331</u>
	<u>\$ 3,844</u>	<u>\$ 45,069</u>	<u>\$ 3,950</u>	<u>\$ 46,027</u>

These shares are not covered by deposit insurance.

Membership shares

Membership shares, which are classified as a liability, represent a residual interest in the equity of Tandia. Membership shares are redeemable upon the request of the member and approval of the directors.

Shares are subscribed for at a par value of \$5 per share, but payment may be made in instalments. A member is not liable to Tandia for amounts subscribed for in excess of the amount actually paid. Members over the age of 18 are required to retain a minimum of 5 shares as a condition of membership. There were 27,721 members with membership shares at December 31, 2023 (2022 – 28,364).

Profit shares

Tandia is authorized to issue an unlimited number of Class A non-voting, non-cumulative, non-participating, non-transferable, redeemable profit shares. These shares have been distributed to the membership based on average loan and deposit balances outstanding.

Profit shares are a special class of patronage shares created by Tandia. Tandia by-law restricts aggregate annual redemptions to a maximum of ten percent of the number of Class A shares issued and outstanding at the end of the immediately preceding fiscal year. There were approximately 1,796,000 profit shares issued and outstanding at December 31, 2023 (2022 – 1,896,000).

Investment shares

Tandia is authorized to issue an unlimited number of Class B – Series 1 non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 2,000 shares per member required to a maximum of 100,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of Tandia. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of 10% of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that Tandia is in compliance with Section 84 of the Credit Unions and Caisses Populaires Act. An appropriate rate has been defined by the directors as a rate which is the greater of 5% or that rate which exceeds by 125 basis points the simple average of Tandia's posted non-callable five-year term deposit rates as of the end of each quarter of Tandia's fiscal year. There were approximately 5,790,000 investment shares issued and outstanding at December 31, 2023 (2022 – 6,155,000).

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December 31, 2023

15. Shares (continued)

Tandia is authorized to issue an unlimited number of Class B – Series 2 non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 1,000 shares per member required to a maximum of 185,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of Tandia. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of 10% of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that Tandia is in compliance with Section 84 of the Act. An appropriate rate has been defined by the directors as a rate which is the greater of 5% or that rate which exceeds by 125 basis points the simple average of Tandia's posted non-callable five-year term deposit rates as of the end of each quarter of Tandia's fiscal year. There were approximately 6,725,000 investment shares issued and outstanding at December 31, 2023 (2022 – 7,152,000).

Tandia is authorized to issue an unlimited number of Class B – Series 2016 non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 1,000 shares per member required to a maximum of 250,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of Tandia. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of 10% of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that Tandia is in compliance with the Act.

An appropriate rate has been defined by the directors as a rate which is the greater of 4.10% or that rate which exceeds by 125 basis points the simple average of the yields on the monthly series of the Government of Canada five-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada for fiscal years ending before December 31, 2012. For fiscal years ending after that date, the Board had defined an appropriate rate to be equal to or greater than the rate which exceeds by 125 basis points the simple average of the yields on the monthly series of the Government of Canada five-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada. There were approximately 17,458,000 investment shares issued and outstanding at December 31, 2023 (2022 – 18,332,000).

Tandia is authorized to issue an unlimited number of Class B – Series 2021 non-voting, non-cumulative, non-participating, non-transferable, redeemable investment shares. These shares have been sold to the membership with a minimum of 1,000 shares per member required to a maximum of 250,000 shares per member. These Class B shares rank prior to the Class A shares with regard to both the payment of dividends and also to the return of capital on dissolution of Tandia. These shares are not redeemable for five years from the date of issuance and thereafter are restricted to aggregate annual redemptions to a maximum of ten percent of the number of Class B shares issued and outstanding at the end of the immediately preceding fiscal year. An appropriate dividend will be declared and paid in each year, at the directors' discretion, provided that Tandia is in compliance with the Act.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)

December 31, 2023

15. Shares (continued)

An appropriate rate has been defined by the directors as a rate which is the greater of 3.50% or that rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada five-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada for fiscal years ending before December 31, 2026. For fiscal years ending after that date, the Board had defined an appropriate rate to be equal to or great than the rate which exceeds by 125 Basis Points the simple average of the yields on the monthly series of the Government of Canada five-year bonds (CANSIM Identifier VI22540) as published by the Bank of Canada. There were approximately 16,478,000 investment shares issued and outstanding at December 31, 2023 (2022 – 15,756,000).

16. Distributions to members

	<u>2023</u>	<u>2022</u>
Investment and profit share dividends	\$ <u>2,593</u>	\$ <u>1,899</u>

17. Income taxes

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

	<u>2023</u>	<u>2022</u>
Current tax expense		
Based on current year taxable income	\$ 319	\$ 272
True up to prior year	57	(101)
Deferred tax benefit		
Origination and reversal of temporary differences	<u>(166)</u>	<u>(350)</u>
	<u>(109)</u>	<u>(451)</u>
Total income tax expense	\$ <u>210</u>	\$ <u>(179)</u>
Deferred tax assets (liabilities) relate to:		
Non-deductible allowance for doubtful accounts	\$ 465	\$ 429
Contributed surplus and core deposits	(61)	(61)
Property and equipment	(563)	(515)
Capital Leases	<u>453</u>	<u>481</u>
Total deferred tax assets (liabilities)	\$ <u>294</u>	\$ <u>334</u>

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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17. Income taxes (continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 18.2% (2022 – 18.2%) are as follows:

	<u>2023</u>	<u>2022</u>
Net income before taxes	\$ <u>3,449</u>	\$ <u>1,648</u>
Expected taxes based on the statutory rate	628	300
Distributions to members charged against retained earnings	(472)	(345)
Other non-deductible portion of expenses	10	5
True up to prior year filing	57	(101)
Other	<u>(13)</u>	<u>(38)</u>
Total income tax expense	\$ <u>210</u>	\$ <u>(179)</u>

18. Other income

	<u>2023</u>	<u>2022</u>
Service charges, commissions and other	\$ 3,508	\$ 3,033
Wealth management	<u>1,927</u>	<u>2,312</u>
	\$ <u>5,435</u>	\$ <u>5,345</u>

19. Related party transactions

Tandia's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of Tandia, including executive management and the board of directors. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Tandia entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures*.

	<u>2023</u>	<u>2022</u>
Compensation		
Salaries and other short-term employee benefits	\$ 1,307	\$ 1,219
Total pension and other post-employment benefits	<u>75</u>	<u>59</u>
	\$ <u>1,382</u>	\$ <u>1,278</u>
Loans to key management personnel		
Aggregate value of loans balance	\$ 747	\$ 196
Interest received on loans and lines of credit advanced	49	44
Total value of lines of credit advanced	1,040	1,087
Unused value of lines of credit	841	1,586

Tandia Financial Credit Union Limited

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19. Related party transactions (continued)

Tandia's policy for lending to key management personnel is that all such loans were granted in accordance with normal lending terms.

	<u>2023</u>		<u>2022</u>
Deposits from key management personnel			
Aggregate value of term and savings deposits	\$ 4,475	\$	4,438
Total interest paid on term and saving deposits	53		13

Tandia's policy for receiving deposits from key management personnel is that all transactions are approved, and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

20. Other required disclosures

The following disclosures are required under the Credit Unions and Caisses Populaires Act, 2020.

The Credit Unions and Caisses Populaires Act, requires disclosure of the five highest paid officers and employees of Tandia over \$175,000. The names, positions and remuneration paid during 2023 of those officers and employees are as follows:

<u>Name</u>	<u>Title</u>	<u>Salary & Variable Compensation</u>	<u>Benefits</u>	<u>Total Remuneration</u>
Richard Davies	President & CEO	\$ 395	\$ 67	\$ 462
Kathy Clark	SVP, Sales/Services & Operations	253	33	286
Cathie Vaillancourt	Sr Mgr, Investment Services	219	19	238
Dawood Khan	VP, Commercial Services	218	28	246
Barbara Duffield	SVP, Finance & Administration	207	29	236

The aggregate remuneration paid to directors was \$181 in 2023 (2022 - \$155).

At December 31, 2023, loans to directors and officers of Tandia amounted to \$1,787 (2022 - \$1,283). All such loans were granted in accordance with normal lending terms, except for certain loans to officers at reduced rates.

21. Commitments

Mortgage and loan commitments

Tandia has made commitments to disburse mortgages and loans of \$73,967 (2022 - \$77,470) subsequent to the year end.

Total unextended lines of credit at year end are \$279,853 (2022 - \$286,143). Total letters of credit at year end are \$2,287 (2022 - \$4,726).

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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22. Cash flow support

	<u>2023</u>	<u>2022</u>
Changes in other non-cash items:		
Change in other assets	\$ 1,761	\$ 3,756
Change in prepaid securitization fees	490	603
Change in payables and accruals	514	(1,723)
Change in income taxes payable	<u>237</u>	<u>(391)</u>
	<u>\$ 3,002</u>	<u>\$ 2,245</u>

23. Regulatory capital

Tandia maintains policies and procedures relative to capital management to ensure that capital levels are sufficient to cover risks inherent in the business.

Tandia's objectives when managing capital are to implement a policy and procedures that:

- i) Ensure that the quantity, quality, and composition of required capital reflects the inherent risks of Tandia and to support the current and planned operations and are compliant with regulatory requirements and with FSRA's Standards of Sound Business and Financial Practices.
- ii) Provide a safety net for the variety of risks to which Tandia is exposed in the conduct of its business and to protect against losses from unexpected events either in earnings or in asset values; and
- iii) Impart a basis for confidence among members, creditors, and regulatory agencies.

The Credit Unions and Caisses Populaires Act, 2020 (the "Act") requires that credit unions maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk-weighted assets are calculated by applying prescribed risk weight percentages, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk inherent in the asset.

The following capital ratios are required to be met:

- i) Minimum tier 1 capital ratio of 6.5% of total risk weighted assets
- ii) Minimum retained earnings of 3.0% of total risk weighted assets
- iii) Minimum total capital ratio of 8.0% of total risk weighted assets
- iv) Minimum capital conservation buffer of 2.5% of total risk weighted assets
- v) Minimum total supervisory capital ratio of 10.5% of total risk weighted assets
- vi) Minimum leverage ratio of 3% of total net assets

Tandia is in compliance with the Act and FSRA rules regarding capital adequacy.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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23. Regulatory capital (continued)

The amount and composition of Tier 1 and Tier 2 capital was as follows:

	<u>2023</u>	<u>2022</u>
Tier 1 Capital		
Membership shares	\$ 667	\$ 686
Profit shares	1,616	1,696
Investment shares	43,453	44,331
Contributed surplus	14,366	14,366
Retained earnings	<u>30,219</u>	<u>29,573</u>
Total tier 1 capital	<u>90,321</u>	<u>90,652</u>
Tier 2 Capital		
10% of redeemable profit shares	180	200
10% of redeemable investment shares	2,997	3,064
Allowance for credit losses (stage 1 & 2)	<u>1,687</u>	<u>2,357</u>
Total tier 2 capital	<u>4,864</u>	<u>5,621</u>
Total regulatory capital	<u>\$ 95,185</u>	<u>\$ 96,273</u>

Tandia manages its Tier 1 and Tier 2 capital in accordance with internal policies and regulatory requirements. Tier 1 capital is the highest quality and consists of retained earnings, contributed surplus, membership shares, and the portion of investment and profit shares that are allowable as Tier 1. Tier 2 capital is comprised of the redeemable portion of investment and profit shares allowable as Tier 2 and the collective allowance for impaired loans.

	<u>Minimum</u>	<u>2023</u>	<u>2022</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Leverage ratio	3.00	6.27	6.22
Total capital ratio	8.00	12.85	13.10
Tier 1 capital ratio	6.50	12.19	12.33
Retained earnings to Risk weighted Capital ratio	3.00	6.04	6.00
Capital conservation buffer ratio	2.50	4.85	5.10
Total supervisory capital ratio	10.50	12.85	13.10

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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24. Financial instruments

The estimated fair values of Tandia's financial instruments are set out below. No fair values have been determined for property and equipment or any other asset that is not a financial instrument.

	Book Value	Estimated Fair Value	Fair Value Over (Under) Book Value
Balance at December 31, 2023			
Financial assets			
Fair value through profit or loss			
Derivative financial instruments	\$ 167	\$ 167	\$ -
Portfolio investments	2,108	2,108	-
Central 1 Credit Union Shares	2,338	2,338	-
Corporate bonds	-	-	-
Corporate equities	525	525	-
Other Investments	6	6	-
Amortized cost			
Cash and cash equivalents	\$ 85,026	\$ 85,026	\$ -
Loans to members	1,311,347	1,270,341	(41,006)
HQLA	82,991	82,732	(259)
Financial liabilities			
Amortized cost			
Deposits of members	\$ 1,132,354	\$ 1,126,691	\$ (5,663)
Shares	3,844	3,844	-
Secured borrowings	269,531	258,808	(10,723)
Fair value through profit or loss			
Derivative financial instruments	\$ 506	\$ 506	\$ -
Balance at December 31, 2022			
Financial assets			
Fair value through profit or loss			
Derivative financial instruments	\$ 168	\$ 168	\$ -
Portfolio investments	12,158	12,158	-
Central 1 Credit Union Shares	2,395	2,395	-
Corporate bonds	16,378	16,378	-
Corporate equities	634	634	-
Other Investments	123	123	-
Amortized cost			
Cash and cash equivalents	\$ 30,273	\$ 30,273	\$ -
Loans to members	1,346,329	1,293,696	(52,633)
HQLA	97,648	97,703	55
Financial liabilities			
Amortized cost			
Deposits of members	\$ 1,114,151	\$ 1,099,788	\$ (14,363)
Shares	3,950	3,950	-
Secured borrowings	310,880	297,305	(13,575)
Fair value through profit or loss			
Derivative financial instruments	\$ 123	\$ 123	\$ -

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Notes to the Financial Statements

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24. Financial instruments (continued)

The differences between the book and fair values of Tandia's loans, deposits and of other financial instruments are due primarily to changes in interest rates. The carrying value of Tandia's loans to and deposits of members are not adjusted to reflect increases or decreases in fair value due to interest rate changes, as it is Tandia's intention to realize their value over time by holding them to maturity.

Financial assets and liabilities are grouped into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level, within which the financial asset or liability is classified, is determined based on the lowest level of significant input to the fair value measurement.

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

- (a) The fair value of cash and cash equivalents and external borrowings is assumed to approximate their book values, due to their short-term nature. These assets and liabilities are classified as Level 1 financial instruments as they are valued using quoted market prices in active markets.
- (b) The estimated fair value of loans carried at amortized cost reflects changes in market price that have occurred since the loans were originated. For fixed-rate loans, estimated fair value is determined by discounting the expected future cash flows related to these loans at current market interest rates for loans with similar credit risks. Fixed-rate loans and deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. For floating-rate loans, changes in interest rates have minimal impact on fair value since loans reprice to the market frequently. On that basis, fair value is assumed to approximate carrying value. Floating-rate loans are classified as Level 2 financial instruments.
- (c) The estimated fair value of fixed-rate investments and fixed-rate deposits is determined by discounting the expected future cash flows of these investments, deposits and borrowings at current market rates for products with similar terms and credit risks. Fixed-rate deposits are classified as Level 3 financial instruments as they are valued using unobservable inputs. Fixed-rate investments are classified as Level 2 financial instruments as they are valued using observable inputs other than quoted market prices. For deposits with no defined maturities, fair value is considered to approximate carrying value, and these deposits are classified as Level 2 financial instruments.
- (d) The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates. These are classified as a Level 2 financial instrument as it is valued using observable inputs.

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24. Financial instruments (continued)

- (e) There have been no reclassifications between Level 2 and Level 3 during the year. A sensitivity analysis is not provided for Level 3 loans and deposits as their fair value would only change as a result of credit risk inputs and these inputs are not expected to be significant.
-

25. Financial instrument risk management

Market risk

Market risk is the potential for profit or loss from changes in the value of financial instruments. The value of a financial instrument can be affected by changes in interest rates, foreign exchange rates, equity and commodity prices and credit spreads.

Tandia is exposed to market risk in the investment portfolio as well as through non-trading activities.

Market risk in investment activities is managed by the senior management of Tandia and the Asset Liability Committee. Every investment transaction is guided by policy and regulatory limitations.

Market risk exposure exists in non-trading Credit Union transactions with members which primarily includes deposit taking and lending. These are also referred to as "asset and liability" positions.

Asset and liability management deals with managing the market risks of the traditional Credit Union activities. Market risks primarily include interest rate risk and foreign currency risk.

Foreign currency risk

Tandia is subject to currency risk through its U.S. dollar denominated operating activities. Changes in the exchange rate may result in a decrease or increase in the gain or loss on foreign exchange. Activities that expose Tandia to currency risk are measured, monitored and controlled daily to minimize risk.

Tandia's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to 15% of foreign liability balances. .

For the year ended December 31, 2023, Tandia's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Tandia Financial Credit Union Limited

Notes to the Financial Statements

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25. Financial instrument risk management (continued)

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in Tandia incurring a financial loss. The credit exposure is mitigated through the use of Board approved credit policies governing Tandia's credit portfolio and with credit practices that limit transactions according to the borrowers' credit quality. A substantial portion of Tandia's loans to members are secured by residential properties. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, Tandia takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that Tandia cannot meet a demand for cash or fund obligations as they come due. Demand for cash can result from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Senior management manages liquidity risk and monitors the cash and funding needs, on a daily basis.

Tandia has set a minimum liquidity ratio of 6%.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Tandia Financial Credit Union Limited

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December 31, 2023

25. Financial instrument risk management (continued)

Structural risk

Structural risk is defined as the risk that Tandia's ability to meet business objectives will be adversely affected by volatility in market rates. Tandia manages structural risk using an Earnings at Risk approach. The primary objective of this approach is to maximize earnings on a consistent basis while minimizing reductions to net income resulting from changes in future interest rates.

Structural risk is monitored through the Structural Risk Management Policy with the objective of ensuring that Tandia manages its cash flows in a manner that contributes adequately to earnings and limits the risk to the financial margin and equity of Tandia. The objectives are also to ensure product terms, pricing and balance sheet mix, to balance member product demands with the need to protect the equity of Tandia, and to ensure that financial derivative instruments be used only to limit interest rate risk and not be used for speculative or investment purposes.

Tandia uses income simulation modelling to measure exposure to changes in interest rates over short term periods. Earnings at risk are calculated by forecasting the net interest margin for the next 12-month period using most likely assumptions. Most likely assumptions include management's best estimates for planned growth rates and the use of future interest rates. Planned growth rates are recorded at the start of the fiscal period as initially set out in the budget and modified to actual experience through the fiscal period. Future interest rates on new business and product renewals are determined using the future interest rates derived mathematically based on the term structure of interest rates. The impact of rate shock scenarios are measured against the most likely forecast. The resulting change in the forecast as a result of interest rate shocks is then compared to the most likely forecast to determine the earnings at risk amount. Maximum change limits under these interest rate scenarios have been set by the Board of Directors. These scenarios are based on hypothetical simulations assuming the markets are shocked with 50 or 100 basis point volatility. At December 31, 2023, Tandia was in compliance with all limits set by the Structural Risk Management Policy.

<u>Asset/Liability Management Limits</u>	<u>Maximum Change Limit</u>	<u>Projected Change to Earnings</u>	<u>Status</u>
Most Likely Shocked + 100 basis points	\$ (1,957)	\$ 585	Compliant
Most Likely Shocked + 50 basis points	(1,957)	293	Compliant
Most Likely Forecast Scenario	Nil	Nil	Compliant
Most Likely Shocked - 25 basis points	(1,957)	(154)	Compliant
Most Likely Shocked - 50 basis points	(1,957)	(308)	Compliant

Tandia Financial Credit Union Limited

Notes to the Financial Statements

(In thousands of dollars)

December 31, 2023

26. Interest rate sensitivity

Tandia is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off-balance sheet instruments scheduled to re-price on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

At December 31, 2023, Tandia had outstanding interest rate swap contracts in the notional principal amount of \$200,000 (2022 - \$50,796) maturing at various times through to 2025.

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual dates.

	<u>Assets</u>	<u>Yield</u>	<u>Liabilities and Equity</u>	<u>Yield</u>	<u>Asset/ Liability Gap</u>
Up to 6 months	\$ 461,474	4.57%	\$ 643,834	2.06%	\$ (182,360)
6 months to 1 year	215,486	4.23%	266,169	4.00%	(50,683)
1 to 2 years	283,250	3.63%	264,830	3.98%	18,420
2 to 3 years	378,560	3.55%	126,628	2.02%	251,932
3 to 4 years	84,666	4.01%	38,815	3.63%	45,851
4 to 5 years	<u>53,796</u>	5.11%	<u>16,757</u>	4.32%	<u>37,039</u>
Total Interest-sensitive	1,477,232		1,357,033		120,199
Non-interest-sensitive	<u>33,892</u>		<u>154,091</u>		
Total	<u>1,511,124</u>		<u>1,511,124</u>		