

The Police Credit Union Limited

Financial Statements

For the year ended December 31, 2023

The Police Credit Union Limited

Financial Statements

For the year ended December 31, 2023

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Independent Auditor's Report

To the Members of The Police Credit Union Limited

Opinion

We have audited the financial statements of **The Police Credit Union Limited** ("the Credit Union"), which comprise the balance sheet as at December 31, 2023, and the statement of changes in members' equity, statement of operations and comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **The Police Credit Union Limited** as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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 it 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.

Independent Auditor's Report

To the Members of The Police Credit Union Limited (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a 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.

Jones & O'Connell LLP

Jones & O'Connell LLP
Chartered Professional Accountants
Licensed Public Accountants

St. Catharines, Ontario
February 26, 2024

The Police Credit Union Limited
Balance Sheet

December 31 **2023** **2022**

Assets

Cash	\$ 11,108,494	\$ 4,056,866
Investments (Note 4)	27,229,717	31,097,675
Loans to members (Note 5)	332,007,572	335,638,018
Other assets (Note 6)	429,657	646,092
Property and equipment (Note 7)	1,858,158	2,291,454
Right of use assets (Note 8)	1,625,660	1,990,422
	\$ 374,259,258	\$ 375,720,527

Liabilities and Members' Equity



Members' deposits (Note 9)	\$ 339,048,531	\$ 346,006,002
Borrowings - liquidity (Note 10)	-	731,532
Securitization liabilities (Note 11)	9,157,699	3,200,716
Other current liabilities	1,142,158	974,022
Provisions (Note 12)	283,204	285,204
Lease liabilities (Note 13)	2,118,722	2,552,715
Membership shares qualifying as liabilities (Note 14)	1,738,588	1,228,870
	353,488,902	354,979,061

Members' Equity

Investment shares qualifying as equity (Note 14)	4,500,000	4,979,923
Undivided earnings	16,292,150	16,158,980
Accumulated other comprehensive loss	(21,794)	(397,437)
	20,770,356	20,741,466
	\$ 374,259,258	\$ 375,720,527

Commitments (Note 17)

On behalf of the Board:

	Director
	Director

The accompanying notes are an integral part of these financial statements

The Police Credit Union Limited
Statement of Changes in Members' Equity

	Investment Shares Qualifying as Equity	Undivided earnings	Accumulated Other Comprehensive Loss	Members' Equity
Balance, December 31, 2021	\$ 4,958,077	\$ 15,569,933	\$ (103,670)	\$ 20,424,340
Amortization cost of issuance of investment shares	21,846	-	-	21,846
Dividends declared on investment shares	-	(280,000)	-	(280,000)
Comprehensive income (loss)	-	869,047	(293,767)	575,280
Balance, December 31, 2022	4,979,923	16,158,980	(397,437)	20,741,466
Reclassification of Investment Shares to Liabilities	(500,000)	-	-	(500,000)
Amortization cost of issuance of investment shares	20,077	-	-	20,077
Dividends declared on investment shares	-	(313,000)	-	(313,000)
Comprehensive income	-	446,170	375,643	821,813
Balance, December 31, 2023	\$ 4,500,000	\$ 16,292,150	\$ (21,794)	\$ 20,770,356

The accompanying notes are an integral part of these financial statements

The Police Credit Union Limited

Statement of Operations and Comprehensive Income

For the year ended December 31	2023	2022
Operating Revenue		
Interest on loans (Note 5)	\$ 12,421,995	\$ 10,118,815
Investment income	1,284,005	688,114
	<u>13,706,000</u>	<u>10,806,929</u>
Interest Expense		
Interest on members' deposits (Note 9)	6,388,189	3,509,901
Member rebates	-	11,748
Interest on borrowings - liquidity	33,616	23,998
Interest on securitization liabilities	373,361	159,033
	<u>6,795,166</u>	<u>3,704,680</u>
Financial Margin	6,910,834	7,102,249
Other Operating Items		
Provision for losses on loans (Note 5)	(95,720)	(40,116)
Other income	1,316,820	1,269,106
	<u>8,131,934</u>	<u>8,331,239</u>
Operating Margin		
Operating Expenses		
Administrative	2,672,324	2,474,743
Amortization of property and equipment	528,053	565,462
Amortization of right of use assets	230,157	242,856
Deposit insurance	277,238	275,964
Salaries and benefits	3,903,116	3,786,917
	<u>7,610,888</u>	<u>7,345,942</u>
Income Before Income Tax Expense	521,046	985,297
Income Tax (Expense) Recovery (Note 15)		
Current	(42,610)	(141,417)
Deferred	(32,266)	25,167
	<u>(74,876)</u>	<u>(116,250)</u>
Net Income for the Year	446,170	869,047
Other Comprehensive Gain (Loss)		
Unrealized gain (loss) on investments	443,364	(359,129)
Related current income tax (expense) recovery (Note 15)	(67,721)	65,362
	<u>375,643</u>	<u>(293,767)</u>
Comprehensive Income for the Year	\$ 821,813	\$ 575,280

The accompanying notes are an integral part of these financial statements

The Police Credit Union Limited

Statement of Cash Flows

For the year ended December 31	2023	2022
Cash Provided By (Used In)		
Operating Activities		
Net income for the year	\$ 446,170	\$ 869,047
Adjustments for:		
Operating revenue	(13,706,000)	(10,806,929)
Interest expense	6,795,166	3,704,680
Provision for losses on loans	95,720	40,116
Interest expense on lease liabilities	39,010	46,178
Amortization of issuance cost on investment shares	20,077	21,846
Amortization of property and equipment	528,053	565,462
Amortization of right of use assets	230,157	242,856
Gain on termination of lease	(13,588)	-
Current income tax expense	42,610	141,417
Deferred income tax expense (recovery)	32,266	(25,167)
	(5,490,359)	(5,200,494)
Change in other assets, other current liabilities and provision	345,867	431,827
(Increase) decrease in loans to members	3,587,570	(14,358,591)
Increase (decrease) in members' deposits	(8,384,757)	7,903,734
	(4,797,187)	(6,454,857)
Interest received on loans to members	12,369,151	10,053,266
Interest paid on members' deposits and member rebates	(4,960,903)	(3,039,735)
Income taxes received	-	37,564
Income taxes paid	(105,893)	(68,740)
	7,302,355	6,982,355
Cash used in operating activities	(2,639,324)	(4,241,169)
Investing Activities		
Decrease (increase) in investments	4,255,485	(4,965,753)
Investment income received on investments	1,339,842	562,385
Asset management services cost	-	-
Purchase of property and equipment	(94,757)	(179,963)
Net cash received from (used in) investing activities	5,500,570	(4,583,331)
Financing Activities		
Increase (decrease) in borrowings - liquidity	(731,532)	731,532
Interest paid on borrowings - liquidity	(33,616)	(23,998)
Increase (decrease) in securitization liabilities	5,956,983	(3,136,768)
Interest paid on securitization liabilities	(373,361)	(159,033)
Payments on lease liabilities	(324,810)	(335,125)
Increase in membership shares	9,718	24,741
Dividends declared on investment shares	(313,000)	(280,000)
Net cash received from (used in) financing activities	4,190,382	(3,178,651)
Increase (Decrease) in Cash	7,051,628	(12,003,151)
Cash, beginning of year	4,056,866	16,060,017
Cash, end of year	\$ 11,108,494	\$ 4,056,866

The accompanying notes are an integral part of these financial statements

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

1. Nature of Operations

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act, 2020 ("The Act") and is a member of Central 1 Credit Union ("Central"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include residential mortgages, personal loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, mutual funds, automated teller machines ("ATMs"), debit and credit cards, internet banking and mobile banking.

The head office of the Credit Union is 105 Gordon Baker Road, Suite 222, Toronto, Ontario, M2H 3P8.

2. Basis of Presentation

The Credit Union's financial statements have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The financial statements for the year ended December 31, 2023 have been approved for issue by the Board of Directors on February 26, 2024.

The Credit Union's financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in Note 3. The financial statements are presented in Canadian dollars, which is the Credit Union's functional and presentation currency.

3. Significant Accounting Policies

Financial Instruments

Financial Assets

The Credit Union classifies its financial assets into one of the categories discussed below, depending on the business purpose for which the asset was acquired and the contractual cash flow characteristics of the financial asset. The Credit Union's accounting policy for each category is as follows:

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

3. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial assets recorded at fair value through other comprehensive income

This category comprises US dollar denominated cash, Federal Government Issued Securities, Provincial Government Issued Securities, Municipal Government Issued Securities, Securities of Mortgages Guaranteed by CMHC, Securities of Mortgages not Guaranteed by CMHC, Corporate Bonds, Class A Shares - Central and Class E Shares - Central. US dollar denominated cash, Federal Government Issued Securities, Provincial Government Issued Securities, Municipal Government Issued Securities, Securities of Mortgages Guaranteed by CMHC, Securities of Mortgages not Guaranteed by CMHC and Corporate Bonds have been classified at fair value through other comprehensive income because the Credit Union both holds the financial assets to collect contractual cash flows and to trade. The Credit Union has elected to classify Class A Shares - Central and Class E Shares - Central at fair value through other comprehensive income as such equity investments are not held for trading.

These financial assets are carried at fair value with changes in fair value recognized in other comprehensive income (loss) and accumulated in accumulated other comprehensive income (loss). Upon disposal, any amounts included in other comprehensive income (loss) are reclassified to profit and loss. Purchases and sales of financial assets recorded at fair value through other comprehensive income (loss) are recognized on the settlement date with any change in fair value between the trade date and settlement date being recognized in other comprehensive income.

The fair value of US dollar denominated cash approximates its cost given its liquid and short-term nature. The fair value of Federal Government Issued Securities, Provincial Government Issued Securities, Municipal Government Issued Securities, Securities of Mortgages Guaranteed by CMHC, Securities of Mortgages not Guaranteed by CMHC and Corporate Bonds are based on public market quoted prices. The fair value of Class A Shares - Central, and Class E Shares - Central cannot be reliably determined and as such these financial assets are carried at cost, which approximates market. The cost of these financial assets can be found in Note 19.

Financial assets recorded at amortized cost

This category comprises Canadian dollar denominated cash, Redeemable term deposit - Concentra, Deposit note - Central, non-redeemable term deposit - Concentra, loans to members and accounts receivable. The business objective is to hold these financial assets in order to collect contractual cash flows made solely of payments of principal and interest. These financial assets are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less any provision for impairment.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

3. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial assets recorded at amortized cost (Continued)

Impairment provisions for financial assets recorded at amortized cost are recognized based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those financial assets where the credit risk has not increased significantly since initial recognition, a twelve month expected credit loss amount is recognized. For those for which credit risk has increased significantly, lifetime expected credit losses are recognized. The amount of the credit loss is measured as the difference between the carrying amount and the present value of the expected cash flows discounted at the ordinal effective interest rate. Such credit losses are recorded in a separate provision account with the loss being recognized in net income. Loans to members are written off as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the loan to member is unlikely. Loans to members are written off against the allowance for impaired loans if a provision for impairment has been previously recognized. If no provision had been recognized, the write off is recognized within provision (recovery) of losses on loans in the statement of operation.

The fair value of Canadian dollar denominated cash approximates its cost given its short-term maturity as it is expected to be recovered in one year. The fair value of redeemable term deposit - Concentra approximates its cost given its short-term nature. The fair value of Discount note - Central and non-redeemable term deposit - Concentra is calculated using a discounted cash flow approach, with the discount rate being the market rate, at or near year end, for an investment with a similar maturity. The fair value of fixed rate mortgages is calculated using a discounted present value cash flow approach on each fixed rate mortgage, based on individual maturity date, payment terms, with no early repayments and no credit losses. The discount rate is the interest rate of each individual fixed rate mortgage plus the difference between the average bond rate as of the funding or renewal date of the loan and the average bond rate at the end of the reporting period. The average bond rate used at period end is based on the remaining loan maturity. The fair value of fixed rate loans is calculated using a discounted cash flow approach on each fixed rate loan, based on individual maturity date, payment terms, with no early repayments and no credit losses. The discount rate is the interest rate of each individual fixed rate loan plus the difference between the prime rate as of the fund/renewal date and the prime rate at the end of the reporting period. The fair value of accounts receivable approximates its cost given its short-term maturity as it is expected to be recovered in one year. The fair value of these financial assets can be found in Note 19.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

3. Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial Liabilities

The Credit Union classifies its financial liabilities into one of the categories discussed below, depending on the business purpose for which the liability was incurred and the contractual cash flow characteristics of the financial liability. The Credit Union's accounting policy for each category is as follows:

Financial liabilities recorded at amortized cost

This category comprises members' deposits, borrowings - liquidity, securitization liabilities, other current liabilities, lease liabilities and membership shares qualifying as liabilities. These financial liabilities are initially recognized at fair value, net of any transaction costs directly attributable to the issue of the instrument. These financial liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that interest expense is recognized over the period to repayment at a constant rate on the balance of the liability carried in the statement of financial position.

The fair value of demand deposits approximates their recorded values as they can be withdrawn at any time without penalty or notice. The fair value of each individual fixed maturity deposit is calculated using a discounted cash flow approach, with the discount rate applied being the highest market rate noted being offered, at or near year end, for a deposit with a similar maturity date, by other financial institutions. The fair value of borrowings - liquidity approximates its cost given its short-term maturity. The fair value for securitization liabilities is calculated using a discounted cash flow approach on each securitization pool, based on individual maturity date, payment terms, with no early repayments. The discount rate is the interest rate of each individual fixed rate pool plus the difference between the bond rate as of the funding date of the pool and the bond rate at the end of the reporting period. The bond rate used at period end is based on the remaining pool maturity. The fair value of other current liabilities approximates their cost due to their short-term maturities. The fair value of lease liabilities is calculated using a discounted cash flow approach on each lease liability, based on individual maturity date, payment terms, with no early repayments. The fair value of membership shares qualifying as liabilities approximates their recorded values as they can be withdrawn at any time without penalty or notice. The fair value of these financial liabilities can be found in Note 19.

Membership Shares

Membership shares are accounted for using the partial treatment requirements of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

3. Significant Accounting Policies (Continued)

Loan Securitizations

For securitization transactions, 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.

Property and Equipment

The Credit Union provides amortization on its property and equipment using the straight line method at the rates set out below, designed to amortize costs over the expected useful life of the respective assets. Annual amortization on additions is prorated based on the month of addition. Amortization is not taken on items not in use.

Leasehold and capital improvements	8% to 10%
Furniture and equipment	5% to 30%
Computer, telephone and ATM equipment	20% to 33%

Right of Use Assets and Lease Liabilities

The Credit Union recognizes a right-of-use asset and a lease liability when the lessor makes the leased asset available for use by the Credit Union.

Lease liabilities are initially recorded at the net present value of fixed payment amounts expected to be payable by the Credit Union. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate.

Lease terms applied are the contractual non-cancelable periods of the lease, plus periods covered by renewal options or termination options, if the Credit Union is reasonably certain to exercise those options. Lease liabilities are remeasured when there is a change in lease term, a change in the assessment of an option to purchase the leased asset or a change in future lease payments.

Right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the amount of the initial measurement of the related lease liability, plus any lease payments made at or before the commencement date and any initial direct costs and future restoration costs, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis from the date that the underlying asset is available for use over the lease term.

Total lease payments for assets that are exempt through the short-term exemption and leases of low value assets continue to be recognized in administrative expense.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

3. Significant Accounting Policies (Continued)

Plan 24 Life Savings Provision

A provision for Plan 24 Savings Life Insurance Program is for those eligible members that maintain a minimum required balance. The provision is based on current eligible members, discount rate and a weighting of all possible outcomes against their associated probabilities. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Revenue Recognition

Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured.

Investment income relating to dividends on shares is recognized when declared by the related company and when ultimate collection is reasonably assured. Investment income relating to realized gains on disposal are recognized upon settlement of the investment disposal transaction and when ultimate collection is reasonably assured.

Other income is recognized as earned when the related service is performed by the Credit Union as follows: immediately through the servicing of specific requests made by members, immediately through the electronic facilitating of transactions performed by the member, or at the end of a designated period for services provided over a designated time period.

Foreign Exchange Translation

Assets and liabilities denominated in foreign currencies (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 transaction. Exchange gains and losses arising on the translation of monetary items are reported in other income for the year.

Income Tax

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

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

3. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

Allowance for Impaired Loans

In determining whether an impairment loss should be recorded, the Credit Union makes judgments on whether objective evidence of impairment exists for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine impairment loss. In determining the collective allowance, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment.

Plan 24 Life Savings Insurance Provision

The Credit Union determines its provision for Plan 24 Life Savings Insurance Program through the application of actuarial techniques, which are significantly affected by assumptions used, including discount rates and estimates of members' mortality and maintenance of eligibility in the program. The derived provision amount may not necessarily be indicative of what the true cost of the program will be in the long-term and may vary by a material amount.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

4. Investments

	2023		2022	
	Carrying Value	Effective Rate	Carrying Value	Effective Rate
Maturing within one year				
Federal Government Issued Securities	\$ 3,158,633	4.57 %	\$ 7,292,421	1.87 %
Provincial Government Issued Securities	2,939,200	2.61 %	2,947,748	3.62 %
Municipal Government Issued Securities	-	-	723,894	0.57 %
Securities of Mortgages Guaranteed by CMHC	785,961	5.58 %	88,470	0.13 %
Securities of Mortgages not Guaranteed by CMHC	-	-	291,892	0.71 %
Corporate Bonds	1,101,031	2.36 %	2,166,031	3.12 %
Redeemable term deposit - Concentra	2,000,000	4.35 %	2,000,000	4.09 %
Maturing at various dates beyond one year				
Deposit note - Central	-	-	3,000,000	5.53 %
Federal Government Issued Securities	8,387,795	3.92 %	5,072,665	3.61 %
Provincial Government Issued Securities	5,824,676	3.88 %	2,538,881	0.90 %
Securities of Mortgages Guaranteed by CMHC	-	-	930,962	4.60 %
Corporate Bonds	2,118,906	5.40 %	1,070,628	2.34 %
Non-Redeemable term deposit - Concentra	-	-	2,000,000	4.35 %
Total liquid investments	26,316,202	3.98 %	30,123,592	3.07 %
Accrued interest receivable	145,641		201,478	
Non-liquid investments				
Class A Shares - Central	103,174		107,905	
Class E Shares - Central	664,700		664,700	
	\$ 27,229,717		\$ 31,097,675	

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

4. Investments (Continued)

Accrued interest receivable is expected to be recovered within one year. All of the non-liquid investments are expected to be recovered at dates beyond one year.

The credit union is required, as per its policy, to maintain eligible liquid assets at a minimum of 7% of total deposits and borrowings.

Class A shares have a par value of \$1 per share. Central rebalances the shareholdings of its Class A members quarterly based on the proportion of each Credit Union's assets to the total assets of all of Central's Class A members. Dividends on these shares are at the discretion of the Board of Directors of Central.

Class E shares required to be held by Central, have a redemption value of \$100 per share. Dividends on these shares are at the discretion of the Board of Directors of Central.

5. Loans to Members

	<u>2023</u>	<u>2022</u>
Residential mortgages	\$ 306,095,047	\$ 312,290,696
Personal loans	25,735,397	23,205,218
	331,830,444	335,495,914
Accrued interest receivable	333,268	280,424
Allowance for impaired loans	(156,140)	(138,320)
Net loans to members	\$ 332,007,572	\$ 335,638,018

Accrued interest receivable is expected to be recovered within one year.

Loans to members can have either a variable or fixed rate of interest and have terms up to ten years.

Variable rate loans are based on a "prime rate plus" formula with the rate above prime being determined by the size of the loan, the type of security offered, the purpose of the loan and the member's credit worthiness. The Credit Union's prime rate at December 31, 2023 is 7.20%. Interest rates offered on fixed rate loans vary depending on the size of the loan, the type of security offered, the purpose of the loan, the member's credit worthiness and the loan term. The Credit Union accepts security on member loans in the form of registered mortgage charges on real property, registered assignments of personal property and member deposits with the Credit Union.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

5. Loans to Members (Continued)

Residential mortgage loans are secured by residential property and have various repayment terms. Included under residential mortgage loans are \$32,808,973 of loans insured by the Canadian Mortgage and Housing Insurance Corporation, Canada Guaranty First Mortgage and Sagen First Mortgage. (\$34,196,851 in 2022).

The term to maturity and yield ranges of the loan portfolio are as follows:

	2023		2022	
	Principal	Yield	Principal	Yield
Variable rate due less than one year	\$ 31,031,838	8.86 %	\$ 29,897,644	7.64 %
Variable rate due more than one year	12,584,710	6.38 %	14,728,556	5.60 %
Fixed rate due less than one year	29,177,091	3.73 %	28,481,282	3.53 %
Fixed rate due more than one year	259,036,805	3.32 %	262,388,432	2.89 %
	\$ 331,830,444		\$ 335,495,914	

Interest on Loans to Members

	2023	2022
Residential mortgages	\$ 10,821,889	\$ 8,860,842
Personal loans	1,600,106	1,181,831
Commercial mortgages and loans	-	76,142
	\$ 12,421,995	\$ 10,118,815

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

5. Loans to Members (Continued)

Allowance for Impaired Loans

2023

	Residential Mortgages	Personal Loans	Total
Opening balance	\$ -	\$ 138,320	\$ 138,320
Recoveries on loans previously written off	-	1,030	1,030
Provision charged to operations	-	95,720	95,720
Loans written off	-	(78,930)	(78,930)
Ending balance	\$ -	\$ 156,140	\$ 156,140

Gross principal balance of impaired loans

\$ -	\$ 100,692	\$ 100,692
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2022

	Residential Mortgages	Personal Loans	Total
Opening balance	\$ -	\$ 113,420	\$ 113,420
Recoveries on loans previously written off	-	1,161	1,161
Provision charged to operations	-	40,116	40,116
Loans written off	-	(16,377)	(16,377)
Ending balance	\$ -	\$ 138,320	\$ 138,320

Gross principal balance of impaired loans

\$ -	\$ 86,627	\$ 86,627
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The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

6. Other Assets

	2023	2022
Accounts receivable	\$ 180,579	\$ 200,274
Prepaid expenses	87,099	251,573
Deferred income taxes recoverable (Note 15)	161,979	194,245
	\$ 429,657	\$ 646,092

Accounts receivable and prepaid expenses are expected to be recovered within the next year. Deferred income taxes recoverable are expected to be recovered in accordance with Note 15.

7. Property and Equipment

	Leasehold and Capital improvements	Furniture and Equipment	Computer, Telephone and ATM Equipment	Total
Cost				
Balance as at December 31, 2021	\$ 2,821,773	\$ 985,661	\$ 1,638,793	\$ 5,446,227
Additions	75,420	61,386	43,157	179,963
Balance as at December 31, 2022	2,897,193	1,047,047	1,681,950	5,626,190
Additions	-	457	94,300	94,757
Balance as at December 31, 2023	\$ 2,897,193	\$ 1,047,504	\$ 1,776,250	\$ 5,720,947
Accumulated Amortization				
Balance as at December 31, 2021	\$ 1,194,421	\$ 779,189	\$ 795,664	\$ 2,769,274
Amortization	283,483	82,227	199,752	565,462
Balance as at December 31, 2022	1,477,904	861,416	995,416	3,334,736
Amortization	280,736	47,308	200,009	528,053
Balance as at December 31, 2023	\$ 1,758,640	\$ 908,724	\$ 1,195,425	\$ 3,862,789
Net Book Value				
Balance as at December 31, 2022	\$ 1,419,289	\$ 185,631	\$ 686,534	\$ 2,291,454
Balance as at December 31, 2023	\$ 1,138,553	\$ 138,780	\$ 580,825	\$ 1,858,158

The benefits from property and equipment are expected to be received at dates greater than one year.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

8. Right of Use Assets

	Real estate leases - branches and head office
Cost	
Balance as at December, 31, 2021 and 2022	\$ 2,766,526
Disposals	<u>(274,290)</u>
Balance as at December 31, 2023	<u>\$ 2,492,236</u>
Accumulated Amortization	
Balance as at December, 31, 2021	\$ 533,248
Amortization	<u>242,856</u>
Balance as at December 31, 2022	776,104
Disposal	(139,685)
Amortization	<u>230,157</u>
Balance as at December 31, 2023	<u>\$ 866,576</u>
Net Book Value	
Net book value as at December 31, 2022	<u>\$ 1,990,422</u>
Net book value as at December 31, 2023	<u>\$ 1,625,660</u>

9. Members' Deposits

	2023	2022
Chequing	\$ 69,119,655	\$ 73,439,186
Savings	64,343,443	71,451,286
Term	102,314,632	106,447,526
Registered retirement savings plans	40,898,829	40,701,924
Registered retirement income funds	22,462,413	21,676,210
Tax free savings accounts	36,476,800	30,437,604
First home savings accounts	153,207	-
	<u>335,768,979</u>	<u>344,153,736</u>
Accrued interest payable	<u>3,279,552</u>	<u>1,852,266</u>
	<u>\$ 339,048,531</u>	<u>\$ 346,006,002</u>

Accrued interest payable is expected to be settled within one year.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

9. Members' Deposits (Continued)

The term to maturity and yield ranges of the members' deposits are as follows:

	2023		2022	
	Principal	Yield	Principal	Yield
Variable rate due less than one year	\$ 149,750,193	0.39 %	\$ 166,464,309	0.10 %
Fixed rate due less than one year	124,273,310	3.34 %	96,773,117	2.52 %
Fixed rate due more than one year	61,745,476	2.99 %	80,916,310	2.54 %
	\$ 335,768,979		\$ 344,153,736	

Interest on Members' Deposits

	2023	2022
Chequing and savings	\$ 429,488	\$ 309,393
Term	3,135,354	1,833,472
Registered retirement savings plans	1,121,535	637,109
Registered retirement income funds	717,074	358,004
Tax free savings accounts	984,628	371,923
First home savings accounts	110	-
	\$ 6,388,189	\$ 3,509,901

10. Borrowings - Liquidity

	2023	2022
Central Canadian clearing facility credit line, interest at overnight bank rate plus 95 basis point equating to 5.95% (2022 - 5.15%), interest payable monthly, principal payable on demand, security as described in Note 17.	\$ -	\$ 731,532

Borrowings - liquidity are to be settled within one year.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

11. Securitization Liabilities

	2023	2022
CMHC mortgage securitization pool, interest at approximately 2.59%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$6,531 per month at December 31, 2023, maturity July 1, 2023, secured by residential mortgages totaling \$886,720	\$ -	\$ 882,033
CMHC mortgage securitization pool, interest at approximately 2.34%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$11,249 per month at December 31, 2023, maturity January 1, 2024, secured by residential mortgages totaling \$2,327,828	-	2,318,683
CMHC mortgage securitization pool, interest at approximately 1.29%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$23,389 per month at December 31, 2023, maturity August 1, 2026, secured by residential mortgages totaling \$5,651,171	5,333,538	-
CMHC mortgage securitization pool, interest at approximately 2.39%, interest and principal paid monthly based on scheduled repayments on related mortgage pool secured, being approximately \$16,593 per month at December 31, 2023, maturity December 1, 2027, secured by residential mortgages totaling \$3,972,694	3,824,161	-
	\$ 9,157,699	\$ 3,200,716

Securitization liabilities are expected to be settled based on the maturity dates noted above.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

12. Provisions

Plan 24 Savings Insurance Program

Balance as at December 31, 2021	\$ 297,204
Provision (recovery) during the year	28,000
Provision used during the year	(12,000)
Effect of change in discount rate	(28,000)
	<hr/>
Balance as at December 31, 2022	285,204
Provision (recovery) during the year	(3,000)
Provision used during the year	(2,000)
Effect of change in discount rate	3,000
	<hr/>
Balance as at December 31, 2023	\$ 283,204

The provision for the Plan 24 savings life insurance program consists of two plans and are paid out based on the following criteria:

Plan A – The face value of the insurance policy is \$5,000. Members in this program must maintain a minimum of \$5,000 in their plan 24 savings account to qualify for the insurance. Members who fall below the minimum savings balance of \$5,000 are eligible to be included in Plan B as noted below.

Plan B – The face value of the insurance policy is \$2,000. Those members in this program must maintain a minimum of \$2,000 in their plan 24 savings account to qualify for the insurance.

Under both plans, members who fail to maintain the minimum \$2,000 balance are removed from the program. The Credit Union expects to settle most of the liability in more than one year. The obligations are discounted based on projected payments made in the future.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

13. Lease Liabilities

	2023	2022
Real estate leases - branches and head office	\$ 2,118,722	\$ 2,552,715

The undiscounted maturity analysis of lease liabilities at December 31, 2023 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
2023							
Lease payments	\$ 307,972	\$ 314,951	\$ 243,468	\$ 123,808	\$ 80,838	\$ 1,221,979	\$ 2,293,016
Finance charges	29,196	22,642	16,334	13,110	11,554	81,458	174,294
Net present value	\$ 278,776	\$ 292,309	\$ 227,134	\$ 110,698	\$ 69,284	\$ 1,140,521	\$ 2,118,722

For the year ended December 31, 2023, total interest expense on lease liabilities included in administrative expense was \$39,010.

14. Membership Shares

Authorized

Membership shares qualifying as liabilities - As a condition of membership, each member is required to hold twenty membership shares with an issue price of \$5 each. The withdrawal of membership shares are subject to certain restrictions as provided by the Credit Union's bylaws and by the Credit Union maintaining adequate regulatory capital (see Note 16), as is the payment of any dividends on these shares.

Investment shares qualifying as equity - The Credit Union is authorized to issue an unlimited number of investment shares which pay dividends annually provided all regulatory capital regulations are met, at the discretion of the directors in the form of cash or additional shares. These shares are non-voting and non-participating. These shares are not redeemable in the first five years from the date of issuance (up to December 1, 2023) and are subsequently redeemable to a maximum of 10% of the issued shares in one year.

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

14. Membership Shares (Continued)

Issued	2023		2022	
	Membership shares qualifying as liabilities	Membership shares qualifying as equity	Membership shares qualifying as liabilities	Membership shares qualifying as equity
Membership shares	\$ 1,238,588	\$ -	\$ 1,228,870	\$ -
Investment shares	500,000	4,500,000	-	5,000,000
Unamortized share issuance costs	-	-	-	(20,077)
Total	\$ 1,738,588	\$ 4,500,000	\$ 1,228,870	\$ 4,979,923

Membership shares and investment shares are expected to be settled at dates greater than one year. Funds invested in membership shares and investment shares are not insured by FSRA.

15. Income Tax Disclosures

	Opening Balance at December 31, 2022	Recognized in Net Income	Recognized in Other Comprehensive Income	Closing Balance at December 31, 2023
Deferred Tax Assets				
Allowance on impaired loans	\$ 10,985	\$ (993)	\$ -	\$ 9,992
Depreciable property and equipment	25,127	5,220	-	30,347
Right of use assets and lease liabilities	102,337	(27,145)	-	75,192
Obligation for employee future benefits	3,889	(630)	-	3,259
Obligation for plan 24 savings insurance program	51,907	(8,718)	-	43,189
Total Deferred Tax Assets	\$ 194,245	\$ (32,266)	\$ -	\$ 161,979

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

15. Income Tax Disclosures (Continued)

	Opening Balance at December 31, 2021	Recognized in Net Income	Recognized in Other Comprehensive Income	Closing Balance at December 31, 2022
Deferred Tax Assets				
Allowances on impaired loans \$	10,420	\$ 565	\$ -	\$ 10,985
Depreciable property and equipment	18,716	6,411	-	25,127
Right of use assets and lease liabilities	81,962	20,375	-	102,337
Obligation for employee future benefits	3,889	-	-	3,889
Obligation for plan 24 savings insurance program	54,091	(2,184)	-	51,907
Total Deferred Tax Assets	\$ 169,078	\$ 25,167	\$ -	\$ 194,245
			2023	2022
Net Deferred Tax Assets				
To be recovered within 12 months			\$ 9,992	\$ 10,985
To be recovered after 12 months			151,987	183,260
Net Deferred Tax Assets			\$ 161,979	\$ 194,245

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

15. Income Tax Disclosures (Continued)

The following is an explanation of the relationship between income tax expense and accounting income.

	2023	2022
Income before income tax expense	\$ 521,046	\$ 985,297
Unrealized loss on investment income recorded in other comprehensive income	443,364	(359,129)
Adjusted income before income tax expense	\$ 964,410	\$ 626,168
Income tax expense on accounting income at applicable statutory rate (2023 - 15.27% 2022 - 15.39%)	\$ 147,265	\$ 96,367
Effect of expenses that relate to temporary differences	(4,668)	(45,479)
Income tax expense	\$ 142,597	\$ 50,888
Income tax expense (recovery) consists of:		
Current	\$ 42,610	\$ 141,417
Deferred	32,266	(25,167)
Current on other comprehensive loss	67,721	(65,362)
	\$ 142,597	\$ 50,888

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

16. Regulatory Capital

The Credit Union's objective is to maintain the appropriate quantity, quality and composition of capital needed to: reflect the inherent risks of the Credit Union, support current and planned operations and support the distribution of dividends and redemption of membership shares. The Credit Union's capital is derived from Tier I and Tier II capital. Tier I capital is derived at maximum 25% equity in the form of minimum share requirements or other share proceeds as allowed by the Credit Union's by-laws, as described in Note 14, and minimum 75% of undivided earnings including unencumbered reserves as well as any accumulated other comprehensive loss. Tier II capital is derived from accumulated other comprehensive income and the collective allowance for impaired loans. The Credit Union policy is to maintain a minimum percentage for Tier 1 capital in comparison to total capital of 70%.

	2023	2022
Membership shares qualifying as liabilities	\$ 1,238,588	\$ 1,228,870
Investment shares, qualifying as equity	4,500,000	4,979,923
Undivided earnings	16,292,150	16,158,980
Accumulated other comprehensive loss	(21,794)	(397,437)
	22,008,944	21,970,336
Total Tier 1 Capital		
Investment shares, qualifying as liabilities	500,000	-
Collective allowance for impaired loans	60,286	54,893
	560,286	54,893
Total Tier 2 Capital		
Total Regulatory Capital	\$ 22,569,230	\$ 22,025,229

Under Ontario Regulation 105/22, the Credit Union is required to maintain a leverage ratio at 3% of net assets and total capital ratio of 8% of risk weighted assets, with the Credit Union's policy being to maintain a leverage ratio at 4% of net assets and total capital ratio at 8.5% of risk weighted assets.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

16. Regulatory Capital (Continued)

In addition to Ontario Regulation 105/22, Financial Services Regulatory Authority of Ontario - Rule 2021 - 002 - Capital Adequacy Requirements for Credit Unions and Caisses Populaires (Capital Rule) also came into force. Under the new Capital Rule, the Credit Union is required to maintain the following ratios related to capital adequacy. The Credit Union has also established their own policy limits for such ratios.

	<u>Rule 2021 - 002</u>	<u>CU Policy</u>
Tier 1 capital	6.50%	7.50%
Retained earnings ratio	3.00%	4.00%
Total capital ratio	8.00%	8.50%
Capital conservation buffer ratio	2.50%	3.00%
Total supervisory capital ratio	10.50%	11.50%
Leverage ratio	3.00%	4.00%

As at December 31, 2023, the Credit Union met the capital requirements of the Capital Rule, Regulation and the Act as outlined in the table below.

	<u>2023</u>	<u>2022</u>
Tier 1 capital	13.98%	13.91%
Retained earnings ratio	10.35%	10.22%
Total capital ratio	14.34%	13.95%
Capital conservation buffer ratio	6.34%	5.95%
Total supervisory capital ratio	14.34%	13.95%
Leverage ratio	5.46%	5.30%

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

17. Commitments

Credit Facilities

The Credit Union has authorized credit facilities with Central totaling \$10,800,000. These credit facilities would be interest bearing as follows: \$3,700,000 Canadian clearing facility at Bank of Canada overnight rate plus 0.95%; \$100,000 US clearing facility at US base rate; and \$7,000,000 demand line of credit facility at the prime rate minus 130 basis points; interest payable monthly and principal repayable on demand. These credit facilities are secured by a registered assignment of book debts with a carrying amount of \$332,007,572 and a general security agreement covering all assets of the Credit Union, which includes a further \$38,338,211 of financial assets. The balance outstanding on these credit facilities as of December 31, 2023 was \$Nil (2022 - \$731,532) owing on the Canadian clearing facility.

Contractual Obligations

The Credit Union is under contract for its banking system until December 31, 2030. Future minimum payments, as calculated at December 31, 2023, per year are \$479,000.

Loans to Members

The Credit Union has the following commitments outstanding at year end:

Personal loans	\$	430,650
Unused personal lines of credit		21,422,327
Unused meritline/property line lines of credit		56,289,090

18. Related Party Transactions

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

	2023	2022
Compensation		
Salaries and other short-term employee benefits	\$ 743,450	\$ 775,621
Remunerations to directors	61,987	56,451
Total pension and other post-employment benefits	45,689	44,242
Expenses of the board	64,372	62,498
	\$ 915,498	\$ 938,812

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

18. Related Party Transactions (Continued)

The Act requires Credit Unions to disclose remuneration paid during the year to officers and employees of the Credit Union whose total remuneration for the year exceeded \$175,000. Andy Doak, the chief executive officer was paid \$204,914 in salary, \$22,762 in bonuses and \$39,460 in benefits for the fiscal year ended December 31, 2023. There were no other officers or employees of the Credit Union who had remuneration greater than \$175,000 during the year.

	2023		2022	
Loans to key management personnel				
Aggregate value of loans advanced	\$	1,130,872	\$	496,863
Interest received on loans advanced		31,723		17,974
Aggregate value of unadvanced loans		484,118		418,000

All loans were made in the normal course of business in accordance with the provisions of the Act. The allowance for impairment of these loans at December 31, 2023 was \$nil.

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

	2023		2022	
Deposits from key management personnel				
Aggregate value of deposits	\$	2,484,260	\$	1,922,492
Total interest and dividends paid on deposits		46,570		12,362

19. Financial Instruments

Fair Values

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Financial assets recorded at fair value through other comprehensive income	\$ 27,543,331	\$ 27,523,897	\$ 28,012,498	\$ 27,412,548
Financial assets recorded at amortized cost	343,002,465	334,183,121	343,580,285	328,759,531
Financial liabilities recorded at amortized cost	351,086,976	348,719,715	352,141,142	347,214,180

The Police Credit Union Limited
Notes to Financial Statements

December 31, 2023

19. Financial Instruments (Continued)

Fair Value Hierarchy

A fair value hierarchy establishes three levels to classify valuation techniques used to measure fair value. Level 1 items are quoted prices in active markets for identical assets or liabilities. Level 2 items are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets or quoted prices that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable and supported by little or no market activity. The fair value hierarchy gives the highest priority to Level 1 items and the lowest priority to Level 3 items.

The fair values of financial assets recorded at amortized cost and financial liabilities recorded at amortized cost would be within level 2 of the fair value hierarchy.

2023

	Level One	Level Two	Level Three	Total
Financial Assets at Fair Value through OCI				
US denominated cash	\$ 2,331,067	\$ -	\$ -	\$ 2,331,067
Federal Government Issued Securities	11,546,428	-	-	11,546,428
Provincial Government Issued Securities	8,763,876	-	-	8,763,876
Securities of Mortgages Guaranteed by CMHC	785,961	-	-	785,961
Corporate Bonds	3,219,937	-	-	3,219,937
Class A Shares - Central	-	-	103,174	103,174
Class E Shares - Central	-	-	664,700	664,700
Other	108,754	-	-	108,754
	\$ 26,756,023	\$ -	\$ 767,874	\$ 27,523,897

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19. Financial Instruments (Continued)

Fair Value Hierarchy (Continued)

2022

	Level One	Level Two	Level Three	Total
Financial Assets at Fair Value through OCI				
US denominated cash	\$ 3,405,350	\$ -	\$ -	\$ 3,405,350
Federal Government Issued Securities	12,365,086	-	-	12,365,086
Provincial Government Issued Securities	5,486,629	-	-	5,486,629
Municipal Government Issued Securities	723,894	-	-	723,894
Securities of Mortgages Guaranteed by CMHC	1,019,432	-	-	1,019,432
Securities of Mortgages not Guaranteed by CMHC	291,892	-	-	291,892
Corporate Bonds	3,236,659	-	-	3,236,659
Class A Shares - Central	-	-	107,905	107,905
Class E Shares - Central	-	-	664,700	664,700
Other	111,001	-	-	111,001
	\$ 26,639,943	\$ -	\$ 772,605	\$ 27,412,548

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Notes to Financial Statements

December 31, 2023

19. Financial Instruments (Continued)

Fair Value Hierarchy (Continued)

The following table presents a reconciliation of each level of the fair value hierarchy for financial assets and financial liabilities recorded at fair value through OCI

	2023			2022		
	Level One	Level Two	Level Three	Level One	Level Two	Level Three
Balance, beginning of the year	\$ 26,639,943	\$ -	\$ 772,605	\$ 25,859,492	\$ -	\$ 774,394
Gain (loss) recognized in other comprehensive income	443,364	-	-	(359,129)	-	-
Gain (loss) recognized in net income	746,999	-	-	258,963	-	-
Purchase	15,315,729	-	-	5,789,528	-	-
Redemption	(14,486,070)	-	(4,731)	(4,596,660)	-	(1,789)
Transfer in (out)	(1,903,942)	-	-	(312,251)	-	-
Balance, end of the year	\$ 26,756,023	\$ -	\$ 767,874	\$ 26,639,943	\$ -	\$ 772,605

Financial Risks

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's Chief Executive Officer. The Board of Directors receives monthly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

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

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

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

19. Financial Instruments (Continued)

Financial Risks (Continued)

Credit Risk (Continued)

The Credit Union's objective is to provide creditworthy members with appropriate borrowing opportunities using appropriate and prudent lending policies. It is the policy of the Credit Union to keep the exposure to credit risk within the limits set by the Board of Directors and the Act, through its detailed credit granting policies and procedures.

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

- ◆ General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- ◆ Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- ◆ Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- ◆ Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations and
- ◆ Loan delinquency controls regarding procedures followed for loans in arrears.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization.

The following table presents loans with repayments past due but not regarded as individually impaired as at December 31, 2023:

Personal loans	\$	104,520
Residential mortgages		156,823

A sizeable portfolio of the loan book is secured by properties in the Greater Toronto Area, Peel Region, York Region and Durham Region. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) coverage should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year.

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

19. Financial Instruments (Continued)

Financial Risks (Continued)

Liquidity Risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet anticipated daily financial obligations, including member needs with respect to the funding of member loans or withdrawal of member deposits. The Credit Union's objective is to ensure that it faces limited risk exposure in this area through requirements placed on the sources, quality and amount of liquid assets that are required to be maintained to meet normal operational requirements, significant deposit withdrawals, loan campaign plans and regulatory requirements. The Credit Union achieves these objectives through the diversification of its liquid investment portfolio with reputable financial institutions, the placement of withdrawal restrictions on large deposits held by individual members or connected groups of members and the matching of the maturities of members' deposits to the maturities of liquid investments and loans to members. A summary of the maturities of members' deposits can be found in Note 9. The related maturities of liquid investments and loans to members are found in Notes 4 and 5. Section 78 (1) of The Credit Unions and Caisses Populaires Act, 2020 requires a Credit Union to establish and maintain prudent levels and forms of liquidity that are sufficient to meet cash flow needs, including depositor withdrawals and all other obligations as they come due.

In addition, Financial Services Regulatory Authority of Ontario - Rule 2021 - 003 - Liquidity Adequacy Requirements for Credit Unions and Caisses Populaires (Liquidity Rule) came into force. The Liquidity Rule requires Credit Unions maintain a liquidity coverage ratio of at least 100%.

The Credit Union manages liquidity risk by:

- ◆ Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- ◆ Monitoring the maturity profiles of financial assets and liabilities;
- ◆ Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- ◆ Monitoring the liquidity ratios monthly;
- ◆ Maintaining a minimum liquidity of 7% of members' deposits and borrowings; and
- ◆ Maintaining a liquidity coverage ratio of 150%

In the prior year, the limit for maintaining liquidity coverage ratio was 100%. There has been no other change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year.

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

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

19. Financial Instruments (Continued)

Financial Risks (Continued)

Liquidity Risk (Continued)

As at December 31, 2023, liquidity ratio of the Credit Union is as of follows:

	2023
Liquidity position of the Credit Union as a percentage of member deposits and borrowings	10.92%
Liquidity operational coverage ratio	167%

As at December 31, 2023, the liquidity position of the Credit Union is as follows:

	2023
Qualifying Liquid Assets on Hand	
Cash, deposits and securities with a maturity of 100 days or less	\$ 13,359,119
Liquid investments	24,316,202
Total Assets Eligible for Liquidity	\$ 37,675,321

FSRA requires the Credit Union to report liquidity coverage ratio in their monthly information return. However, there are differences between the calculation of liquidity coverage ratio between the Credit Union and FSRA. As at December 31, 2023, the liquidity coverage ratio using FSRA methodology is 263%.

Interest Rate Risk

The business of the Credit Union necessitates the management of interest rate risk. Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when financial liabilities are not properly matched with financial assets with respect to maturities and interest rate variability. The Credit Union's objective is ensure that the Credit Union faces limited exposure in this area and manages its risk.

It is the policy of the Credit Union to keep the exposure to interest rate risk within the limits set by the Board of Directors through its detailed structural risk management policies and procedures. The Credit Union assesses and reports its interest rate risk to the Board of Directors on a monthly basis through the use of a sophisticated income simulation model. Through this model, the Credit Union runs various scenarios based upon expected interest rate levels and the Credit Union manages a risk tolerance level based upon a pre-determined shock to those rates. The process and procedures surrounding this are governed by the Act and Board of Directors. The Credit Union's policy for short term interest rate is to have no more than a maximum reduction of \$190,000 of earnings on an upward or downward rate shock. The prudent shock test used is 1.00% upward and 0.50% downward. Long term interest rate policy is to have a duration of capital of a lower limit of -3 years and upper limit remain of +7.50.

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Notes to Financial Statements

December 31, 2023

19. Financial Instruments (Continued)

Financial Risks (Continued)

Interest Rate Risk (Continued)

In the prior year, the limit was to have no more than \$225,000 maximum reduction of earnings on an upward or downward rate shock and the prudent shock tested was 1% upward and 0.25% downward. There has been no other change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year.

As of December 31, 2023, the Credit Union has a negative impact on income of \$46,000 for a 0.50% decrease in interest rates and a positive impact from a 1% increase in interest rates, both in compliance with policy. As of December 31, 2023, the Credit Union has a duration of capital of 2.86 which is in compliance with policy.

Currency Risk

Currency risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings where US dollar denominated financial liabilities are not matched with US dollar denominated financial assets with respect to maturities. The Credit Union's objective is to ensure that the Credit Union faces limited exposure in this area and manages its risk as required by the Act. The Credit Union's policy is to manage its net foreign exchange position to a net position of not greater than a positive or negative \$100,000 at the close of each business day. There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. As of December 31, 2023, total unhedged US currency is (0.006)% of total assets or \$(23,321), which is within the Credit Union's policy limit with respect to unhedged US currency.

A \$0.05 change in the US foreign exchange rate, keeping the unhedged US liability position constant at the amount as of December 31, 2023 noted above, would have an inverse proportional effect on the Credit Union's net income of \$(1,166).

The Police Credit Union Limited

Notes to Financial Statements

December 31, 2023

20. Loan Securitizations - Disclosure

Transferred financial assets that are not derecognized in their entirety

The table below sets out the carrying amounts and fair values related to transferred loans to members that are not derecognized in their entirety and any associated liabilities. All loans to members are classified as financial assets recorded at amortized cost.

Securitization Pools	Carrying Amount		For liabilities with recourse only to the transferred assets		
	Assets	Associated Liabilities	Fair Value of Assets	Fair value of Associated Liabilities	Net Position
February 15, 2023	\$ 5,651,171	\$ 5,333,538	\$ 5,283,262	\$ 5,278,315	\$ 4,947
January 31, 2023	3,972,694	3,824,161	3,956,179	3,782,158	174,021
Total	\$ 9,623,865	\$ 9,157,699	\$ 9,239,441	\$ 9,060,473	\$ 178,968

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.

21. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.