Summerland & District Credit Union
Consolidated Financial Statements
December 31, 2022

Summerland & District Credit Union
Contents
For the year ended December 31, 2022

Management's Responsibility

To the Members of Summerland & District Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit & Risk Management Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit & Risk Management Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 2, 2023

e-Signed by Kelly Marshall
2023-03-02 15:21:14:14 PST
President & CEO

e-Signed by Thom Meyer
2023-03-02 11:34:43:43 PST
VP: Finance & Risk

Independent Auditor's Report

To the Members of Summerland & District Credit Union:

Opinion

We have audited the consolidated financial statements of Summerland & District Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of income, comprehensive income, changes in member's equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2022, and the results of its consolidated financial performance and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on March 10, 2022.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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.

Kelowna, British Columbia

MNP LLP

March 2, 2023

Chartered Professional Accountants

Summerland & District Credit Union
Consolidated Statement of Financial Position
As at December 31, 2022

	2022	*2021*
Assets		
Cash and cash equivalents *(Note 5)*	**16,568,440**	34,875,179
Receivables and other assets *(Note 6)*	**237,659**	311,361
Investments *(Note 7)*	**38,078,605**	38,790,604
Member loans receivable *(Note 22)*	**312,921,821**	301,108,037
Property and equipment *(Note 8)*	**3,291,815**	3,303,080
Intangible assets *(Note 9)*	**360,095**	467,959
Investment in associate *(Note 10)*	**3,285,207**	3,595,433
Investment properties *(Note 11)*	**364,885**	364,885
	375,108,527	382,816,538
Liabilities		
Member deposits *(Note 12)*	**343,323,054**	352,015,720
Payables and other liabilities *(Note 13)*	**1,943,543**	2,919,878
Income taxes payable	**158,042**	60,324
Deferred tax liability *(Note 15)*	**462,999**	457,644
Member shares *(Note 17)*	**89,458**	72,921
	345,977,096	355,526,487

Commitments *(Note 22)*

Members' equity		
Member shares *(Note 17)*	**156,143**	173,215
Retained earnings	**29,888,770**	27,628,712
Accumulated other comprehensive loss	**(913,482)**	(511,876)
	29,131,431	27,290,051
	375,108,527	382,816,538

Approved on behalf of the Board

e-Signed by Lorrie Forde
2023-03-02 15:37:58:58 PST
Director

e-Signed by Connie Denesiuk
2023-03-02 15:37:33:33 PST
Director

The accompanying notes are an integral part of these financial statements

Summerland & District Credit Union
Consolidated Statement of Income
For the year ended December 31, 2022

	2022	*2021*
Interest income		
Member loans	**10,472,328**	9,193,042
Investments	**860,156**	402,209
	11,332,484	9,595,251
Interest expense		
Member deposits	**3,252,312**	2,535,127
Net interest income	**8,080,172**	7,060,124
Recovery of credit losses *(Note 22)*	**(10,441)**	(10,230)
Net interest income after recovery of credit losses	**8,090,613**	7,070,354
Other income *(Note 19)*	**1,269,534**	2,439,637
Net interest and other income, after recovery of credit losses	**9,360,147**	9,509,991
Operating expenses		
Salaries and benefits	**3,845,811**	3,977,304
Office	**1,096,713**	1,027,711
Other operating and administrative expenses	**830,719**	667,615
Professional fees	**147,314**	123,411
Advertising and promotion	**107,098**	63,149
Depreciation	**277,050**	240,555
	6,304,705	6,099,745
Net income, before distribution to members and taxes	**3,055,442**	3,410,246
Patronage and dividends	**108,496**	107,006
Net income, before taxes	**2,946,946**	3,303,240
Income taxes *(Note 15)*		
Current	**675,272**	469,363
Deferred	**5,355**	38,000
	680,627	507,363
Net income	**2,266,319**	2,795,877

The accompanying notes are an integral part of these financial statements

Summerland & District Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2022

	2022	*2021*
Net income	**2,266,319**	2,795,877
Other comprehensive loss		
Items reclassified to profit or loss during the year		
Accumulated recycling of cash flow hedges recognized in profit or loss	**-**	(151,718)
Items that will be reclassified subsequently to profit or loss		
Unrealized fair value losses on mandatory liquidity investments, net of income tax	**(400,905)**	(179,376)
Other comprehensive loss for the year, net of income tax	**(400,905)**	(331,094)
Total comprehensive income for the year	**1,865,414**	2,464,783

The accompanying notes are an integral part of these financial statements

Summerland & District Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2022

	Member shares	*Retained earnings*	*Accumulated other comprehensive loss*	*Total equity*
Balance December 31, 2020	**172,195**	**24,837,259**	**(180,782)**	**24,828,672**
Net income	**-**	**2,795,877**	**-**	**2,795,877**
Distributions to members	**-**	**(4,424)**	**-**	**(4,424)**
Change in member shares, net	**1,020**	**-**	**-**	**1,020**
Unrealized fair value losses on mandatory liquidity investments, net of income tax	**-**	**-**	**(179,376)**	**(179,376)**
Accumulated recycling of cash flow hedges recognized in profit or loss	**-**	**-**	**(151,718)**	**(151,718)**
Balance December 31, 2021	**173,215**	**27,628,712**	**(511,876)**	**27,290,051**
Net income	**-**	**2,266,319**	**-**	**2,266,319**
Distributions to members	**-**	**(6,261)**	**-**	**(6,261)**
Change in member shares, net	**(17,072)**	**-**	**-**	**(17,072)**
Unrealized fair value losses on mandatory liquidity investments, net of income tax	**-**	**-**	**(400,905)**	**(400,905)**
Foreign exchange adjustment	**-**	**-**	**(701)**	**(701)**
Balance December 31, 2022	**156,143**	**29,888,770**	**(913,482)**	**29,131,431**

Summerland & District Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2022

	2022	2021
Cash provided by (used for) the following activities		
Operating activities		
Net income	**2,266,319**	2,795,877
Depreciation and amortization	**277,050**	240,555
Recovery of credit losses	**(10,441)**	(10,230)
Distribution to members	**114,757**	111,430
Amortized gain on cash flow hedges	**-**	(151,718)
Equity pickup of investment in associate	**310,226**	(45,890)
Provision for income taxes	**680,627**	507,362
	3,638,538	3,447,386
Changes in working capital accounts		
Receivables and other assets	**73,702**	1,842,399
Income taxes paid, net	**(493,593)**	(454,415)
Payables and other liabilities	**(976,334)**	1,560,869
	2,242,313	6,396,239
Financing activities		
Net increase (decrease) in member deposits	**(8,692,666)**	22,523,831
Change in member shares	**(534)**	7,029
Patronage distributions paid	**(113,268)**	(163,341)
	(8,806,468)	22,367,519
Investing activities		
Net increase in members loans receivable	**(11,813,784)**	(38,548,751)
Change in investments, net	**244,895**	(16,076,281)
Purchases of property and equipment	**(175,474)**	(96,149)
Purchases of intangible assets	**-**	(399,612)
	(11,744,363)	(55,120,793)
Decrease in cash and cash equivalents	**(18,308,518)**	(26,357,035)
Cash and cash equivalents, beginning of year	**34,875,179**	61,232,214
Cash and cash equivalents, end of year	**16,566,661**	34,875,179

The accompanying notes are an integral part of these financial statements

1. Nature of operations

Reporting entity

Summerland & District Credit Union (the “Credit Union”) is incorporated under the Credit Union Incorporations Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia (“the Act”).

The Credit Union serves members in Summerland, BC and the surrounding community. The products and services offered to its members include personal, commercial and other loans and mortgages; chequing and savings accounts; term, demand and other deposits and investments. The Credit Union’s head office is located at 13601 Victoria Road North, PO Box 750, Summerland, BC.

Basis of presentation

These consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of its wholly owned subsidiaries Summerland Financial Services Ltd., 461745 B.C. Ltd. (dba McBain Insurance Agency) and 0920511 B.C. Ltd. (dba Summerland Capital). All intercompany balances and transactions have been eliminated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2022.

These consolidated financial statements for the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors on March 2, 2023.

Basis of measurement

These consolidated financial statements are prepared under the historical cost convention except for the revaluation of certain financial instruments.

Functional and presentation currency

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

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2022. Adoption of these amendments had no effect on the Credit Union’s financial statements.

- IFRS 10 Consolidated financial statements
- IFRS 12 Disclosure of interests in other entities
- IAS 1 Presentation of financial statements
- IAS 16 Property, plant and equipment
- IAS 28 Investments in associates and joint ventures
- IAS 38 Intangible assets

3. Significant accounting judgments, estimates and assumptions

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Loan to value ratios
- Vacancy rates
- Bankruptcy rates
- Inflation

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

3. Significant accounting judgments, estimates and assumptions *(Continued from previous page)*

The current inflationary environment has resulted in significant increases to interest rates during 2022. These increases, combined with other economic factors resulting from the COVID-19 pandemic, could significantly impact the fair values of various financial instruments. In addition, there is a potential impact on credit risk which could require an increase to the Credit Union's estimate of its allowance for loan impairment.

The current environment is subject to rapid change and to the extent that certain effects of inflation, increased interest rates and COVID-19 are not fully incorporated into the model calculations, increased temporary quantitative and qualitative adjustments have been considered and applied where necessary. The Credit Union has performed certain additional qualitative portfolio and loan level assessment if significant changes in credit risk were identified.

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income tax

The Credit Union 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, the Credit Union records its best estimate of the tax asset or 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 assets or liabilities.

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to members do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

Hedge accounting

In applying hedge accounting, the Credit Union uses the following key judgments:

1. An economic relationship exists between the hedged item and the hedging instrument based on a hedge ratio

The Credit Union uses the same hedge ratio for the hedging relationship as the one that results from the actual quantity of the portfolio of loans (hedged item) and the interest rate swap (hedging instrument). Interest rate swaps (hedging instruments) are specifically transacted to economically hedge the portfolio of loans (hedged items). The fair values of the hedging instruments and the hedged items move in the opposite direction because of the interest rate risk. Therefore, there is an economic relationship between the portfolios of loans (or a portion thereof) and the swaps.

3. Significant accounting judgments, estimates and assumptions *(Continued from previous page)*

2. Critical terms of the hedged item and hedging instrument

The Credit Union assesses at inception and in subsequent periods whether the following critical terms of the hedged item and the hedging instrument have changed:

- Notional amount
- Maturity
- Correlation between 3 month Canadian Dealer Offered Rate ("CDOR") and Prime rate
- Weighted average interest rate

3. Effect of credit risk

The Credit Union enters into interest rate swaps as hedging instruments with a highly rated counterparty. Therefore, Credit Valuation Adjustment on the hedging instrument is expected to not be material or volatile in a manner to dominate the value changes resulting from the economic relationship.

Further, the Credit Union considers its own credit risk as low (at December 31, 2022 the Credit Union was above policy and target for all capital measures) and as a consequence, Debt Valuation Adjustment on the hedged item is not expected to dominate the hedge effectiveness assessment.

As interest rate swaps are specifically transacted to economically hedge existing loans, application of hedge accounting will align with the risk management strategy of the Credit Union and therefore, the Credit Union's hedging relationship and risk management objective contributes to executing the overall risk management strategy.

For more information refer to Note 22.

4. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiaries.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from inter-entity transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union’s interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with Central 1, other short-term highly liquid investments with original maturities of three months or less, and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Investments

Investments which meet the definition of financial instruments are measured and recorded on a basis consistent with the appropriate financial instrument designation.

4. Significant accounting policies *(Continued from previous page)*

Member loans receivable

All member loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans receivable are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans receivable are subsequently measured at amortized cost, using the effective interest rate method, less any allowance for estimated credit losses. Interest is accounted for on the accrual basis for all loans.

Property, plant and equipment

Property, plant and equipment is 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 earnings and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Years
Buildings and renovations	15, 25 and 50
Computer equipment	4
Furniture and fixtures	7 and 10
Leasehold improvements	10

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 earnings.

Intangible assets

Intangible asset consists of computer software which is not integral to the computer hardware owned by the Credit Union. Any impairment in the value of the intangible asset is written off against earnings.

The assets with indefinite useful lives are not amortized but are tested for impairment annually at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Software is depreciated on a straight-line basis over its estimated useful life of four years.

Investments in associate

The Credit Union's investment in its associate, Kootenay Insurance Services Ltd. ("KIS"), is accounted for using the equity method. An associate is an entity in which the Credit Union has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Credit Union's share of net assets of the associate. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Credit Union recognizes its share of any changes. Unrealized gains and losses resulting from transactions between the Credit Union and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Credit Union determines whether it is necessary to recognize an additional impairment loss on the Credit Union's investment in its associate. The Credit Union determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Credit Union calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in earnings.

Upon loss of significant influence over the associate, the Credit Union measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in earnings.

4. Significant accounting policies *(Continued from previous page)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, are intended for future Credit Union use, and are accounted for initially at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on buildings is recognized in earnings and is provided on a straight line basis over the estimated useful life of 50 years. Land is not depreciated. Rental income and operating expenses from investment property are reported within other income and operating expenses respectively.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in earnings.

Payables and other liabilities

Payables and other liabilities are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member deposits

Member deposits are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Distributions to members

Patronage rebates and dividends on shares classified as liabilities/equity are charged against earnings/equity, respectively, when approved by the Board of Directors.

Post employment benefit and short-term employee benefits

The Credit Union participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

4. Significant accounting policies *(Continued from previous page)*

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year-end exchange rates are recognized in earnings.

Financial Instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of receivables, term deposits and accrued interest, and member loans receivable.

4. Significant accounting policies *(Continued from previous page)*

Financial Instruments *(Continued from previous page)*

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Financial assets measured at fair value through other comprehensive income are comprised of mandatory liquidity investments.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and current accounts, and equity investments.

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares of Central 1, Concentra, CUPP Services Ltd. and other equity investments.

Refer to Note 22 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, the significance and frequency of sales in prior periods.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

4. Significant accounting policies *(Continued from previous page)*

Financial Instruments *(Continued from previous page)*

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For member and other loans the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for trade receivables that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include loan delinquency of 90 days or more, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and available borrower specific information indicating financial difficulty of the borrower that is expected to have a detrimental effect on future cash flow. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision;

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 22 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

4. Significant accounting policies *(Continued from previous page)*

Financial Instruments *(Continued from previous page)*

The Credit Union engages in securitization transactions resulting in transfers not qualifying for derecognition, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in profit or loss.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits, payables and other liabilities, and member shares.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

4. Significant accounting policies *(Continued from previous page)*

Financial Instruments *(Continued from previous page)*
Derecognition of financial liabilities

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

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivatives not designated as a hedging instrument are recognized in profit or loss.

The Credit Union designates certain derivative financial instruments as the hedging instrument in qualifying hedging relationships in order to better reflect the effect of its risk management activities in the consolidated financial statements.

Qualifying hedging relationships are those where 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 actual quantities of the hedging instrument and the hedged item that the Credit Union uses for hedging purposes.

At inception of the hedging relationship, the Credit Union documents the economic relationship between the hedging instrument(s) and the hedged item(s), along with its risk management objective and strategy.

Cash flow hedges

The Credit Union uses cash flow hedges to hedge its exposure to the variability of cash flows related to variable interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union did not hold any cash flow hedges as at December 31, 2022.

The Credit Union accumulates changes in fair value related to the effective portion of the hedging instrument in the cash flow hedge reserve within equity. The effective portion of the hedge is equal to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item from inception of the hedge. The ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in profit or loss.

When the hedged item is a forecast transaction that subsequently results in recognition of a non-financial asset or liability, the amounts accumulated in the cash flow hedge reserve are removed from equity and included directly in the initial cost or other carrying amount of the asset or liability. This adjustment does not affect other comprehensive income, unless that amount is a loss and the Credit Union expects that all or a portion of the loss will not be recovered in future periods. In this case, the Credit Union immediately reclassifies the amount not expected to be recovered to profit or loss as a reclassification adjustment.

Otherwise, amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period(s) during which the hedged expected future cash flows affect profit or loss. The amounts reclassified to profit or loss are presented in the same line item as the underlying hedged transaction.

When hedge accounting is discontinued for a cash flow hedge and the hedged future cash flows are still expected to occur, accumulated hedging gains or losses remain in the cash flow hedge reserve until such time as the future cash flows occur and are then accounted for as described above. If the hedged future cash flows are no longer expected to occur, accumulated hedging gains and losses are immediately reclassified to profit or loss.

Rebalancing and discontinuation of hedging relationships

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedging relationship continues to qualify for hedge accounting, the hedging ratio is rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item to realign the hedge ratio with the ratio used for risk management purposes. Hedge ineffectiveness is recognized in profit or loss at the time of rebalancing.

Hedge accounting is discontinued prospectively when the hedging relationship ceases to meet the qualifying criteria, including instances where the hedging instrument expires or is sold, terminated or exercised.

4. Significant accounting policies *(Continued from previous page)*

Revenue recognition

The following describes the Credit Union's principal activities from which it generates revenue:

Interest income

Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimates future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of the financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Other income

The Credit Union generates revenue from other revenue streams including service charges, loan fees and penalties, and commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

Management has not made any judgements in determining the amount of costs incurred to obtain or fulfill a contract with a member as it does not expect these costs to be recovered. Such costs are expensed in the period in which they are incurred.

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2022 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

4. Significant accounting policies *(Continued from previous page)*

Standards issued but not yet effective *(Continued from previous page)*

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements

Amendments to IAS 1 and IFRS Practice Statement 2, issued in February 2021, help entities provide accounting policy disclosures that are more useful to primary users of financial statements by replacing the requirement to disclose "significant" accounting policies with a requirement to disclose "material" accounting policies and providing guidance to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2023 and are required to be applied prospectively. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in February 2021, introduce a new definition of "accounting estimates" to replace the definition of "change in accounting estimates" and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IAS 12 Income Taxes

Amendments to IAS 12, issued in May 2021, narrow the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

5. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1 and Concentra Bank. Term deposits and accrued interest includes callable deposits or deposits with original maturity of three months or less.

	2022	*2021*
Cash and current accounts	**12,019,813**	28,760,319
Term deposits and accrued interest	**4,548,627**	6,114,860
	16,568,440	34,875,179

6. Receivables and other assets

	2022	*2021*
Accrued dividends	**20,000**	33,150
Other receivables	**88,634**	130,693
Prepaid expenses	**129,025**	147,518
	237,659	311,361

7. Investments

The following table provides information on the investments by financial instrument classification, type, and issuer. The maximum exposure to credit risk would be the carrying value in Note 22.

	2022	*2021*
Measured at fair value through other comprehensive income		
Mandatory liquidity investments	**30,807,718**	33,535,686
Measured at amortized cost		
Term deposits and accrued interest	**2,153,575**	68,287
Equity investments		
Measured at fair value through profit or loss		
Shares, Central 1	**111,904**	109,671
Shares, Concentra Bank	**5,000,000**	5,000,000
Shares, CUPP Services Ltd.	**5,051**	76,603
Shares, Stabilization Central Credit Union	**201**	201
Other	**156**	156
	5,117,312	5,186,631
	38,078,605	38,790,604

The Credit Union must maintain mandatory liquidity investments as required by governing legislation. The investments can be withdrawn only if there is a sufficient reduction in the Credit Union's member deposits.

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. In addition, the member Credit Unions are subject to additional capital calls at the discretion of the Board of Directors.

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

Dividends on the Central 1 shares are at the discretion of the Board of Directors of Central 1.

8. Property and equipment

	Land	*Buildings*	*Computer equipment*	*Furniture and fixtures*	*Leasehold improvements*	*Total*
Cost						
Balance at December 31, 2020	**97,211**	**4,318,341**	**267,369**	**609,696**	**1,114**	**5,293,731**
Additions	**-**	**52,077**	**13,795**	**30,277**	**-**	**96,149**
Disposals	**-**	**-**	**-**	**(4,204)**	**-**	**(4,204)**
Balance at December 31, 2021	**97,211**	**4,370,418**	**281,164**	**635,769**	**1,114**	**5,385,676**
Additions	**-**	**27,893**	**135,599**	**11,982**	**-**	**175,474**
Balance at December 31, 2022	**97,211**	**4,398,311**	**416,763**	**647,751**	**1,114**	**5,561,150**
Depreciation						
Balance at December 31, 2020	**-**	**1,328,211**	**179,367**	**367,732**	**1,114**	**1,876,424**
Depreciation	**-**	**111,679**	**33,311**	**65,386**	**-**	**210,376**
Disposals	**-**	**-**	**-**	**(4,204)**	**-**	**(4,204)**
Balance at December 31, 2021	**-**	**1,439,890**	**212,678**	**428,914**	**1,114**	**2,082,596**
Depreciation	**-**	**115,151**	**28,041**	**43,547**	**-**	**186,739**
Balance at December 31, 2022	**-**	**1,555,041**	**240,719**	**472,461**	**1,114**	**2,269,335**
Net book value						
At December 31, 2021	97,211	2,930,528	68,486	206,855	-	3,303,080
At December 31, 2022	**97,211**	**2,843,270**	**176,044**	**175,290**	**-**	**3,291,815**

9. Intangible assets

Cost	Computer software
Balance at December 31, 2020	**310,295**
Additions	**399,612**
Balance at December 31, 2021	**709,907**
Disposals	**(17,553)**
Balance at December 31, 2022	**692,354**
Depreciation	
Balance at December 31, 2020	**211,769**
Depreciation	**30,179**
Balance at December 31, 2021	**241,948**
Depreciation	**90,311**
Balance at December 31, 2022	**332,259**
Net book value	
At December 31, 2021	467,959
At December 31, 2022	**360,095**

10. Investment in associate

The Credit Union, through its wholly owned subsidiary, 461745 B.C. Ltd., holds 25% (2021 – 25%) of the equity shares of Kootenay Insurance Services Ltd. ("KIS"). As each of the investors have equal voting rights and board representation, none are deemed to have control.

The financial year end date of KIS is September 30, 2022. For the purposes of applying the equity method of accounting, the financial statements of KIS for the year ended September 30, 2022 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and December 31, 2022. Summarized financial information for this significantly influenced investment adjusted to the Credit Union's year end date of December 31, 2022 is as indicated in the following table:

	2022	*2021*
Share of the associate's statement of financial position:		
Current assets	**502,307**	455,502
Non-current assets	**2,112,782**	2,524,893
Current liabilities	**(378,269)**	(401,810)
Non-current liabilities	**(66,204)**	(97,743)
Equity	**2,170,616**	2,480,842

10. Investment in associate *(Continued from previous page)*

	2022	*2021*
Share of the associate's revenue and profit (loss):		
Revenue	**1,630,147**	1,557,552
Profit (loss)	**(160,226)**	145,890
Dividends received	**(150,000)**	(100,000)
Carrying amount of the investment	**3,285,207**	3,595,433

11. Investment properties

	Land	Buildings	***2022***	*2021*
Carrying amount, beginning of year	91,642	303,528	**395,170**	395,170
Accumulated amortization	-	(30,285)	**(30,285)**	(30,285)
	91,642	273,243	**364,885**	364,885

Investment properties held by the Credit Union are leased out under operating leases. Rental income received on the properties was $39,210 (2021 - $39,210) with direct operating expenses of $23,743 (2021 - 23,964).

12. Member deposits

	2022	*2021*
Term deposits	**91,942,665**	77,642,891
Demand deposits	**189,332,803**	216,898,978
Registered savings plans	**28,057,957**	27,198,999
Tax free savings accounts	**32,507,430**	29,492,750
Accrued interest	**1,482,199**	782,102
	343,323,054	352,015,720

13. Payables and other liabilities

	2022	*2021*
Trade payables	**530,871**	1,618,581
Accrued payroll liabilities	**1,281,790**	1,189,880
Patronage and dividends	**130,882**	111,417
	1,943,543	2,919,878

14. Pension plan and other employee benefits

Summerland & District Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the BC Credit Union Employees' Pension Plan. The BC Credit Union Employees' Pension Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. Based on the fourth quarter's information for 2022, this Plan Division covers about 3,400 active members, 2,200 inactive members, and approximately 1,500 retired plan members, with reported assets estimated at $1.05 billion (as of November 2022).

At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the Plan was conducted as at December 31, 2021. This latest actuarial valuation indicated a going concern surplus of $112.5M and a solvency deficiency of $10.4M. The next formally scheduled actuarial valuation date will be performed no later than December 31, 2024.

Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuary. Any employer contribution changes from the December 31, 2021 valuation will be effective January 1, 2023.

Summerland & District Credit Union paid $335,073 (2021 - $281,947) in employer contributions to the plan in fiscal year 2022.

15. Income Taxes

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

	2022	*2021*
Current income tax expense		
Based on current year taxable income	**675,272**	469,363
Deferred income tax expense		
Origination and reversal of temporary differences	**5,355**	38,000
	680,627	507,363

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.00% (2021 - 27.00%) are as follows:

	2022	*2021*
Income before income taxes	**3,096,946**	3,303,240
Income tax expense based on the statutory rate	**836,175**	891,875
Preferred rate deduction for Credit Unions	**(242,713)**	(90,144)
Items not taxable/deductible for tax purposes	**172,830**	(254,133)
Tax effect of amounts recorded in other comprehensive income	**(82,113)**	(36,737)
Other	**(3,552)**	(3,498)
	680,627	507,363

14. Income Taxes *(Continued from previous page)*

The movement in 2022 deferred income tax assets and liabilities are:

	Jan 1, 2022	Recognized in net income	**Dec 31, 2022**
Deferred income tax assets:			
Allowance for impaired loans	22,929	(3,184)	**19,745**
Deferred income tax liabilities:			
Property, equipment, investment properties and intangible assets	(480,573)	(2,171)	**(482,744)**
	(457,644)	(5,355)	**(462,999)**

The movement in 2021 deferred income tax assets and liabilities are:

	Jan 1, 2021	Recognized in net income	Dec 31, 2021
Deferred income tax assets:			
Allowance for impaired loans	4,349	18,580	22,929
Deferred income tax liabilities:			
Property, equipment, investment properties and intangible assets	(423,993)	(56,580)	(480,573)
	(419,644)	(38,000)	(457,644)

16. Borrowings

The Credit Union has available to it, through the Central1 Credit Union, an operating line facility of $9,900,000 ($CAD 9,400,000 and $USD 500,000) secured by an assignment of loan to members, accounts receivable and a demand debenture in favour of Central 1 Credit Union. At year end, the balance outstanding was $nil (2021 - $nil).

The Credit Union utilizes a Capital Market line facility that is used to cover the net market exposure of the derivative instruments. At year end, the limit on this facility was $600,000 and the outstanding balance was $nil (2021 - $nil).

17. Member shares

Member shares issued:

	2022	*2021*
Member shares classified as equity		
Class A, par value $1 each	**156,143**	173,215
Member shares classified as liability		
Class A, par value $1 each	**89,458**	72,921
Total	**245,601**	246,136

17. Member shares *(Continued from previous page)*

Member shares are recognized as a liability or equity based on the terms and in accordance with *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments*. If they are classified as equity, they are recognized at cost. If they are recognized as a liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Class A Membership shares
As a condition of membership, which is required to use the services of the Credit Union, each standard member is required to hold $25 ($5 for junior members) in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Class B Voluntary shares
Shares can be issued to members of the Credit Union. They are non-voting and redeemable at par at the discretion of the Board of Directors. No shares of this type have been issued during the current year.

Class C Participation shares
Shares can be issued to members of the Credit Union. They are non-voting and pay dividends at the discretion of the directors in the form of cash or additional shares. Shares are non-redeemable for the first five years except under exceptional circumstances. No shares of this type have been issued during the current year.

During the year, the Credit Union declared patronage distribution of $108,496 (2021 - $107,006) and dividends on membership shares of $6,261 (2021 - $4,424).

18. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") are defined by IAS 24 Related Party Disclosures as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including the Board of Directors, executives and senior management.

	2022	*2021*
Salaries and other short-term employee benefits	**1,045,139**	930,558
Total pension and other post-employment benefits	**97,634**	87,236
Total remuneration	**1,142,773**	1,017,794

Transactions with key management personnel

Loans made to Directors and KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. There are no loans that are impaired in relation to loan balances with Directors and KMP.

There are no benefits or concessional terms and conditions applicable to the family members of Directors and KMP. There are no loans that are impaired in relation to the loan balances with family members of Directors and KMP.

	2022	*2021*
Aggregate of loans to Directors and KMP	**2,996,972**	3,010,053
Interest received on loans to Directors and KMP	**45,105**	59,829
Aggregate value of un-advanced loans	**646,591**	490,662
	3,688,668	3,560,544

18. Related party transactions *(Continued from previous page)*

The Credit Union's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

	2022	*2021*
Deposits from the Directors and KMP		
Aggregate value of term and savings deposits	**3,667,618**	3,288,041
Total interest paid on term and savings deposits	**11,585**	13,312
Total value of member deposits due to Directors and KMP	**3,679,203**	3,301,353

Other transactions

The Credit Union received $80,000 (2021 - $80,000) in management fees from KIS. This transaction is in the normal course of operations and is measured at the exchange amount.

19. Other income

	2022	*2021*
Account service fees	**413,353**	349,471
Dividend income	**198,900**	301,492
Equity earnings (loss)	**(160,226)**	45,890
Foreign exchange	**129,481**	97,673
Insurance, commissions and fees	**223,913**	342,707
Interest, rent and other income	**80,386**	73,497
Loan administration fees	**273,969**	528,707
Management fees	**80,000**	80,000
Safety deposit rentals	**29,758**	30,655
Trading gains	**-**	589,545
	1,269,534	2,439,637

20. Capital management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union’s current capital base is equal to 21.32% (2021 – 20.83%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Plan that is reviewed by management and the Board of Directors..

The Capital Management Plan dictates management’s approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union’s Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union’s Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2022.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union’s assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

20. Capital management *(Continued from previous page)*

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

Capital of the Credit Union is comprised of:

	2022	*2021*
Primary Capital		
Retained earnings	**30,856,111**	28,285,829
Membership equity shares	**245,602**	246,136
Dividends to be paid as primary capital	**9,941**	6,318
Deferred income tax	**178,355**	173,000
	31,290,009	28,711,283
Secondary capital		
Share of system retained earnings	**3,409,881**	3,453,668
Deductions from capital	**(360,095)**	(467,959)
	34,339,795	31,696,992

21. Fair value measurements

Assets and liabilities measured at fair value

The Credit Union's assets and liabilities measured at fair value in the consolidated statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

				2022
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	**12,019,813**	**12,019,813**	**-**	**-**
Equity investments	**5,117,312**	**-**	**-**	**5,117,312**
	17,137,125	**12,019,813**	**-**	**5,117,312**
Financial assets at fair value through other comprehensive income				
Mandatory liquidity investments	**30,807,718**	**30,807,718**	**-**	**-**
	47,944,843	**42,827,531**	**-**	**5,117,312**

21. Fair value measurements *(Continued from previous page)*

	Fair Value	Level 1	Level 2	*2021* Level 3
Assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	28,760,319	28,760,319	-	-
Equity investments	5,186,631	-	-	5,186,631
Financial assets at fair value through other comprehensive income				
Mandatory liquidity investments	33,535,686	33,535,686	-	-
Total assets	33,535,686	33,535,686	-	-

Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all financial assets and financial liabilities held by the Credit Union and not measured at fair value on the consolidated statement of financial position are as follows:

	Carrying amount	*Fair Value*	*Level 1*	*Level 2*	***2022*** *Level 3*
Assets					
Amortized cost					
Other receivables	**88,634**	**88,634**	**-**	**88,634**	**-**
Term deposits and accrued interest	**6,702,202**	**6,658,061**	**-**	**6,658,061**	**-**
Member loans receivable	**312,921,821**	**296,614,703**	**-**	**296,614,703**	**-**
Total assets	**319,712,657**	**303,361,398**	**-**	**303,361,398**	**-**
Liabilities					
Amortized cost					
Member deposits	**343,323,054**	**342,455,201**	**-**	**342,455,201**	**-**
Payables and other liabilities	**1,943,543**	**1,943,543**	**-**	**1,943,543**	**-**
Member shares - liability	**89,458**	**89,458**	**-**	**-**	**89,458**
Total liabilities	**345,356,055**	**344,488,202**	**-**	**344,398,744**	**89,458**

21. Fair value measurements *(Continued from previous page)*

	Carrying amount	*Fair Value*	*Level 1*	*Level 2*	*2021* *Level 3*
Assets					
Amortized cost					
Other receivables	130,693	130,693	-	130,693	-
Term deposits and accrued interest	6,183,147	6,183,147	-	6,183,147	-
Member loans receivable	301,108,037	301,743,718	-	301,743,718	-
Total assets	307,421,877	308,057,558	-	308,057,558	-
Liabilities					
Amortized cost					
Member deposits	352,015,720	353,017,263	-	353,017,263	-
Payables and other liabilities	2,919,878	2,919,878	-	2,919,878	-
Member shares - liability	72,921	72,921	-	-	72,921
Total liabilities	355,008,519	356,010,062	-	355,937,141	72,921

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

All Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to the amortized cost.

22. Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the consolidated financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the consolidated statement of financial position date. Significant changes in the economy of British Columbia and the Okanagan region of BC or deteriorations in lending sectors which represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at year end.

Overall monitoring and processes will change as deemed necessary in response to the ongoing economic impact of COVID-19, the rapid changes in interest rates and high inflation environment. This has and will include changes to the current processes to ensure that the overall portfolio is secured and the Credit Union will continue to support members and find their optimal credit solutions. The stages of expected credit loss within the loan portfolio, if affected by these items, will be adjusted as necessary as we progress through the pandemic and resulting economic impacts.

22. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*
Risk management process

Credit risk management is integral to the Credit Union’s activities. The Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union’s exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. 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 limit 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;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union’s lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans and delinquent loans. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

The Credit Union’s credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. In addition, the off-balance sheet loans granted through Canada Emergency Business Account are funded and guaranteed by the Government of Canada.

	2022	*2021*
Commitments to extend credit	**8,265,708**	8,636,477
Guarantees and standby letters of credit	**415,039**	653,921
Unadvanced lines of credit	**32,121,106**	30,252,842
Canada Emergency Business Account Loans (CEBA)	**4,295,000**	4,775,000
	4,295,000	44,318,240

22. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans and advances to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). The Credit Union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming.

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been derecognized, the Credit Union assesses for significant increases in credit risk by consideration of its ability to collect interest and principal payments on the modified financial asset, the reason for the modifications, the borrower's payment performance compared to the modified contractual terms and whether such modifications increase the borrower's ability to meet its contractual obligations.

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower's initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when the borrower has demonstrated consistently good payment behaviour for 2 – 3 months against the modified contractual terms. Subsequently, management monitors these assets to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for financial assets on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held. The expected credit losses for credit-impaired member loans are measured on an individual basis.

22. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

When measuring 12-month and lifetime expected credit losses, the Credit Union considers items such as relative changes in probability of default since origination, and certain other criteria, such as 30-day past due and delinquency status. Forward-looking information is incorporated into the determination of expected credit loss by collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Significant increase in credit risk - COVID-19, interest rate and inflationary environment impact

There are judgments involved in determining whether or not there is a significant increase in credit risk resulting in loans moving between stages of expected credit loss and being subject to different expected credit loss models. The Credit Union will continue to monitor the impact that COVID-19, increased interest rates and inflation may have on its members and their ability to repay their debt obligations. Where appropriate, the Credit Union may deem a change in credit risk to have occurred for certain members due to the current environment and will adjust their staging and expected credit losses as necessary.

22. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*
Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

	12-month ECL (Stage 1)	2022 Lifetime ECL (not credit impaired) (Stage 2)	Lifetime ECL (credit impaired) (Stage 3)	Total
Residential mortgages				
Low risk	**216,567,040**	-	-	**216,567,040**
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	**216,567,040**	-	-	**216,567,040**
Less: loss allowance	**30,243**	-	-	**30,243**
Total carrying amount	**216,536,797**	-	-	**216,536,797**
Commercial loans				
Low risk	**74,205,266**	-	-	**74,205,266**
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	**74,205,266**	-	-	**74,205,266**
Less: loss allowance	**34,216**	-	-	**34,216**
Total carrying amount	**74,171,050**	-	-	**74,171,050**
Personal loans and lines of credit				
Low risk	**22,265,661**	-	-	**22,265,661**
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	**22,265,661**	-	-	**22,265,661**
Less: loss allowance	**51,687**	-	-	**51,687**
Total carrying amount	**22,213,974**	-	-	**22,213,974**
Total members' loans receivable				
Low risk	**313,037,967**	-	-	**313,037,967**
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	**313,037,967**	-	-	**313,037,967**
Less: loss allowance	**116,146**	-	-	**116,146**
Total carrying amount	**312,921,821**	-	-	**312,921,821**

22. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

	2021			
	12-month ECL (Stage 1)	*Lifetime ECL (not credit impaired) (Stage 2)*	*Lifetime ECL (credit impaired) (Stage 3)*	*Total*
Residential mortgages				
Low risk	211,640,417	-	-	211,640,417
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	211,640,417	-	-	211,640,417
Less: loss allowance	25,936	-	-	25,936
Total carrying amount	211,614,481	-	-	211,614,481
Commercial loans				
Low risk	66,679,773	-	-	66,679,773
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	66,679,773	-	-	66,679,773
Less: loss allowance	33,969	-	-	33,969
Total carrying amount	66,645,804	-	-	66,645,804
Personal loans and lines of credit				
Low risk	22,907,113	-	-	22,907,113
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	22,907,113	-	-	22,907,113
Less: loss allowance	59,361	-	-	59,361
Total carrying amount	22,847,752	-	-	22,847,752
Total members' loans receivable				
Low risk	301,227,303	-	-	301,227,303
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	301,227,303	-	-	301,227,303
Less: loss allowance	119,266	-	-	119,266
Total carrying amount	301,108,037	-	-	301,108,037

As at December 31, 2022, the maximum exposure to credit risk with respect to members' loan receivable without taking into account collateral held or other credit enhancements is $312,415,001 (2021 - $300,783,194). The Credit Union holds senior-ranking general security claims and property backed personal financial guarantees with respect to members' loan receivable.

22. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Member loans receivable				
Balance at December 31, 2020	**10,780**	**2,890**	**121,208**	**134,878**
Provision for (recovery of) impaired loans	**113,868**	**(2,890)**	**(121,208)**	**(10,230)**
Write-offs, net of recoveries	**(5,382)**	**-**	**-**	**(5,382)**
Balance at December 31, 2021	**119,266**	**-**	**-**	**119,266**
Recovery of impaired loans	**(10,441)**	**-**	**-**	**(10,441)**
Write-offs, net of recoveries	**7,321**	**-**	**-**	**7,321**
Balance at December 31, 2022	**116,146**	**-**	**-**	**116,146**

Market risk

Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The Credit Union is exposed to market risk when making loans, taking deposits and making investments, which are all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and, to a limited extent, foreign exchange, as discussed below. The resulting impact from COVID-19 to the Credit Union's margin has been and will continue to be monitored consistently.

Interest rate risk

Interest rate risk arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products have embedded options, such as, loan prepayment and deposit redemption, which also impact interest rate risk.

Risk measurement

The Credit Union measures its interest rate risk on a monthly basis. Measures include the sensitivity of financial margin and equity value to changes in rates, duration parameters, as well as simulation modelling.

Objectives, policies and procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans (assets) and interest paid on member deposits (liabilities). The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

22. Financial instruments *(Continued from previous page)*

Interest rate risk

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Board.

The Credit Union's potential risk due to changes in interest rates is provided below. All interest rate risk measures are based upon interest rate exposure at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net earnings of $2,000 (2021 - $83,000) while a decrease in interest rates of 1% could result in a decrease to net earnings of $446,000 (2021 - $87,000).

(In thousands)

	Variable rate	Within one year	One to five years	Non-Interest Sensitive	2022 Total	2021 Total
Assets						
Cash and cash equivalents and investments	17,886	18,875	11,542	6,344	**54,647**	73,666
Average yield %	*4.45*	*2.03*	*1.35*	-	*2.72*	*0.68*
Member loans	49,202	38,299	224,914	507	**312,922**	301,108
Average yield %	*7.17*	*3.55*	*3.46*	-	*4.05*	*2.78*
Other	-	-	-	89	**89**	131
Subtotal	**67,088**	**57,174**	**236,456**	**6,940**	**367,658**	374,905
Financial liabilities						
Deposits	60,211	83,424	55,113	144,575	**343,323**	352,016
Average yield %	*0.25*	*3.90*	*3.98*	-	*1.74*	*0.59*
Other	-	-	-	2,191	**2,191**	3,053
Subtotal	**60,211**	**83,424**	**55,113**	**146,766**	**345,514**	355,069
Mismatch	**6,877**	**(26,250)**	**181,343**	**(139,826)**	**22,144**	19,836
Derivatives notional amount	-	-	-	-	-	-
Net sensitivity	**6,877**	**(26,250)**	**181,343**	**(139,826)**	**22,144**	19,836

Foreign exchange risk

Foreign exchange risk arises when there is a mismatch between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union maintains assets and liabilities denominated in U.S. dollars.

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financed investments for an extended period.

At December 31, 2022, the Credit Union's exposure to foreign exchange risk was within policy.

22. Financial instruments *(Continued from previous page)*

Liquidity risk

Liquidity and funding risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due. The Credit Union has a strong liquidity base and has a well-established contingency plan to access if required through the COVID-19 situation.

Risk measurement

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address normal day-to-day funding requirements and ensure regulatory compliance. It also measures overall maturity of assets and liabilities, longer-term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective conditions of the Credit Union, the markets and the related behaviour of members and counterparties.

Objectives, policies and processes

The Credit Union's liquidity management framework is monitored by the Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities. This includes ensuring adequate funding is available from Central 1 and alternate third party sources. As at December 31, 2022, the Credit Union had various available funding sources as described in Note 16.

Legislation requires that the Credit Union maintain liquid assets in a segregated trust of at least 8% of deposit and debt liabilities. Regulatory liquidity is reported to the Board monthly in order to monitor the Credit Union's liquidity framework. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as diversified funding sources. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2022, the Credit Union's total liquidity ratio was 14.31% (2021 - 19.02%).

23. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.