Salmon Arm Savings and Credit Union
Consolidated Financial Statements
December 31, 2023

Contents

For the year ended December 31, 2023

Management's Responsibility

To the Members of Salmon Arm Savings and 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 and Operational Risk 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 and Operational Risk Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, 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 Members 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 12, 2024

President and Chief Executive Officer

To the Members of Salmon Arm Savings and Credit Union:

Opinion

We have audited the consolidated financial statements of Salmon Arm Savings and Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2023, and 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 statement for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on March 14, 2023.

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.

MNP LLP
Suite 1500, 1700 Dickson Ave, Kelowna BC, V1Y 0L5 1.877.766.9735 T: 250.763.8919 F: 250.763.1121

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

March 12, 2024

MNP LLP

Chartered Professional Accountants

Salmon Arm Savings and Credit Union
Consolidated Statement of Financial Position
As at December 31, 2023
($ in thousands)

	2023	2022
Assets		
Cash	**12,746**	18,364
Income taxes recoverable *(Note 12)*	**44**	73
Investments *(Note 5)*	**136,332**	156,461
Derivative financial instruments *(Note 6)*	**597**	656
Loans to members *(Note 22)*	**848,450**	812,487
Property, plant and equipment *(Note 7)*	**13,731**	13,626
Intangible assets *(Note 8)*	**2,693**	2,763
Goodwill *(Note 9)*	**760**	760
Investment property *(Note 10)*	**463**	464
Other assets	**1,703**	2,128
	1,017,519	1,007,782
Liabilities		
Accounts payables and accrued liabilities	**3,910**	3,262
Deferred income taxes payable *(Note 12)*	**281**	247
Dividends payable	**34**	29
Member deposits *(Note 11)*	**944,834**	944,375
Derivative financial instruments *(Note 6)*	**597**	656
Borrowings *(Note 13)*	**3,532**	-
Lease liabilities *(Note 14)*	**1,198**	843
Members' shares *(Note 15)*	**68**	68
	954,454	949,480

Commitments *(Note 24)*

Members' equity		
Members' shares *(Note 15)*	**647**	649
Retained earnings	**62,592**	59,074
Accumulated other comprehensive loss	**(174)**	(1,421)
	63,065	58,302
	1,017,519	1,007,782

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Salmon Arm Savings and Credit Union
Consolidated Statement of Income
For the year ended December 31, 2023
($ in thousands)

	2023	*2022*
Interest revenue		
Interest on loans to members	**33,354**	26,541
Other interest revenue	**6,539**	3,226
	39,893	29,767
Interest expense		
Interest of member deposits	**20,088**	7,690
Other interest expense	**81**	84
	20,169	7,774
Financial margin	**19,724**	21,993
Provision for impaired loans *(Note 22)*	**34**	133
	19,690	21,860
Other income and expenses *(Note 18)*	**7,930**	5,665
	27,620	27,525
Non-interest and operating expenses		
Depreciation and amortization	**1,066**	1,061
Community support	**355**	397
Distributions to members *(Note 16)*	**34**	29
General operating and administrative *(Note 19)*	**9,055**	8,141
Salaries and benefits	**12,809**	11,637
	23,319	21,265
Income before other items and income taxes	**4,301**	6,260
Other income		
Gain on disposal of property, plant and equipment	**29**	-
Income before income taxes	**4,330**	6,260
Provision for (recovery of) income taxes *(Note 12)*		
Current	**777**	1,286
Deferred	**35**	62
	812	1,348
Net income	**3,518**	4,912

The accompanying notes are an integral part of these financial statements

Salmon Arm Savings and Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2023
($ in thousands)

	2023	*2022*
Net income	**3,518**	4,912
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Unrealized gains (losses) on mandatory liquidity investments, net of income tax	**1,247**	(981)
Total comprehensive income for the year	**4,765**	3,931

The accompanying notes are an integral part of these financial statements

Salmon Arm Savings and Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2023
($ in thousands)

	Members' shares	*Retained earnings*	*Accumulated other comprehensive income*	*Total equity*
Balance December 31, 2021	**641**	**54,162**	**(440)**	**54,363**
Net income	**-**	**4,912**	**-**	**4,912**
Unrealized losses on mandatory liquidity investments	**-**	**-**	**(981)**	**(981)**
Issuance of members' shares	**36**	**-**	**-**	**36**
Redemption of members' shares	**(28)**	**-**	**-**	**(28)**
Balance December 31, 2022	**649**	**59,074**	**(1,421)**	**58,302**
Net income	**-**	**3,518**	**-**	**3,518**
Unrealized gains on mandatory liquidity investments	**-**	**-**	**1,247**	**1,247**
Issuance of members' shares	**41**	**-**	**-**	**41**
Redemption of members' shares	**(43)**	**-**	**-**	**(43)**
Balance December 31, 2023	**647**	**62,592**	**(174)**	**63,065**

The accompanying notes are an integral part of these financial statements

Salmon Arm Savings and Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2023
($ in thousands)

	2023	2022
Cash provided by (used for) the following activities		
Operating activities		
Interest received from loans to members	**32,927**	26,198
Interest and dividends received from investments	**6,441**	2,438
Other non-interest income received	**7,810**	7,126
Cash paid to suppliers and employees	**(21,141)**	(19,242)
Interest paid on member deposits	**(15,170)**	(6,113)
Interest paid on lease liabilities and borrowings	**36**	11
Income taxes paid	**(1,003)**	(1,366)
	9,900	9,052
Financing activities		
Proceeds from borrowings, net of repayments	**3,532**	-
Increase in member deposits	**(4,459)**	(11,013)
Repayment of lease liabilities	**(144)**	(98)
Reduction of members' shares	**(2)**	8
	(1,073)	(11,103)
Investing activities		
Increase in loans to members	**(35,583)**	(52,109)
Purchase of property, plant and equipment	**(516)**	(165)
Purchase of intangible assets	**(123)**	(243)
Proceeds from investments	**21,777**	56,030
	(14,445)	3,513
Increase (decrease) in cash	**(5,618)**	1,462
Cash, beginning of year	**18,364**	16,902
Cash, end of year	**12,746**	18,364

1. Nature of operations

Reporting entity

Salmon Arm Savings Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union's operations are subject to the Financial Institutions Act of British Columbia. The Credit Union is approved to operate throughout the Province of British Columbia and primarily serves members in the Shuswap region of the province. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment. The Credit Union's head office is located at 370 Lakeshore Drive NE, PO Box 868, Salmon Arm, BC.

Basis of presentation

The consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of its wholly owned subsidiaries, SASCU Insurance Services Ltd., and SASCU Wealth Inc. 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 ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB") as at December 31, 2023.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 12, 2024.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis 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. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

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, 2023. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IFRS 3 Business combinations
- IFRS 10 *Consolidated financial statements*
- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*
- IAS 39 *Financial instruments: recognition and measurement*
- IAS 40 *Investment property*

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)*

Impact of the current economic environment:

With the significant increase in interest rates and inflation over the past two years, there is an elevated credit risk associated with the Company’s fair values of various financial instruments. Additionally, there is a potential impact on credit risk that could necessitate an increase in 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 and increased interest rates 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.

4. Summary of material accounting policies

The following principal accounting policies have been adopted in the preparation of these consolidated financial statements.

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.

4. Summary of material accounting policies *(Continued from previous page)*

Basis of consolidation *(Continued from previous page)*

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 intra-Company 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

Cash includes cash on hand, operating deposits with financial institutions, and for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Investment property

The Credit Union's investment property consists of land and building held to earn rental income. Investment property is initially recorded at fair value and, subsequently, measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Buildings are depreciated on a straight-line basis over their estimated useful life of forty years. Rent receivable is recognized in net income on a straight-line basis over the period of the lease.

Loans to members

All loans to members 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.

Acquisition of property in settlement of loans

Property acquired in settlement of loans is recorded at the lower of estimated net realizable value and the amount owing on the loan. Losses arising on realization or reduction of the realizable value of such property are charged to earnings.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is provided using the straight-line method at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	**Rate**
Buildings	Straight-line, declining balance	20 - 60 years, 3- 5% DB
Landscaping and paving	Straight-line, declining balance	10 - 25 years, 5% DB
Computer hardware	Straight-line	4 - 7 years SL
Furniture and fixtures	Straight-line, declining balance	5 - 15 years SL, 20% DB
Equipment	Straight-line	5 - 15 years SL
Security equipment	Straight-line, declining balance	5 - 20 years SL, 5% DB
Leasehold improvements	Lease term	Lease term

4. Summary of material accounting policies *(Continued from previous page)*

Property, plant and equipment *(Continued from previous page)*

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Intangible assets

Intangible assets consist of computer software that is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over an estimated useful life of 4-10 years. Assets not yet in use are not amortized.

Impairment of non-financial assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs, for which there are separately identifiable cash flows.

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

Payables and other liabilities

Payables and other liabilities are initially measured 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.

Member deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument and are subsequently measured at amortized cost, using the effective interest rate method.

Securitization

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

The Credit Union's securitization activity primarily involves sales of National Housing Act Mortgage-Backed Securities (NHA MBS) through the Canada Housing Trust (CHT).

Mortgages transferred to CHT continue to be recognized in the Credit Union's consolidated statement of financial position as, in the opinion of the Credit Union's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in the Credit Union's consolidated statement of financial position as borrowings.

Pension plan

The Credit Union participates in a multi-employer defined contribution pension plan and recognizes contributions as an expense in the year to which they relate.

Member shares

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability. Shares that contain redemption features are accounted for using the partial treatment requirements of IFRIC 2 Member Shares in Co-operative Entities and Similar Instruments.

4. Summary of material accounting policies *(Continued from previous page)*

Leases

The Credit Union assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Credit Union assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

Where the Credit Union is a lessee in a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The Credit Union has elected to not separate non-lease components from lease components for leases of land and buildings, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Where the Credit Union is a lessor in a contract that contains a lease component and one or more additional lease or non-lease components, the Credit Union allocates the consideration in the contract in accordance with IFRS 15, whereby the consideration is allocated to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Credit Union measures right-of-use assets related to buildings by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Credit Union expects that the ownership of the underlying asset will transfer to the Credit Union by the end of the lease term or if the cost of the right-of-use asset reflects that the Credit Union will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Credit Union under a residual value guarantee, the exercise price of a purchase option that the Credit Union is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Credit Union exercising an option to terminate the lease. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest method.

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

4. Summary of material accounting policies *(Continued from previous page)*

Leases *(Continued from previous page)*

The Credit Union has elected to not recognize right-of-use assets and lease liabilities for short-term leases of computer equipment or furniture and fixtures and low value leases of computer equipment or furniture and fixtures. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of $5,000 USD or less. The Credit Union recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

The Credit Union assesses at lease inception whether a lease should be classified as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset; otherwise it is classified as an operating lease.

When the Credit Union is an intermediate lessor, the Credit Union classifies the sub-lease by reference to the right-of-use asset arising from the head lease unless the head lease is a short-term lease that the entity, as a lessee, has applied the recognition exemption to, in which case the sublease is classified as an operating lease.

Lease payments from operating leases are recognized as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Distributions to members

Patronage distributions, dividends to members and other distributions approved by the Board are recognized in earnings in the year that they are declared.

Income taxes

Income tax expense is comprised of current and deferred taxes which are recognized in earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill 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 nor taxable earnings.

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 to 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.

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

Foreign currency translation

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in earnings.

4. Summary of material accounting policies *(Continued from previous page)*

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.

CDOR is the Canadian Dollar Overnight Rate, used for Level 2 discount rate purposes.

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.

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.

The best evidence of fair value at initial recognition is normally the transaction price. If a difference exists between fair value at initial recognition and the transaction price, and fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (i.e., a level 1 input) nor based on a valuation technique that uses only data from observable markets, then the measurement at initial recognition is adjusted to defer the difference between fair value and the transaction price.

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 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 Central 1 liquidity and other deposits, other financial institution deposits, loans to members, accrued interest and other receivables.

- 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.

4. Summary of material accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

- 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 derivative financial instruments.
- 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. Financial assets designated to be measured at fair value through profit or loss are comprised of portfolio investments.

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, and other equity investments.

Refer to Note 21 and 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.

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.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

4. Summary of material accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

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 includes 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; and
- For debt instruments measured at fair value through other comprehensive income, in other comprehensive income. The loss allowance does not reduce the fair value carrying amount of the financial asset in the consolidated statement of financial position.

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.

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.

4. Summary of material accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

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. Transaction costs of equity transactions are treated as a deduction from equity.

Classification and subsequent measurement

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

Derecognition of financial liabilities

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

Derivatives

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 derivative instruments are recognized in profit or loss.

Revenue recognition

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

4. Summary of material accounting policies *(Continued from previous page)*

Revenue recognition *(Continued from previous page)*

Interest

Interest income and expense are recognized in earnings using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated 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 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 revenue

The Credit Union generates revenue from other revenue streams including services 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 judgments 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.

($ in thousands)

5. 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.

	2023	*2022*
Other investments		
Amortized cost		
Central 1 liquidity deposits - Canadian	**26,500**	26,500
Central 1 other deposits - US	**1,723**	1,896
Other financial institution deposits	**20,548**	44,548
Accrued interest	**895**	801
	49,666	73,745
Measured at fair value through other comprehensive income		
Mandatory liquidity investments	**85,923**	81,958
Accrued interest	**368**	364
	86,291	82,322
	135,957	156,067
Equity investments		
Measured at fair value through profit or loss		
Central 1 shares	**277**	296
Other investments	**98**	98
	375	394
	136,332	156,461

6. Derivative financial instruments

The Credit Union has outstanding $5,380 (2022 - $5,827) in market linked term deposits to its members. The market linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivatives associated with these deposits are presented separately on the balance sheet as a liability and have a fair value of $597 (2022 - $656).

The Credit Union utilizes derivative financial instruments to mitigate the risk on these deposits. The Credit Union has entered into agreements with Caisse Centrale Desjardins, where the Credit Union pays a fixed rate of interest for the term of each market linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. These are presented separately as an asset on the balance sheet and reported at fair value.

Maturity dates for the market linked term deposits are as follows:

	Notional Amounts				**Fair Values**	
	Within 1 year	2-5 years	**2023**	2022	**2023**	2022
Market linked GICs	1,049	4,331	**5,380**	5,827	**597**	656

($ in thousands)

7. Property, plant and equipment

	Land	*Buildings*	*Leasehold improvement*	*Furniture, fixtures & equipment*	*Pavement & landscaping*	*Right-of-use buildings & equipment*	*Total*
Cost							
Balance at December 31, 2021	**2,568**	**14,851**	**915**	**4,622**	**538**	**1,036**	**24,530**
Additions	**-**	**-**	**-**	**165**	**-**	**190**	**355**
Disposals	**-**	**-**	**(102)**	**(238)**	**-**	**-**	**(340)**
Balance at December 31, 2022	**2,568**	**14,851**	**813**	**4,549**	**538**	**1,226**	**24,545**
Additions	**-**	**59**	**136**	**314**	**7**	**813**	**1,329**
Disposals	**-**	**(26)**	**(44)**	**(209)**	**-**	**(649)**	**(928)**
Reclassification	**-**	**153**	**(153)**	**-**	**-**	**-**	**-**
Balance at December 31, 2023	**2,568**	**15,037**	**752**	**4,654**	**545**	**1,390**	**24,946**
Depreciation							
Balance at December 31, 2021	**-**	**5,649**	**799**	**3,308**	**337**	**296**	**10,389**
Depreciation	**-**	**363**	**23**	**325**	**18**	**140**	**869**
Disposals	**-**	**-**	**(102)**	**(237)**	**-**	**-**	**(339)**
Balance at December 31, 2022	**-**	**6,012**	**720**	**3,396**	**355**	**436**	**10,919**
Depreciation	**-**	**368**	**43**	**323**	**19**	**101**	**854**
Disposals	**-**	**-**	**(30)**	**(209)**	**-**	**(319)**	**(558)**
Reclassification	**-**	**125**	**(125)**	**-**	**-**	**-**	**-**
Balance at December 31, 2023	**-**	**6,505**	**608**	**3,510**	**374**	**218**	**11,215**
Net book value							
At December 31, 2022	2,568	8,839	93	1,153	183	790	13,626
At December 31, 2023	**2,568**	**8,532**	**144**	**1,144**	**171**	**1,172**	**13,731**

($ in thousands)

8. Intangible assets

	Licences	*Software*	*Right-of-use naming agreement*	*Total*
Cost				
Balance at December 31, 2021	**1,859**	**1,498**	**120**	**3,477**
Additions	**-**	**243**	**75**	**318**
Disposals	**-**	**(137)**	**-**	**(137)**
Balance at December 31, 2022	**1,859**	**1,604**	**195**	**3,658**
Additions	**-**	**123**	**-**	**123**
Disposals	**-**	**(193)**	**-**	**(193)**
Balance at December 31, 2023	**1,859**	**1,534**	**195**	**3,588**
Amortization				
Balance at December 31, 2021	**-**	**835**	**33**	**868**
Amortization	**-**	**142**	**23**	**165**
Disposals	**-**	**(138)**	**-**	**(138)**
Balance at December 31, 2022	**-**	**839**	**56**	**895**
Amortization	**-**	**167**	**27**	**194**
Disposals	**-**	**(194)**	**-**	**(194)**
Balance at December 31, 2023	**-**	**812**	**83**	**895**
Carrying amounts				
At December 31, 2022	1,859	765	139	2,763
At December 31, 2023	**1,859**	**722**	**112**	**2,693**

9. Goodwill

Cost	***2023***	*2022*
Balance at beginning of year	**760**	2,260
Impairment	**-**	(1,500)
Carrying amount	**760**	760

($ in thousands)

10. Investment properties

Changes to the carrying amount of investment property from the beginning to the end of the year is as follows:

	2023	*2022*
Carrying amount, January 1	**464**	482
Additions	**16**	-
Depreciation	**(17)**	(18)
Carrying amount, December 31	**463**	464

11. Member deposits

	2023	*2022*
Term deposits	**333,961**	291,588
Demand deposits	**441,587**	504,275
Registered plans	**160,732**	144,876
Accrued interest savings and deposits	**8,554**	3,636
	944,834	944,375

Included in registered plans are retirement savings plans, retirement income funds, registered educations savings plans, registered disability savings plans, tax free savings accounts and first home savings accounts.

12. Income taxes

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

	2023	*2022*
Current income tax expense		
Based on current year taxable income	**777**	1,286
Deferred income tax expense		
Origination and reversal of temporary differences	**35**	62
	812	1,348

($ in thousands)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.00% (2022 - 27.00%) are as follows

	2023	*2022*
Income before income taxes	**4,330**	6,270
Income tax expense based on the statutory rate	**1,169**	1,693
Preferred rate deduction for Credit Unions	**(577)**	(755)
Tax effect of amounts recorded in other comprehensive income	**255**	(201)
Items not deductible for tax	**(35)**	611
	812	1,348

The movement in 2023 deferred income tax assets and liabilities are:

	Jan 1, 2023	Recognized in net income	**Dec 31, 2023**
Deferred income tax assets:			
Property, equipment, investment properties and intangible assets	689	35	**724**
Deferred income tax liabilities:			
Other	(442)	(1)	**(443)**
	247	34	**281**

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:			
Property, equipment, investment properties and intangible assets	656	33	689
Deferred income tax liabilities:			
Other	(470)	28	(442)
	186	61	247

13. Borrowings

The Credit Union maintains operating lines of credit and short term borrowing facilities with Central 1 and other major financial institutions which are secured by general security agreements and a demand debenture creating floating charges over the assets of the Credit Union. The approved facilities total $30,000 (2022 - $40,000) and any undrawn amount may be subject to standby fees. Total drawn down amounts of credit facilities were $nil at December 31, 2023 (2022 - $nil).

The Credit Union is an approved issuer of mortgage backed securities pools ("MBS"). The amount below for 2023 represents the repayment obligation amount for MBS pool (maturing in 2027) which is secured by specific pools of member and other loans. The outstanding balance of MBS at December 31, 2023 was $3,532 (2022 - $nil).

($ in thousands)

14. Leases

Leases as lessee

The Credit Union leases buildings for some of its branches. These building leases vary in length and often include an option to renew the lease for an additional period after the end of the initial contract term.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented within property, plant and equipment in the statement of financial position. Refer to note 7 for information pertaining to right-of-use assets arising from lease arrangements in which the entity is a lessee.

Lease liabilities

The following table sets out a maturity analysis of lease liabilities:

	2023	*2022*
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**193**	179
One to five years	**584**	653
More than five years	**1,394**	118
Total undiscounted lease liabilities	**2,171**	950
Lease liabilities included in the statement of financial position	**1,198**	843
Current	**177**	155
Non-current	**1,021**	688

Amounts recognized in profit or loss

The Credit Union has recognized the following amounts in the statement of profit or loss:

	2023	*2022*
Interest expense on lease liabilities	**22**	36

15. Member shares

		2023		*2022*	
	Authorized	**Equity**	**Liability**	Equity	Liability
Class A membership equity shares	Unlimited	**647**	**68**	649	68

($ in thousands)

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

Membership equity shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32 "Financial Instrument Presentation" and 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 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 Equity Shares
As a condition of membership, which is required to use the services of the Credit Union, each member is required to own at least five dollars of membership equity shares. This five dollar membership is redeemable at par only upon withdrawal of membership. Dividends are at the discretion of the Board of Directors. The Credit Union is authorized to issue an unlimited number of Class A shares.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia. Membership shares are available for redemption subject to management approval and so are split-classified as both liability and equity.

Class B Investment Equity Shares
Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors or upon the application of the member owning such shares on such terms and conditions as the directors may from time to time determine. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity. The Credit Union is authorized to issue an unlimited number of Class B shares and none are outstanding as at year end.

Class C Share Savings Shares
Savings shares are non-equity, non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the Board of Directors in the form of cash and additional shares. These shares are redeemable subject to the Credit Union maintaining adequate regulatory capital. The Credit Union is authorized to issue an unlimited number of Class C shares and none are outstanding as at year end.

16. Distributions to members

	2023	*2022*
Dividends on members' shares	**34**	29

Dividends and other approved distributions may be paid at the discretion of the Board of Directors in the form of cash or additional shares.

17. Employee benefits

Defined contribution plan

The Credit Union has a defined contribution plan under which both the Credit Union and employees make contributions. Credit Union contributions and corresponding expenses totaled $510 (2022 – $474).

($ in thousands)

18. Other income and expenses

	2023	*2022*
Commissions and fees	**6,610**	5,871
Impairment of goodwill	**-**	(1,500)
Service fee revenue	**1,185**	1,135
Securitization expense	**(99)**	-
Rental income	**164**	171
Realized gain (loss) on mandatory liquidity investments	**70**	(12)
	7,930	5,665

19. General operating and administrative

	2023	*2022*
Directors' administrative expenses	**150**	101
Licenses, fees, and dues	**1,574**	1,285
Office, administrative, premise, and supplies	**6,183**	5,417
Professional fees	**668**	739
Promotion and advertising	**158**	285
Training	**322**	314
	9,055	8,141

20. Related party transactions

Transactions with key management personnel ("KMP")

The Credit Union entered into the following transactions with key management personnel and directors, which are defined by IAS 24, Related Party Disclosures, as those persons that have authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management personnel.

Compensation for related parties

	2023	*2022*
Salaries, and other short-term employee benefits	**2,695**	2,597
Total pension and other post-employment benefits	**149**	138
Total remuneration	**2,844**	2,735

Included in the above is Board of Directors' remuneration of $120 (2022 - $99).

Loans to related parties

The Credit Union's policy for lending to directors and KMP is that the loans are approved and accepted on the same terms and conditions which apply to members for each class of loan. KMP may receive concessional rates of interest on their loans and facilities. There are no additional benefits or concessional terms and conditions applicable to related parties. 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 Key Management Personnel.

($ in thousands)

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

	2023	*2022*
Aggregate value of loans advanced	**6,627**	7,956
Total value of lines of credit advanced	**1,214**	545
Unadvanced value of lines of credit	**3,597**	2,672
	11,438	11,173

Interest income and expense	***2023***	*2022*
Interest collected on loans	**176**	173
Interest collected on revolving credit facilities	**57**	19
Interest paid on deposits	**56**	19

Deposits	***2023***	*2022*
Aggregate value of term and savings deposits	**4,893**	4,729

The Credit Union's policy for receiving deposits from directors and KMP is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. KMP may receive concessional pricing on their term and savings deposits.

($ in thousands)

21. Fair value measurements

Assets and liabilities measured at fair value

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

	Fair Value	***Level 1***	***Level 2***	***2023 Level 3***
Assets				
Financial assets at fair value through profit or loss				
Cash	**12,746**	**12,746**	**-**	**-**
Equity investments	**375**	**-**	**-**	**375**
	13,121	**12,746**	**-**	**375**
Financial assets at fair value through other comprehensive income				
Derivative financial instruments	**597**	**-**	**597**	**-**
Mandatory liquidity investments	**86,291**	**86,291**	**-**	**-**
	86,888	**86,291**	**597**	**-**
	100,009	**99,037**	**597**	**375**
Liabilities				
Financial liabilities at fair value through other comprehensive income				
Derivative financial instruments	**597**	**-**	**597**	**-**

	Fair Value	*Level 1*	*Level 2*	*2022 Level 3*
Assets				
Financial assets at fair value through profit or loss				
Cash	18,364	18,364	-	-
Equity investments	394	-	-	394
	18,758	18,364	-	394
Financial assets at fair value through other comprehensive income				
Derivative financial instruments	656	-	656	-
Mandatory liquidity investments	82,322	82,322	-	-
	82,978	82,322	656	-
	101,736	100,686	656	394
Liabilities				
Financial liabilities at fair value through other comprehensive income				
Derivative financial instruments	656	-	656	-

($ in thousands)

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

Financial instruments not measured at fair value

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

			2023
	Carrying amount	***Fair Value***	***Level 2***
Assets			
Amortized cost			
Investments - deposits	**49,666**	**50,427**	**50,427**
Loans to members	**848,450**	**817,155**	**817,155**
Other assets	**1,747**	**1,747**	**1,747**
	899,863	**869,329**	**869,329**
Liabilities			
Amortized cost			
Member deposits	**944,834**	**932,647**	**932,647**
Borrowings	**3,532**	**3,645**	**3,645**
Accounts payable and accrued liabilities	**3,910**	**3,874**	**3,874**
Members' shares	**68**	**68**	**68**
Lease liabilities	**1,198**	**1,198**	**1,198**
	953,542	**941,432**	**941,432**

			2022
	Carrying amount	*Fair Value*	*Level 2*
Assets			
Amortized cost			
Investments - deposits	73,745	73,745	73,745
Loans to members	812,487	772,435	772,435
Other asssets	2,206	2,206	2,206
	888,438	848,386	848,386
Liabilities			
Amortized cost			
Member deposits	944,375	923,258	923,258
Accounts payable and accrued liabilities	3,291	3,280	3,280
Members' shares	68	68	68
Lease liabilities	843	843	843
	948,577	927,449	927,449

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

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 of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. The risk can relate to consolidated statement of financial position assets such as loans, as well as off consolidated statement of financial position assets such as commitments and letters of credit.

Overall monitoring and processes will change as deemed necessary in response to the ongoing economic impact of 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.

Risk management process

Credit risk management is integral to the Credit Union’s activities. The Investment and Loan Committee ("ILC") which reports to the Board of Directors ensure that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The Credit Union refers to the ILC internally as the Credit Market Risk Committee. The ILC is comprised of members of the Board and is responsible for developing and implementing the credit risk management practices of the Credit Union by approving and reviewing lending policies on a regular basis, establishing lending limits for the Credit Union, delegating lending limits and reviewing quarterly reports prepared by management on watch list loans, impaired loans, diversification of the portfolio and other policy compliance requirements. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The Audit and Risk Committee reviews the adequacy of the allowance for impaired loans. The primary credit risk management policies and procedures include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration.
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits.
- 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.
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears.
- Appointment of personnel engaged in credit granting who are qualified.
- Management of growth within quality objectives.
- Audit procedures and processes in existence for all levels of Credit Union lending activities
- Loan syndication processes.

($ in thousands)

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

Credit risk *(Continued from previous page)*

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.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2023	2022
Unadvanced lines of credit	**162,623**	159,759
Commitments to extend credit	**40,076**	16,322
	202,699	176,081

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 including forward-looking 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;
- Facts or conditions are present indicating a borrower's inability to meet its debt obligations;
- The probability of default at the reporting date has increased significantly from the time of recognition.

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

Credit risk *(Continued from previous page)*

When a financial instrument is considered to have low credit risk and does not fall within the risk management process, it is assumed that there has not been a significant increase in credit risk since initial recognition. Financial instruments considered to have low credit risk include investments and derivative financial instruments.

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 there is evidence that the quantitative or qualitative indicator for a significant increase in credit risk no longer exists for a particular financial asset. 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 observable data about the following events:

- Significant financial difficulty of the borrower;
- A breach of contract, such as a default or past due event;
- The credit union, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the credit union would not otherwise consider; and
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

As it may not be possible to identify a single discrete event, a combined effect of several events may result in a financial asset to become credit-impaired.

Measurement of expected credit losses

The Credit Union measures expected credit losses ("ECL") for member loans that have not been assessed as credit-impaired 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.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers the probability of default, loss given default, forward looking information and macroeconomic factors, and exposure at default of the financial asset. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its members 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.

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

Credit risk *(Continued from previous page)*

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 - 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 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.

($ in thousands)

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.

The gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

		2023		
	12-month ECL (Stage 1)	*Lifetime ECL (not credit impaired) (stage 2)*	*Lifetime ECL (credit impaired) (stage 3)*	*Total*
Residential mortgages				
Low risk	**510,058**	**-**	**-**	**510,058**
Medium risk	**-**	**54,056**	**-**	**54,056**
Default	**-**	**-**	**226**	**226**
Gross carrying amount	**510,058**	**54,056**	**226**	**564,340**
Less: loss allowance	**512**	**116**	**1**	**629**
Carrying amount	**509,546**	**53,940**	**225**	**563,711**
Commercial mortgage				
Low risk	**58,226**	**-**	**-**	**58,226**
Medium risk	**-**	**161,041**	**-**	**161,041**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**58,226**	**161,041**	**-**	**219,267**
Less: loss allowance	**153**	**713**	**-**	**866**
Carrying amount	**58,073**	**160,328**	**-**	**218,401**
Retail loans and lines of credit				
Low risk	**42,281**	**-**	**-**	**42,281**
Medium risk	**-**	**7,999**	**-**	**7,999**
Default	**-**	**-**	**4**	**4**
Gross carrying amount	**42,281**	**7,999**	**4**	**50,284**
Less: loss allowance	**66**	**25**	**4**	**95**
Carrying amount	**42,215**	**7,974**	**-**	**50,189**
Commercial loans and lines of credit				
Low risk	**8,043**	**-**	**-**	**8,043**
Medium risk	**-**	**8,514**	**-**	**8,514**
Default	**-**	**-**	**10**	**10**
Gross carrying amount	**8,043**	**8,514**	**10**	**16,567**
Less: loss allowance	**46**	**61**	**10**	**117**
Total carrying amount	**7,997**	**8,453**	**-**	**16,450**

($ in thousands)

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

Credit risk *(Continued from previous page)*

	2023			
	12-month ECL (Stage 1)	*Lifetime ECL (not credit impaired) (stage 2)*	*Lifetime ECL (credit impaired) (stage 3)*	*Total*
Total members loans and lines of credit				
Total gross carrying amount per above	**618,608**	**231,611**	**240**	**850,459**
Less: loss allowance per above	**964**	**1,040**	**5**	**2,009**
Total carrying amount	**617,644**	**230,571**	**235**	**848,450**

($ in thousands)

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

Credit risk *(Continued from previous page)*

	2022			
	12-month ECL (Stage 1)	*Lifetime ECL (not credit impaired)(stage 2)*	*Lifetime ECL (credit impaired)(stage 3)*	*Total*
Personal Mortgages				
Low risk	511,533	-	-	511,533
Medium risk	-	50,007	-	50,007
Default	-	-	-	-
Gross carrying amount	511,533	50,007	-	561,540
Less: loss allowance	348	59	-	407
Carrying amount	511,185	49,948	-	561,133
Commercial mortgages				
Low risk	56,310	-	-	56,310
Medium risk	-	128,557	-	128,557
Default	-	-	-	-
Gross carrying amount	56,310	128,557	-	184,867
Less: loss allowance	199	829	-	1,028
Carrying amount	56,111	127,728	-	183,839
Retail loans and lines of credit				
Low risk	44,650	-	-	44,650
Medium risk	-	8,962	-	8,962
Default	-	-	14	14
Gross carrying amount	44,650	8,962	14	53,626
Less: loss allowance	133	71	-	204
Carrying amount	44,517	8,891	14	53,422
Commercial loans and lines of credit				
Low risk	11,195	-	-	11,195
Medium risk	-	3,253	-	3,253
Default	-	-	-	-
Gross carrying amount	11,195	3,253	-	14,448
Less: loss allowance	226	129	-	355
Carrying amount	10,969	3,124	-	14,093
Total members loans and lines of credit				
Total gross carrying amount per above	623,689	190,778	14	814,481
Less: loss allowance per above	906	1,088	-	1,994
Total carrying amount	622,783	189,690	14	812,487

As at December 31, 2023, the maximum exposure to credit risk with respect to financial assets without taking into account collateral held or other credit enhancements is $986,108 (2022 - $970,682). The principal collateral and other credit enhancement held by the Credit Union as security for loans include i) insurance, ii) mortgages over residential lots and properties, iii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iv) recourse to the commercial real estate properties being financed, and v) recourse to liquid assets, guarantees and securities.

($ in thousands)

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*
Members' loan receivable allowance				
Balance at December 31, 2021	**765**	**1,129**	**4**	**1,898**
Additional provision (recovery) for loans	**140**	**(41)**	**34**	**133**
Loans written-off net of recoveries	**-**	**-**	**(38)**	**(38)**
Balance at December 31, 2022	**905**	**1,088**	**-**	**1,993**
Additional provision for loans	**16**	**18**	**-**	**34**
Loans written-off net of recoveries	**43**	**(66)**	**5**	**(18)**
Balance at December 31, 2023	**964**	**1,040**	**5**	**2,009**

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.

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 Processes

The Asset Liability Committee ("ALCO"), made up of senior management, meets regularly to monitor the Credit Union's position as set by Board policy and ALCO operational guidelines, and decide future strategy. These policies and guidelines define the standards and limits within which the risks to net interest income and the value of equity are contained. An asset/liability risk report is prepared monthly for ALCO and reviewed on a quarterly basis by the ILC. Interest rate risk policies are reviewed annually by the Board.

The Credit Union's potential risk due to an immediate parallel shift 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 a (decrease) increase to net earnings of ($113) (2022 - $328) while a decrease in interest rates of 1% could result in an increase (decrease) to net earnings of $36 (2022 - ($413)).

($ in thousands)

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

Interest rate risk *(Continued from previous page)*

	Variable rate	*Within one year*	*One to five years*	*Over 5 years*	*Non-Interest Sensitive*	***2023 Total***	*2022 Total*
Assets							
Cash	-	7,561	-	-	5,185	**12,746**	18,364
Average yield %	-	*5.15*	-	-	-	*3.06*	*3.27*
Investments	-	65,310	70,776	-	246	**136,332**	156,461
Average yield %	-	*3.99*	*4.04*	-	-	*4.02*	*2.96*
Loans to members	113,271	209,751	518,388	6,981	59	**848,450**	812,487
Average yield %	*8.25*	*3.93*	*3.83*	*5.34*	-	*4.50*	*3.83*
Other	-	-	-	-	1,747	**1,747**	2,201
Subtotal	**113,271**	**282,622**	**589,164**	**6,981**	**7,237**	**999,275**	989,513
Liabilities							
Member deposits	338,689	360,769	106,005	-	139,371	**944,834**	944,375
Average yield %	*1.02*	*4.21*	*3.74*	-	-	*2.39*	*1.15*
Borrowings	-	445	3,087	-	-	**3,532**	-
Average yield %	-	*4.79*	*4.79*	-	-	*4.79*	-
Lease liabilities	-	176	385	637	-	**1,198**	843
Other	-	-	-	-	3,919	**3,919**	3,291
Subtotal	**338,689**	**361,390**	**109,477**	**637**	**143,290**	**953,483**	948,509
Mismatch	**(225,418)**	**(78,768)**	**479,687**	**6,344**	**(136,053)**	**45,792**	41,004
Derivatives notional amount	-	-	-	-	-	-	-
Net sensitivity	**(225,418)**	**(78,768)**	**479,687**	**6,344**	**(136,053)**	**45,792**	41,004

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

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 foreign currency.

Risk measurement

The Credit Union's foreign exchange positions are measured and monitored regularly.

Objectives, policies and processes

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between assets and liabilities held which are denominated in foreign currency. Foreign exchange forward contracts may be used to hedge the Credit Union's exposure to foreign exchange risk. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2023, the Credit Union's exposure to foreign exchange risk was not significant.

Liquidity and funding 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.

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 ALCO and policies are approved by the ILC and 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, 2023, the Credit Union had available funding sources totaling $30,000 (2022 - $40,000).

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 ILC quarterly, along with reporting of available cash resources and utilization rates. 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, 2023, the Credit Union's regulatory liquidity ratio was 9.64% (2022 - 9.20%).

($ in thousands)

23. Capital management

As a provincially chartered Credit Union, the Credit Union is required to measure its capital adequacy based on regulations monitored by British Columbia Financial Services Authority ("BCFSA"). Regulatory capital must have the following fundamental characteristics: i) permanency; ii) be free of fixed charges against earnings; and iii) be subordinate in its priority on liquidation to the rights of deposits and other creditors of the Credit Union. Primary or secondary capital allocations are based on whether items meet all or only some of the fundamental characteristics. Also, other items may be deducted from capital to arrive at the total capital base.

Based primarily on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weight factor ranging from 0% to 150%. The regulatory ratio is then computed by dividing the total capital base by the Credit Union's risk weighted assets, including off-balance sheet commitments. Regulation currently requires that each Credit Union must maintain a minimum capital to risk-weighted assets ratio of 8%. BCFSA's supervisory target capital ratio is established above the regulatory minimum at 10%.

The Credit Union's capital adequacy ratio as of December 31, 2023 was 15.97% (2022 - 16.38%).

Capital of the Credit Union is comprised of:

	2023	*2022*
Primary capital		
Retained earnings	**64,424**	61,176
Membership equity shares including dividends	**647**	717
Dividends	**34**	29
	65,105	61,922
Secondary capital		
Share of system retained earnings	**9,418**	9,014
	9,418	9,014
Other additions (deductions) from capital		
Intangible assets	**(3,443)**	(2,866)
Deferred income taxes	**248**	198
	(3,195)	(2,668)
Capital base	**71,328**	68,268

The Credit Union manages capital and its composition based on statutory requirements. The ratio is reviewed monthly and is addressed in annual and three year planning cycles to review the impact of strategic decisions, growth rates and other trends. The Board of Directors maintains overall responsibility for an effective capital management process, including policy review, and regulatory adherence. It has delegated certain of its specific responsibilities to the ILC.

24. Commitments

Member loans

The Credit Union's commitments to provide credit to its members are disclosed in the credit risk section of Note 22.

24. Commitments *(Continued from previous page)*

Contractual obligations

As a result of its operations, the Credit Union is exposed to a number of financial commitments including various lease payments for premises and equipment with varying end dates.

The Credit Union is committed to lease payments for premises and equipment with varying end dates. The undiscounted value of these payments is disclosed in Note 14.

25. Comparative figures

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