Salmon Arm Savings and Credit Union
Consolidated Financial Statements
For the Year Ended December 31, 2022

Contents

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Independent Auditor's Report

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, which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year ended December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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

Management is responsible for the preparation and fair presentation of these 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 Salmon Arm Savings and 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 Salmon Arm Savings and Credit Union or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Salmon Arm Savings and 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 Salmon Arm Savings and Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Salmon Arm Savings and Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Salmon Arm Savings and 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.

BDO Canada LLP

Chartered Professional Accountants

Salmon Arm, British Columbia
March 14, 2023

Salmon Arm Savings and Credit Union
Consolidated Statement of Financial Position

December 31		2022		2021
				(Note 21)
Assets				
Cash (Note 3)	$	18,364,026	$	16,902,136
Income tax receivable		77,556		-
Investments (Note 4)		156,460,607		213,956,957
Derivative financial assets (Note 5)		656,065		831,982
Loans to members (Note 6, 7)		812,487,020		760,263,442
Property, plant, and equipment (Note 8)		12,836,690		13,401,852
Right-of-use assets (Note 10)		928,930		826,120
Intangible assets (Note 8)		2,623,825		2,522,482
Goodwill		760,238		2,260,238
Investment property (Note 9)		464,454		482,035
Other assets		2,127,919		2,027,339
	$	1,007,787,330	$	1,013,474,583
Liabilities				
Accounts payable and accrued liabilities	$	3,250,765	$	3,210,824
Income taxes payable		-		208,413
Dividends payable		29,356		13,519
Member deposits (Note 11)		944,376,479		953,812,880
Derivative financial liabilities (Note 5)		656,065		831,982
Lease liability (Note 10)		842,630		780,651
Deferred income tax liability (Note 13)		246,905		185,379
Members' shares (Note 14)		717,163		708,834
Total liabilities		950,119,363		959,752,482
Members' equity				
Retained earnings		59,089,203		54,162,384
Accumulated other comprehensive income (loss)		(1,421,236)		(440,283)
Total Members' Equity		57,667,967		53,722,101
	$	1,007,787,330	$	1,013,474,583

Signed on behalf of the Board of Directors' by:

DocuSigned by:
Dave Witt
BE55BBAA926D416...
Chair of the Board

DocuSigned by:
Kelly Bennett
C0B0A988780842E...
Director

The accompanying notes are an integral part of these consolidated financial statements.

Salmon Arm Savings and Credit Union
Consolidated Statement of Comprehensive Income

For the year ended December 31	2022	2021
		(Note 21)
Interest revenue		
Interest on member loans	$ 26,541,297	$ 23,028,491
Other interest revenue	3,226,172	998,613
	29,767,469	24,027,104
Interest and loan related expenses		
Interest on member deposits	7,689,743	4,886,327
Other interest expense	47,681	49,740
Impairment losses on member loans (Note 7)	133,284	137,193
	7,870,708	5,073,260
Financial margin	21,896,761	18,953,844
Other income and expenses (Note 15)	5,962,614	7,636,914
	27,859,375	26,590,758
Non-interest and operating expenses		
Amortization	1,061,235	1,120,884
Community support	387,384	220,429
Distributions to members	29,183	13,306
Salaries and benefits	11,637,234	11,315,345
General operating and administrative (Note 16)	8,474,377	7,225,479
Total non-interest and operating expenses	21,589,413	19,895,443
Income before income taxes	6,269,962	6,695,315
Provision for income taxes (Note 13)		
Current income taxes	1,281,408	1,248,801
Deferred income taxes	61,735	(15,828)
	1,343,143	1,232,973
Net income for the year	4,926,819	5,462,342
Other comprehensive income (net of tax)		
Change in unrealized losses on investments	(980,953)	(440,283)
Total comprehensive income for the year	$ 3,945,866	$ 5,022,059

The accompanying notes are an integral part of these consolidated financial statements.

Salmon Arm Savings and Credit Union
Consolidated Statement of Changes in Members' Equity

For the year ended December 31

	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2020	$ -	$ 48,700,042	$ 48,700,042
Net income	-	5,462,342	5,462,342
Change in unrealized losses on FVTOCI investments	(440,283)	-	(440,283)
Balance on December 31, 2021	(440,283)	54,162,384	53,722,101
Net income	-	4,926,819	4,926,819
Change in unrealized losses on FVTOCI investments	(980,953)	-	(980,953)
Balance on December 31, 2022	$ (1,421,236)	$ 59,089,203	$ 57,667,967

The accompanying notes are an integral part of these consolidated financial statements.

Salmon Arm Savings and Credit Union
Consolidated Statement of Cash Flows

For the year ended December 31	2022	2021
Cash flows from operating activities		
Interest revenue	$ 30,899,356	$ 23,876,171
Other income	7,480,272	8,433,631
Interest paid	(9,314,180)	(7,008,323)
Interest paid on lease liability	(36,356)	(36,993)
Cash paid to suppliers and employees	(20,550,991)	(18,856,926)
Income taxes paid	(1,366,668)	(1,785,644)
Distributions to members	(13,346)	(13,581)
	7,098,087	4,608,335
Changes in member activities		
Net increase in member loans	(52,701,077)	(46,902,672)
Net increase (decrease) in member deposits	(7,859,645)	91,642,951
	(60,560,722)	44,740,279
	(53,462,635)	49,348,614
Cash flows from investing activities		
Purchase of investments	-	(59,127,987)
Proceeds on investments	55,526,806	-
Purchase of intangible assets	(243,193)	(255,938)
Purchase of property, plant and equipment	(164,600)	(149,837)
	55,119,013	(59,533,762)
Cash flows from financing activities		
Net change in member shares	8,329	(15,350)
Principal payment of lease liability	(202,817)	(145,557)
	(194,488)	(160,907)
Net increase (decrease) in cash	1,461,890	(10,346,055)
Cash at beginning of year	16,902,136	27,248,191
Cash at end of year	$ 18,364,026	$ 16,902,136

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Salmon Arm Savings and Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of the Province of British Columbia and subject to the Financial Institutions Act of British Columbia. The Credit Union is a member of Central 1 Credit Union Limited (Central 1).

SASCU Wealth Inc. is incorporated under the Company Act of British Columbia and provides financial planning services.

SASCU Insurance Services Ltd. is incorporated under the Company Act of British Columbia and provides insurance services.

The Credit Union operates as three operating segments in the financial services industry in the communities of Salmon Arm, Sicamous, Sorrento and Enderby in British Columbia. The Credit Union's head office is located at 370 Lakeshore Drive NE, Salmon Arm, British Columbia.

The main products and services offered to its members include: personal loans and mortgages, commercial loans and mortgages, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, RESPs, mutual funds, financial planning services, insurance services, automated teller machines ("ATMs"), debit and credit cards and online banking.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 14, 2023.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and those of its wholly-owned subsidiaries SASCU Wealth Inc. and SASCU Insurance Services Ltd. All significant intercompany transactions and accounts have been eliminated.

Basis of Presentation

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

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL"), financial assets classified as fair value through other comprehensive income ("FVOCI"), and derivative financial instruments measured at fair value, where fair value could be reasonably determined.

The Credit Union’s functional and presentation currency is the Canadian dollar.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The COVID-19 pandemic has caused significant economic disruptions worldwide. One of the major consequences has been an increase in inflationary rates, which in turn has led to higher interest rates. Additionally, the ongoing conflict in Europe has further contributed the to economic instability in the region. These changes have resulted in a higher level of uncertainty and predictability than usual. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The determination of whether the loan receivables due from qualifying borrowers under the Canadian Emergency Business Account ("CEBA") program meet the derecognition criteria for financial assets in IFRS 9 (Note 6);
- The determination of impairment of member loans; assessing whether credit risk on the financial asset has increased significantly since initial recognition; and the incorporation of forward-looking information into measurement of the expected credit loss ("ECL") (Note 7);
- The classification of financial assets, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Notes 4 and 6);
- The Credit Union determines the fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Note 18); and
- The determination of lease term for some lease contracts in which the Credit Union is a lessee that include renewal options and termination options, and the determination whether the Credit Union is reasonably certain to exercise such options, and the determination of the incremental borrowing rate used to measure lease liabilities for each lease contract.

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

Judgments

Member Loan Loss Provision

In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

In determining the collective loan loss provision management uses estimates based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months or in the life time of the instrument. Further details on the estimates used to determine the allowance for loan losses are provided in Note 19.

Estimates

The effect of a change in an accounting estimate is recognized, prospectively, by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately. Further details on assumptions used are provided in Note 18.

Income Taxes

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 liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities (Note 13).

Significant Accounting Policies

Cash

Cash includes cash on hand, deposits with banks, other highly liquid investments and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Investments

Liquidity Deposits

These deposit instruments are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flow.

Other Deposits

Other deposit instruments held at other financial institutions are also initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at amortized cost, which approximates fair value.

Mandatory Liquidity Investments

These assets are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value through other comprehensive income because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold and collect financial assets in order to collect contractual cash flows.

Equity Instruments

These instruments are classified as fair value through profit and loss and initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost which approximates fair value.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized through profit and loss.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

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 and are recorded at amortized cost.

The Credit Union initially recognizes loans to members on the date on which they are originated. Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Loans to members are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest ("SPPI") criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Loans to members are subsequently reduced by any allowance for loan losses.

The Credit Union derecognizes loans when the contractual rights to the cash flows from the loans expire, or the Credit Union transfers the loans. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss. If the terms of a loan are modified, then the Credit Union evaluates whether the cash flows of the modified loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original loan are deemed to have expired and are derecognized and a new loan recognized at fair value.

If the terms of a loan are modified but not substantially, then the loan is not derecognized. If the loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on loans to members.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

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

Buildings	20 - 60 years SL or 3-5% DB
Landscaping and paving	10 - 25 years SL or 5% DB
Computer hardware	4 - 7 years SL
Furniture and fixtures	5 - 15 years SL or 20% DB
Equipment	5 - 15 years SL
Security equipment	5 - 20 years SL or 5% DB
Leasehold improvements	Lease term

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

Leases

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost. Subsequent to initial application, the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. In comparison, the lease liability is increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union, as well as, Insurance Corporation of British Columbia (ICBC) licenses. Intangible assets are initially recorded at cost. Subsequently, computer software is measured at cost less accumulated depreciation and any accumulated impairment losses. Software is depreciated on a straight-line basis over its estimated useful life of four to ten years. The ICBC licenses have not been depreciated as they have an indefinite useful life but are assessed for impairment annually.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of the cost of a business combination over the Credit Union's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Goodwill is capitalized as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

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.

Impairment of Non-Financial Assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has four cash-generating units, of which one is the investment property of the land and building, for which impairment testing is performed.
Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates 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 or taxable profit or loss.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

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

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).

Member Deposits

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

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

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.

The amount contributed to the plan for 2022 was $ 474,478 (2021 - $ 446,177). The contributions were made for current service and these have been recognized in net income.

Accounts Payable and Accrued Liabilities

Liabilities for trade creditors and other payables are classified as other financial liabilities and 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.

Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Members' Shares

Members' 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 or financial asset.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Interest and investment income are recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of the related loan based on its estimated fair value and allocating the interest income over the relevant period.

Mutual fund and insurance commission income are recognized when the performance obligations have been satisfied, the price is fixed or determinable and collectibility is reasonably assured when payment is received.

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 net income.

2. Adoption of New Accounting Standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2022 did not materially affect the Credit Union's financial statements. There are no IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

3. Cash

The Credit Union's cash and current accounts are held with Central 1. The average yield on the accounts for the year is 1.73% (2021 - 0.20%).

4. Investments

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below:

	2022	2021
Deposits		
Central 1 deposits	$ 28,626,767	$ 83,551,021
Other financial institution deposits	45,118,030	47,510,178
	73,744,797	131,061,199
Mandatory liquidity investments	82,321,868	82,368,006
Equity instruments	393,942	527,752
Total investments	$156,460,607	$ 213,956,957

Central 1 Deposits

	2022	2021
Deposits	$ 28,396,440	$ 83,459,500
Accrued interest	230,327	91,521
Total Central 1 deposits	$ 28,626,767	$ 83,551,021

The Central 1 deposits accrue interest between 1.16% to 4.71% (2021 - 0.10% to 1.26%) and mature between January 12, 2023 and February 23, 2024.

Other Financial Institution Deposits

	2022	2021
Deposits	$ 44,547,605	$ 47,500,000
Accrued interest	570,425	10,178
Total other financial institution deposits	$ 45,118,030	$ 47,510,178

The other financial institution deposits accrue interest between 2.10% to 5.05% (2021 - 0.29% to 0.64%) and include three types of deposits: redeemable deposits, deposits that require a 45-day notice of redemption, and long term deposits maturing between January 22, 2023 and August 15, 2024.

4. Investments (continued)

Mandatory Liquidity Investments

	2022	2021
Mandatory liquidity investments	$ 81,958,350	$ 82,093,108
Accrued interest	363,518	274,898
Total mandatory liquidity investments	$ 82,321,868	$ 82,368,006

Mandatory liquidity investments are made up of a portfolio of high quality liquid assets (HQLA). The mandatory liquidity investments accrue interest between 0.71% to 8.50% and mature between January 16, 2023 and June 22, 2026. The Credit Union must maintain an adequate stock of unencumbered high quality liquid assets at a minimum of 8% of total deposits and debt liabilities at December 31 each year. The assets can be withdrawn only if there is a sufficient reduction in the Credit Union's total deposits and debt liabilities. At maturity, these assets are reinvested at market rates for various terms.

Equity Instruments

	2022	2021
Central 1 Credit Union - 296,103 Class A Shares	$ 296,103	$ 282,732
Central 1 Credit Union - 15,654 Class E Shares	157	157
Other investments	97,682	244,863
Total equity instruments	$ 393,942	$ 527,752

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

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

Class E Central 1 shares are issued with a par value of $0.01, however, are redeemable at $100 at the option of Central 1. There is no separately quoted market value for these shares and the timing of redemption of these shares is at the discretion of Central 1 and is unknown at this time therefore, the time period used in the valuation of the shares is of significant length. As a result, they are recorded at cost which approximates fair value.

There is no separately quoted market value for the Credit Union's other investments and their fair values could not be measured reliably. Therefore, they are recorded at cost, as the timing of redemption of shares cannot be determined.

5. Derivative Financial Instruments

The Credit Union has outstanding $ 5,827,297 (2021 - $ 5,507,884) 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 $ 656,065 (2021 - $ 831,982).

The Credit Union utilizes derivative financial instruments to mitigate the risk on these deposits. The Credit Union has entered into hedge 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
2023	$ 1,170,837	$ 230,236
2024	1,048,744	115,638
2025	1,608,530	180,050
2026	686,473	32,943
2027	1,312,713	97,198
	$ 5,827,297	$ 656,065

6. Loans to Members

	2022	2021
Personal loans and mortgages	$617,766,498	$ 572,118,779
Commercial loans and mortgages	195,075,509	188,747,579
	812,842,007	760,866,358
Accrued interest receivable	1,639,635	1,295,420
Allowance for impaired loans (Note 7)	(1,994,622)	(1,898,336)
Loans to members	$812,487,020	$ 760,263,442

Terms and Conditions

Member loans can have either a variable or fixed rate of interest and they mature within ten years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 1.00% to prime plus 9.50% (2021 - prime minus 1.00% to prime plus 9.00%). The rate is determined by the type of security offered and the member's creditworthiness. The Credit Union's prime rate at December 31, 2022 was 6.45% (2021 - 2.45%).

The interest rate offered on fixed-rate loans being advanced at December 31, 2022, ranges from 1.00% to 13.45% (2021 - 1.00% to 15.75%). The rate offered to a particular member varies with the type of security offered and the member's creditworthiness.

Personal loans and mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Included in personal loans and mortgages are $ 7,584,081 (2021 - $ 9,229,416) in term loans and lines of credit that secured by collateral other than real estate and, as such, have various repayment terms. Some of the loans and lines of credit are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial loans consist of term loans, operating lines of credit and mortgages to sole proprietors, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

6. Loans to Members (continued)

Average Yields to Maturity
Loans bear interest at both variable and fixed rates with the following average yields at:

	Principal	2022 Yield	Principal	2021 Yield
Variable rate	$ 98,089,214	7.36 %	$ 95,388,373	3.44 %
Fixed rate due less than one year	147,785,560	3.43	103,258,066	3.20
Fixed rate due between one and ten years	566,967,233	3.27	562,219,919	2.97
	$812,842,007	3.79 %	$ 760,866,358	3.06 %

Recognition and initial measurement

The Credit Union initially recognizes member loans on the date on which they are originated. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Classification and subsequent measurement

Member loans are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest ("SPPI") criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Member loans are subsequently reduced by any allowance for loan losses.

Derecognition and contract modifications

The Credit Union derecognizes member loans when the contractual rights to the cash flows from the member loans expire, or the Credit Union transfers the member loans. On derecognition, the differences between the carrying amounts at the date of derecognition and the consideration received is recognized in profit or loss.

The Credit Union continued to administer the Canadian Emergency Business Account ("CEBA") program on behalf of the Government of Canada. The Credit Union provides lending to businesses who qualify for CEBA ("qualifying borrower"). The Credit Union ensures that the applicant is eligible for support under CEBA and act in its regular standard of care as required for comparable transactions. In exchange for the services, the Government will pay the financial institution an administration fee.

Per the terms of the agreement, it is determined that the Credit Union meets the derecognition criteria for the loans advanced to the borrower; therefore the loans administered under the CEBA program are not recognized on the consolidated Statement of Financial Position.

If the terms of a member loan are modified, the Credit Union evaluates whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

6. Loans to Members (continued)

If the terms of a member loan are modified but not substantially, then the member loan is not derecognized. If the member loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the member loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on member loans.

Collateral Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	2022		
	Personal	Commercial	Total
Unsecured loans	$ 5,502,916	$ 2,714,624	$ 8,217,540
Loans secured by cash, member deposits or government	2,081,165	-	2,081,165
Mortgages insured by government and secured by property	148,436,546	62,749	148,499,295
Mortgages insured by other	2,092,445	-	2,092,445
Residential mortgages secured by property	459,653,426	-	459,653,426
Commercial mortgages secured by property	-	189,839,003	189,839,003
Other secured loans	-	2,459,133	2,459,133
	$ 617,766,498	$ 195,075,509	$ 812,842,007

	2021		
	Personal	Commercial	Total
Unsecured loans	$ 6,155,254	$ 3,011,872	$ 9,167,126
Loans secured by cash, member deposits or government	1,715,734	290,475	2,006,209
Mortgages insured by government and secured by property	147,001,959	72,713	147,074,672
Mortgages insured by other	2,537,954	-	2,537,954
Residential mortgages secured by property	413,349,449	-	413,349,449
Commercial mortgages secured by property	-	184,361,833	184,361,833
Other secured loans	1,358,429	1,010,686	2,369,115
	$ 572,118,779	$ 188,747,579	$ 760,866,358

Fair Value

The fair value of member loans at December 31, 2022 was $ 772,435,000 (2021 - $ 759,757,000).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined using level 3 valuations (Note 18) by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

6. Loans to Members (continued)

Concentration of Risk

The Credit Union sets policies and limits to help manage its exposure and concentration of risk. Policies and limits have been set for single member or connected members, commercial business, agricultural, hospitality/tourism, construction and any unsecured loans.

The Credit Union is within all its policies and limits at December 31, 2022.

The majority of member loans are with members located in and around the Salmon Arm, Sicamous and Sorrento communities in British Columbia.

7. Allowance for Loan Losses

The allowance for loan losses includes amounts related to undrawn loan commitments. The Credit Union has the following undrawn loan commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	Personal	Commercial	2022 Total	2021 Total
Unadvanced loans	$ 9,562,951	$ 6,759,017	$ 16,321,968	$ 27,334,602
Unadvanced lines of credit	128,105,867	31,343,725	159,449,592	145,172,890
Letters of credit	157,405	1,842,105	1,999,510	1,398,159

Write-off

Member loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, member loans written off could still be subject to enforcement activities in order to comply with the Credit Union’s procedures for recovery of amounts due. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

For Credit Union's credit quality analysis as well as risk management objectives and policies, see Note 19.

7. Allowance for Loan Losses (Continued)

The following tables show reconciliations from the opening to the closing balance of the allowance for loan losses by type of member loan. The allowance for loan losses in these tables include expected credit loss ("ECL") on loan commitments for certain member loans such as unadvanced loans, unused lines of credit and letters of credit, because the Credit Union cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

	12 Month ECL (Stage 1)	Lifetime ECL-Not Impaired (Stage 2)	Lifetime ECL-Credit Impaired (Stage 3)	2022 Total	2021 Total
Personal loans					
Balance January 1	$ 385,326	$ 139,307	$ 4,328	$ 528,961	$ 565,205
Year-to-Date:					
Additional provision (recovery) for loans	95,533	(9,992)	14,598	100,139	(29,479)
Loans written-off	-	-	(20,010)	(20,010)	(16,986)
Recoveries of loans written-off	-	-	3,153	3,153	10,222
Other movements	-	-	-	-	-
Balance at December 31	$ 480,859	$ 129,315	$ 2,069	$ 612,243	$ 528,962
Commercial loans					
Balance January 1	$ 379,602	$ 989,772	$ -	$ 1,369,374	$ 1,202,702
Year-to-Date:					
Additional provision (recovery) for loans	44,749	(31,744)	20,140	33,145	166,672
Loans written-off	-	-	(20,140)	(20,140)	-
Recoveries of loans written-off	-	-	-	-	-
Other movements	-	-	-	-	-
Balance at December 31	$ 424,351	$ 958,028	$ -	$ 1,382,379	$ 1,369,374
Total allowance for loan losses, December 31	$ 905,210	$ 1,087,343	$ 2,069	$ 1,994,622	$ 1,898,336

8. Property, Plant and Equipment and Intangible Assets

	Land	Buildings	Leasehold Improvements	Furniture, Fixtures & Equipment	Pavement & Landscaping	Total	Intangible Assets
Cost							
Balance at January 1, 2021	$ 2,568,396	$ 14,837,430	$ 908,156	$ 5,176,408	$ 537,979	$ 24,028,369	$ 3,161,054
Additions	-	13,358	9,911	126,568	-	149,837	255,938
Disposals	-	-	(3,330)	(690,150)	-	(693,480)	(147,527)
Balance on December 31, 2021	$ 2,568,396	$ 14,850,788	$ 914,737	$ 4,612,826	$ 537,979	$ 23,484,726	$ 3,269,465
Additions	-	-	-	164,600	-	164,600	243,193
Disposals	-	-	(101,897)	(237,305)	-	(339,202)	(137,894)
Balance on December 31, 2022	$ 2,568,396	$14,850,788	$ 812,840	$ 4,540,121	$ 537,979	$23,310,124	$ 3,374,764
Accumulated depreciation							
Balance on January 1, 2021	$ -	$ 5,278,677	$ 777,746	$ 3,619,392	$ 317,757	$ 9,993,572	$ 725,744
Depreciation expense	-	369,909	22,576	371,007	19,289	782,781	168,766
Disposals	-	-	(3,330)	(690,149)	-	(693,479)	(147,527)
Balance on December 31, 2021	$ -	$ 5,648,586	$ 796,992	$ 3,300,250	$ 337,046	$ 10,082,874	$ 746,983
Depreciation expense	-	363,310	22,650	325,440	18,362	729,762	141,850
Disposals	-	-	(101,897)	(237,305)	-	(339,202)	(137,894)
Balance on December 31, 2022	$ -	$ 6,011,896	$ 717,745	$ 3,388,385	$ 355,408	$10,473,434	$ 750,939
Net book value							
December 31, 2021	$ 2,568,396	$ 9,202,202	$ 117,745	$ 1,312,576	$ 200,933	$ 13,401,852	$ 2,522,482
December 31, 2022	$ 2,568,396	$ 8,838,892	$ 95,095	$ 1,151,736	$ 182,571	$12,836,690	$ 2,623,825

Included in intangible assets are ICBC licenses with cost of $ 1,858,532 (2021 - $ 1,858,532) which is not being depreciated as they have an indefinite useful life.

9. Investment Property

	Land	Buildings	Pavement	Total
Cost				
Balance at January 1, 2021	$ 150,907	$ 758,441	$ 47,648	$ 956,996
Balance at December 31, 2021	$ 150,907	$ 758,441	$ 47,648	$ 956,996
Balance at December 31, 2022	$ 150,907	$ 758,441	$ 47,648	$ 956,996
Accumulated depreciation				
Balance at January 1, 2021	$ -	$ 409,734	$ 43,812	$ 453,546
Depreciation expense	-	17,579	3,836	21,415
Balance at December 31, 2021	$ -	$ 427,313	$ 47,648	$ 474,961
Depreciation expense	-	17,581	-	17,581
Balance at December 31, 2022	$ -	$ 444,894	$ 47,648	$ 492,542
Net book value				
December 31, 2021	$ 150,907	$ 331,128	$ -	$ 482,035
December 31, 2022	$ 150,907	$ 313,547	$ -	$ 464,454

Investment property, held by the Credit Union, is leased out under an operating lease. The future minimum lease payments under the lease are as follows:

	2022	2021
Less than one year	$ 90,750	$ 90,750
Years two to five	383,419	374,344
More than five years	923,384	923,384
	$ 1,397,553	$ 1,388,478

10. Right-of-Use Assets

	Premise & Equipment	Naming Agreements	Total
Balance at January 1, 2022	$ 739,343	$ 86,777	$ 826,120
Additions	189,796	75,000	264,796
Depreciation	(139,878)	(22,108)	(161,986)
Balance at December 31, 2022	$ 789,261	$ 139,669	$ 928,930

Lease Liability	Premise & Equipment	Naming Agreements	Total
Balance at January 1, 2022	$ 780,651		$ 780,651
Additions	189,796	75,000	264,796
Lease payments	(127,818)	(75,000)	(202,818)
Balance at December 31, 2022	$ 842,629	$ -	$ 842,629

The lease of premises expired in November 2022 and they are currently on a month-to-month basis.

The lease of office equipment expires August 2023 and is comprised of fixed payments over the lease term.

The lease of the naming agreement expires January 2029 with a 10-year extension option.

11. Member Deposits

	2022	2021
Demand	$ 504,275,411	$ 566,831,292
Term	291,588,324	247,212,070
Registered plans	144,876,260	137,709,789
	940,739,995	951,753,151
Accrued interest payable	3,636,484	2,059,729
	$ 944,376,479	$ 953,812,880

Included in registered plans are education savings plans, retirement savings plans, retirement income funds and tax-free savings accounts.

Terms and Conditions

Demand deposits are due on demand and bear interest at a variable rate up to 5.20% at December 31, 2022 (2021 - 1.20%). Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2022 range from 0.05% to 4.85% (2021 - 0.01% to 1.70%).

Registered plans can have a fixed or variable rate. The fixed rate has terms and rates similar to the term deposit accounts described above. The variable rate bears interest at rates up to 1.40% at December 31, 2022 (2021 - 0.10%).

Included in member deposits is an amount of $ 6,690,652 denominated in US dollars ($ 9,063,308 - Canadian dollars) (2021 - $ 5,696,535 in US dollars; $ 10,933,833 in Canadian dollars).

Fair Value

The fair value of member deposits at December 31, 2022 was $923,258,000 (2021 - $953,920,000).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits are re-priced to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

11. Member Deposits (continued)

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields at:

	Principal	2022 Yield	Principal	2021 Yield
Non-interest bearing	$149,871,171	- %	$ 176,860,939	- %
Variable rate	382,475,778	0.93	423,620,791	0.10
Fixed rate due less than one year	226,185,119	2.51	244,502,589	0.81
Fixed rate due between one and five years	182,207,927	2.99	106,768,832	1.35
	$940,739,995	1.56 %	$ 951,753,151	0.40 %

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

Individual member deposits which exceed 1% of total assets:

	2022	2021
Demand	$ 11,343,353	$ 581,941
Term	51,843,317	25,361,759
	$ 63,186,670	$ 25,943,700

The majority of member deposits are from members located in and around the Salmon Arm, Sicamous and Sorrento communities in British Columbia.

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12. Short-term Debt

	Approved	2022 Balance Outstanding	Approved	2021 Balance Outstanding
Other financial institutions	$ 10,000,000	$ -	$ 10,000,000	$ -
Central 1	30,000,000	-	27,400,000	-
	$ 40,000,000	$ -	$ 37,400,000	$ -

The above amounts have a floating interest rate of CDOR (Canadian Dollar Offered Rate) + 0.50%.

13. Income Taxes

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

	2022	2021 (Note 21)
Current tax expense		
Based on current year taxable income	$ 1,080,490	$ 1,158,623
Tax effect of unrealized losses on FVTOCI investments	200,918	90,178
	1,281,408	1,248,801
Deferred tax expense		
Origination and reversal of temporary differences	61,735	(15,828)
Tax (recovery) recorded in other comprehensive income	(200,918)	(90,178)
Total income tax expense	$ 1,142,225	$ 1,142,795

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.0% (2021 – 27.0%) are as follows:

	2022	2021 (Note 21)
Net income before taxes	$ 6,269,962	$ 6,695,315
Income tax expense using the statutory rate	1,692,890	1,807,735
Preferred rate for Credit Unions	(754,763)	(719,576)
Tax (recovery) recorded in other comprehensive income	(200,918)	(90,178)
Items not deductible for tax	405,017	144,814
Total income tax expense	$ 1,142,226	$ 1,142,795

13. Income Taxes (continued)

The movement in 2022 deferred tax liabilities and assets is:

	Opening Balance at Jan 1, 2022	Recognize in Net Income	Closing Balance at Dec 31, 2022
Deferred tax (assets) liabilities			
Property, plant and equipment, intangible assets and investment property	$ 655,676	$ 32,660	$ 688,336
Other	(470,297)	28,866	(441,431)
Net deferred tax liability	$ 185,379	$ 61,526	$ 246,905

The movement in 2021 deferred tax liabilities and assets is:

	Opening Balance at Jan 1, 2021	Recognize in Net Income	Closing Balance at Dec 31, 2021
Deferred tax (assets) liabilities			
Property, plant and equipment, intangible assets and investment property	$ 669,868	$ (14,192)	$ 655,676
Other	(468,661)	(1,636)	(470,297)
Net deferred tax liability	$ 201,207	$ (15,828)	$ 185,379

14. Members' Shares

Issued

		2022	2021
Class A membership equity shares	$	717,163 $	708,834

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 $5 of membership equity shares. This $5 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. All membership shares are available for redemption and are classified as a liability.

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.

15. Other Income and expenses

	2022	2021
Commissions and fees	$ 6,340,397	$ 7,082,700
Impairment of goodwill	(1,500,000)	(500,000)
Service fee revenue	1,135,023	1,092,025
Realized loss on liquidity investments	(12,806)	(37,811)
	$ 5,962,614	$ 7,636,914

16. General Operating and Administrative Expenses

	2022	2021
Directors' administrative expenses	$ 100,830	$ 47,573
Interest on lease liability	36,356	36,993
Licenses, fees, and dues	1,285,236	1,157,010
Office, premise and supplies	4,797,719	4,418,443
Other administrative expenses	916,242	667,768
Professional fees	739,187	515,347
Promotion and advertising	285,154	245,954
Training	313,653	136,391
	$ 8,474,377	$ 7,225,479

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17. Related Party Transactions

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

	2022	2021
Compensation		
Salaries, and other short-term benefits	$ 2,597,074	$ 2,224,861
Total pension and other post-employment benefits	137,520	116,351
	$ 2,734,594	$ 2,341,212

	2022	2021
Loans to key management personnel		
Aggregate value of loans advanced	$ 7,955,701	$ 6,721,547
Interest received on loans advanced	172,686	159,884
Total value of lines of credit advanced	544,504	174,808
Interest received on lines of credit advanced	19,391	9,989
Unadvanced value of lines of credit	2,672,795	2,694,991
	$ 11,365,077	$ 9,761,219

The Credit Union’s policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. However, staff who qualify may be eligible for their loan to be at the best member rate minus 1%, which is preferable to non-staff members. The Credit Union also has a policy to not go below Canada Revenue Agency's prescribed rate.

	2022	2021
Deposits from key management personnel		
Aggregate value of term and savings deposits	$ 4,728,947	$ 4,730,322
Total interest paid on term and savings deposits	18,960	9,980
	$ 4,747,907	$ 4,740,302

The Credit Union’s policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. However, staff and immediate family are eligible for waived or reduced charges on some services.

18. Fair Value of Financial Instruments

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy, within which the financial asset or financial liability is categorized, is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Credit Union uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as derivative financial instruments that use observable market data and require little management judgement and estimation.

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and 2021.

18. Fair Value of Financial Instruments (continued)

The following table sets out the assets and liabilities for which fair values are disclosed in the notes.

Description		2022 Fair Value (000's)		2021 Fair Value (000's)	Valuation Technique	Fair Value Hierarchy Level	Significant Unobservable Inputs
Cash and deposits	$	18,364	$	16,902	The carrying amount of the funds on hand and on deposit approximates their fair value.	Level 1	Not applicable.
Liquidity deposits	$	73,745	$	131,061	The carrying amount of liquidity deposits approximates their fair value.	Level 2	Not applicable.
Mandatory liquidity investments	$	82,322	$	82,368	The fair market value of high quality liquid assets is calculated based on the present value of the actively quoted market values plus accrued interest.	Level 2	Discount spot rates vary between (3.69)% and 0.00% based on the maturity date of the asset.
Derivative financial assets and liabilities	$	656	$	832	The fair market value of derivative financial assets and liabilities are calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Level 2	Not applicable.
Other assets	$	2,205	$	2,027	The carrying amount of short-term trade receivables (less than 12 months) approximate their fair value.	Level 2	Not applicable.
Loans receivable	$	772,435	$	759,757	The fair market value of loans receivable is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Level 2	Discount spot rates vary between (6.24)% (2021 - (0.43)%) and 0.00% (2021 - 1.32%) for consumer loans and (7.90)% (2021 - (0.56)%) and 0.00% (2021 - 2.18%) for commercial loans based on the maturity date of the loan.
Other liabilities	$	3,280	$	3,433	The carrying amount of other short-term liabilities (less than 12 months) approximates their fair value.	Level 2	Not applicable.
Member deposits	$	923,258	$	953,920	The fair market value of member deposits is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Level 2	Discount spot rates vary between (8.51)% (2021 - (0.68)%) and 0.33% (2021 - 2.30%) based on the maturity date of the deposit.

19. Financial Instrument Risk Management

The Credit Union is exposed to financial instrument risk arising from the nature of business activities. This note describes the Credit Union's objectives, policies and processes for measuring and managing financial instrument risk. Further information regarding financial instrument risk is presented throughout these consolidated financial statements and accompanying notes.

General Objectives, Policies and Processes

Senior management is responsible for identifying risks and developing appropriate and prudent risk management policies. The Board of Directors (the "Board"), through various committees, reviews and approves all risk management policies and provides oversight to the risk management framework and processes.

Within the various risks inherent in business activities, those related to financial instruments are: credit risk, market risk and liquidity risk.

Credit Risk

Credit risk is the risk of financial loss incurred if a counterparty fails to meet its financial or contractual obligations to the Credit Union. This risk relates assets held on the balance sheet such as member loans. It also includes risk related to off-balance-sheet assets such as commitments and letters of credit.

Risk Measurement

Credit risk-rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union considers: credit history, ability to pay, net worth, collateral, as well as current and future economic conditions.

Objectives, Policies and Processes

The Credit Union’s credit risk management principles are guided by its overall risk management principles. The Board ensures that management has a framework, policies, and processes in place to manage credit risk and ensures compliance with credit risk policies. The Board reviews and approves lending policies and lending limits for the Credit Union, and delegates lending limits.

19. Financial Instrument Risk Management (continued)

Credit risk policies and principles used to manage credit risk exposure include:
- 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; and
- Internal audit procedures and processes in existence for all levels of Credit Union lending activities.

Ongoing monitoring or review of member loans may result in the member loan being moved to a different credit risk grade. Updated information includes: annual financial statements, credit information, changes to regulatory or technological environment of the borrower, payment history and current and expected changes to financial and economic conditions.

Loan Portfolio Oversight

Managing credit risk is integral to the Credit Union. Credit Risk is overseen by the Credit and Market Risk Committee (CMR). The CMR receives quarterly reporting that summarizes new lending, portfolio concentration, impaired loan reporting and other policy requirements.

Although there have been changes in the underlying factors impacting the loan portfolio, there have been no significant changes from the previous year to the overall exposure to risk or policies, procedures and methods used to measure the risk.

Expected Credit Loss

The Credit Union assesses financial instruments at each reporting date for changes to credit risk. A provision for expected credit losses (ECL) is estimated as required under *IFRS 9 Financial Instruments*.

The Credit Union allocates a credit risk grade at initial recognition based on borrower information. Credit risk grades are:

Stage 1	Low	Loans with virtually no risk	12-month ECL
Stage 2	Medium	Loans that have normal risk of any loss	Lifetime ECL not credit impaired
Stage 3	High	Elevated risk of any loss and require increased monitoring	Lifetime ECL credit impaired

19. Financial Instrument Risk Management (continued)

Changes in credit risk are assessed considering the risk that default may occur during the contractual lifetime of a 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 reasonable and supportable information including current and 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.

At each reporting date instruments are assessed for significant increases to credit risk as compared to risks identified at initial recognition. An instrument is deemed to have significantly increased credit risk and move to stage 2 when any of the following conditions occur:

- Contractual payments have exceeded 30 days past due;
- A member migrates to a credit risk grade of 2;
- 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.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. In assessing credit-impaired financial assets (stage 3), 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.

The outbreak of COVID-19 has led to significant changes to forward-looking information and respective probability weightings since December 31, 2019. At the reporting date, forecasts and information available surrounding the impact of COVID-19 on the economy and timing of recovery continues to change. Any information obtained after the reporting period will be reflected in the ECL in future periods. This may cause significant volatility to the ECL. Additional uncertainty is caused by the elevated housing prices, conservative lending practices, rising interest rates and the ongoing conflict in Europe where the economic and societal impacts are unknown.

19. Financial Instrument Risk Management (continued)

Assessment of ECL and methodology

The Credit Union measures ECL for member loans that have not been assessed as credit-impaired on a group basis. These assets are grouped on the basis of 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 significant increases in credit risk, probability of default, loss given default, forward looking information and macroeconomic factors.

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.

Credit quality analysis

The following tables set out information about the credit quality of member loans based on the Credit Union's credit risk rating grade. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	2022 Total	2021 Total
Personal Loans and Mortgages					
Stage 1- Low	$ 556,183,821	$ -	$ -	$ 556,183,821	$ 514,491,085
Stage 2- Moderate	-	58,968,818	-	58,968,818	53,530,045
Stage 3- High	-	-	13,519	13,519	1,093,054
	556,183,821	58,968,818	13,519	615,166,158	569,114,184
Allowance for loan losses	(480,859)	(129,315)	(2,068)	(612,242)	(528,962)
Carrying amount	$ 555,702,962	$ 58,839,503	$ 11,451	$ 614,553,916	$ 568,585,222
Commercial Loans and Mortgages					
Stage 1- Low	$ 67,505,965	$ -	$ -	$ 67,505,965	$ 72,728,125
Stage 2- Moderate	-	131,809,518	-	131,809,518	120,319,469
Stage 3- High	-	-	-	-	-
	67,505,965	131,809,518	-	199,315,483	193,047,594
Allowance for loan losses	(424,351)	(958,028)	-	(1,382,379)	(1,369,374)
Carrying amount	$ 67,081,614	$ 130,851,490	$ -	$ 197,933,104	$ 191,678,220
Balance, December 31	$ 622,784,576	$ 189,690,993	$ 11,451	$ 812,487,020	$ 760,263,442

19. Financial Instrument Risk Management (continued)

Liquidity Risk

Liquidity 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.

Risk Measurement

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address the normal day-to-day funding requirements and ensuring regulatory compliance, as well as, measure 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 Procedures

The Credit Union's liquidity management framework is monitored by the Asset Liability Committee (ALCO), made up of senior management, and policies are approved by the Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities.

Legislation requires that the Credit Union maintain adequate stock of unencumbered high-quality liquidity assets at a minimum of 8% of total deposits and debt liabilities at December 31 each year. Regulatory liquidity and reporting of available cash resources and utilization rates are reported to the Board quarterly. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as, diversified funding sources such as asset sale or securitization and wholesale borrowings. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2022, the Credit Union's liquidity ratio was 9.20% (2021 - 9.07%).

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

19. Financial Instrument Risk Management (continued)

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; 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 with embedded options such as loan prepayment and deposit redemption impact interest rate risk.

Risk Measurement

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

Objectives, Policies and Procedures

ALCO meets regularly to monitor the Credit Union’s position as set by the Board policy and ALCO operational guidelines, and to decide future strategy. These policies and guidelines define the standards and limits within which risk to net interest income and the value of equity are to be contained. An asset/liability risk report is reviewed by ALCO and the Credit and Market Risk Committee on a quarterly basis. Interest rate risk policies are reviewed annually by the Board.

The Credit Union’s potential risk due to changes in interest rates at December 31, 2022 is provided below. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

19. Financial Instrument Risk Management (continued)

Maturity dates	Assets	Yield (%)	Liabilities & Equity	Cost (%)	Asset / (Liability & Equity) Gap
Interest sensitive (000's)					
0 - 3 months	$ 188,391	4.86	$ 430,198	0.94	$ (241,807)
4 - 12 months	141,316	3.30	178,463	2.72	(37,147)
1 - 2 years	179,726	3.45	124,382	2.92	55,344
2 - 5 years	324,591	2.83	25,502	3.34	299,089
> 5 years	147,522	3.83	33,469	3.03	114,053
Interest sensitive	$ 981,546	3.55	$ 792,014	1.82	$ 189,532
Non-interest sensitive (000's)	$ 26,241	-	$ 215,773	-	$ (189,532)
Total	$ 1,007,787	3.46	$ 1,007,787	1.43	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

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 increase to net interest income of $328,000 while a decrease in interest rates of 1% could result in a decrease to net interest income of $412,500.

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

19. Financial Instrument Risk Management (continued)

Currency Risk

Currency risk arises when there is a difference between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union has assets and liabilities denominated in US dollars.

Risk Measurement

The Credit Union's position is measured daily by determining the net foreign exchange position of the Credit Union.

Objectives, Policies and Procedures

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between foreign currency assets and liabilities. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2022 and December 31, 2021, the Credit Union's exposure to currency risk was not material.

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

20. Capital Management

As a provincially incorporated credit union, Salmon Arm Savings and Credit Union is required to measure its capital adequacy based on the British Columbia Financial Services Authority (BCFSA) regulations.

Regulatory capital must have the following fundamental characteristics: i) permanency; ii) free of fixed charges against earnings; and iii) 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 need to be deducted from capital to arrive at the Total Capital Base (TCB). 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 0.00% to 150.00%. The regulatory ratio is then computed by dividing the TCB by the Credit Union's risk weighted assets, including off-balance-sheet commitments. Regulation currently requires that credit unions maintain a minimum capital to risk-weighted assets ratio of 8.00%. As at December 31, 2022, the Credit Union was in compliance with its capital requirements.

The capital ratio over the past 5 years is as follows:

	2022	2021	2020	2019	2018
Capital adequacy ratio	16.38 %	15.86 %	15.11 %	13.76 %	14.77 %

20. Capital Management (continued)

Regulatory capital in the Credit Union is comprised of:	2022	2021
Capital		
Primary capital		
Retained earnings	$61,176,381	$ 54,247,925
Membership equity shares including dividends	717,205	708,875
Dividends	29,356	13,519
	61,922,942	54,970,319
Secondary capital		
Share of system retained earnings	9,013,504	9,727,200
	70,936,446	64,697,519
Other additions (deductions) from capital		
Intangible assets	(2,865,895)	(3,501,840)
Deferred income taxes	197,995	199,465
Total capital base	$68,268,546	$ 61,395,144

The Credit Union manages its capital and its composition based on its statutory requirements. The ratio is reviewed monthly and is addressed in short and long-term planning 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 Credit and Market Risk Committee. There have been no changes in what the Credit Union considers to be capital since the previous period. In accordance with BCFSA requirements, the capital adequacy ratio and total capital base are derived from the Credit Union's non-consolidated operations, as well as, information provided by BCFSA.

21. Comparative Figures

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