Heritage Credit Union
Consolidated Financial Statements
December 31, 2022

Contents

For the year ended December 31, 2022

	Page
Management's Responsibility	
Independent Auditor's Report	
Consolidated Financial Statements	
Consolidated Statement of Financial Position	*1*
Consolidated Statement of Income	*2*
Consolidated Statement of Other Comprehensive Income	*3*
Consolidated Statement of Changes in Members' Equity	*4*
Consolidated Statement of Cash Flows	*5*
Notes to the Consolidated Financial Statements	*6*

Management's Responsibility

To the Members of Heritage 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 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 Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

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

March 11, 2023

Chief Executive Officer

Independent Auditor's Report

To the Members of Heritage Credit Union:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2022, 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.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group 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 11, 2023

MNP LLP

Chartered Professional Accountants

Heritage Credit Union
Consolidated Statement of Financial Position
As at December 31, 2022

	2022	*2021*
Assets		
Cash resources *(Note 5)*	**1,983,707**	32,106,445
Receivables and other assets	**576,458**	447,985
Investments *(Note 6)*	**48,529,571**	49,818,519
Member loans receivable *(Note 20)*	**199,542,103**	174,196,971
Income taxes recoverable	**118,372**	85,953
Property held for resale	**-**	496,495
Property and equipment *(Note 8)*	**1,255,425**	1,369,304
Investment property	**290,236**	-
	252,295,872	258,521,672
Liabilities		
Member deposits *(Note 10)*	**221,024,665**	236,016,936
Payables and accruals	**818,433**	629,682
Borrowings *(Note 11)*	**9,500,000**	1,113,823
Lease liability *(Note 12)*	**40,605**	58,314
Deferred tax liability *(Note 13)*	**714,067**	748,859
Membership shares *(Note 14)*	**1,451,068**	1,515,393
	233,548,838	240,083,007

Commitments *(Note 20), (Note 23)*

Members' equity		
Retained earnings	**18,656,975**	18,154,507
Accumulated other comprehensive loss	**(302,066)**	(150,808)
Non-controlling interest	**392,125**	434,966
	18,747,034	18,438,665
	252,295,872	258,521,672

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Heritage Credit Union
Consolidated Statement of Income
For the year ended December 31, 2022

	2022	*2021*
Financial income		
Member loans	**6,286,997**	5,877,899
Cash resources and investments	**575,588**	509,257
	6,862,585	6,387,156
Financial expense		
Member deposits	**1,600,174**	1,417,056
Borrowings	**409,823**	498,143
Cash resources and investments	**121,837**	182,564
	2,131,834	2,097,763
Gross financial margin	**4,730,751**	4,289,393
Provision for credit losses *(Note 20)*	**253,972**	152,237
	4,476,779	4,137,156
Other income *(Note 17)*	**1,632,636**	1,845,945
Operating margin	**6,109,415**	5,983,101
Operating expenses *(Note 18)*	**5,483,041**	4,908,719
Income before other item and income taxes	**626,374**	1,074,382
Loss on property held for resale	**(66,873)**	(123,404)
Income before income taxes	**559,501**	950,978
Provision (recovery) for income taxes *(Note 13)*		
Current	**(17,626)**	125,160
Deferred	**(34,792)**	30,047
	(52,418)	155,207
Net income	**611,919**	795,771

The accompanying notes are an integral part of these financial statements

Heritage Credit Union
Consolidated Statement of Other Comprehensive Income
For the year ended December 31, 2022

	2022	2021
Net income	**611,919**	795,771
Other comprehensive loss		
Items that will not be reclassified subsequently to profit or loss		
Fair value losses on investments, net of tax	**(151,258)**	(150,808)
Comprehensive income for the year	**460,661**	644,963
Comprehensive income attributable to:		
Members of the Credit Union	**433,502**	621,181
Non-controlling interest	**27,159**	23,782
	460,661	644,963

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

	Retained earnings	*Accumulated other comprehensive loss*	*Attributable to members of the Credit Union*	*Non-controlling interest*	*Total equity*
Balance December 31, 2020	**17,446,110**	**-**	**17,446,110**	**411,184**	**17,857,294**
Net income	**771,989**	**-**	**771,989**	**23,782**	**795,771**
Fair value losses on investments, net of tax	**-**	**(150,808)**	**(150,808)**	**-**	**(150,808)**
Dividends paid *(Note 14)*	**(63,592)**	**-**	**(63,592)**	**-**	**(63,592)**
Balance December 31, 2021	**18,154,507**	**(150,808)**	**18,003,699**	**434,966**	**18,438,665**
Net income	**584,760**	**-**	**584,760**	**27,159**	**611,919**
Fair value losses on investments, net of tax	**-**	**(151,258)**	**(151,258)**	**-**	**(151,258)**
Dividends paid *(Note 14)*	**(82,292)**	**-**	**(82,292)**	**-**	**(82,292)**
Dividends paid to non-controlling interest	**-**	**-**	**-**	**(70,000)**	**(70,000)**
Balance December 31, 2022	**18,656,975**	**(302,066)**	**18,354,909**	**392,125**	**18,747,034**

Heritage Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2022

	2022	*2021*
Cash provided by (used for) the following activities		
Operating activities		
Net income	**611,919**	795,771
Depreciation	**129,601**	132,207
Provision for (recovery of) income taxes	**(52,418)**	140,747
Provision for credit losses	**253,972**	152,237
Financial income	**(6,862,585)**	(6,425,518)
Financial expense	**2,131,834**	2,097,763
Income attributable to non-controlling interest	**(27,159)**	(23,782)
Member loans written off, net of recoveries	**(212,612)**	(373,031)
Investment in joint venture - equity pickup	**(472,837)**	(572,367)
Loss on disposal of property held for resale	**66,873**	123,404
	(4,433,412)	(3,952,569)
Changes in working capital accounts		
Receivables and other assets	**(128,473)**	(315,249)
Income taxes paid	**(46,176)**	(204,026)
Payables and accruals	**188,752**	121,947
Interest received on member loans and investments	**6,844,315**	6,558,077
Interest paid on member deposits	**(1,945,918)**	(2,314,076)
Non-controlling interest	**27,159**	23,782
	506,247	(82,114)
Financing activities		
Proceeds from borrowings	**9,500,000**	-
Repayment of borrowings	**(1,113,823)**	(1,841,820)
Increase (decrease) in member deposits	**(15,176,677)**	34,854,655
Decrease in membership shares	**(61,794)**	(78,392)
Dividends paid	**(82,292)**	(63,592)
Repayment of lease liability	**(19,217)**	(18,375)
	(6,953,803)	32,852,476
Investing activities		
Increase in member loans receivable	**(25,220,114)**	(5,060,737)
Purchases of property and equipment	**(20,921)**	(71,944)
Dividends from joint venture	**500,000**	288,199
Repayment of advances to joint venture	**-**	311,801
Proceeds on property held for resale	**145,135**	332,122
Change in investments, net	**920,718**	(23,993,585)
	(23,675,182)	(28,194,144)
Increase (decrease) in cash resources	**(30,122,738)**	4,576,218
Cash resources, beginning of year	**32,106,445**	27,530,227
Cash resources, end of year	**1,983,707**	32,106,445

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Heritage Credit Union (the “Credit Union”) is incorporated under the laws of British Columbia and is regulated under the Financial Institutions Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union serves members principally in the West Kootenays and provides financial services through 3 branches, telephone and on-line banking.

The address of the Credit Union’s registered office is 100-630 17th Street, Castlegar, British Columbia.

The financial statements for the year ended December 31, 2022 were approved by the Board of Directors of StellerVista Credit Union (Note 24) on March 11, 2023.

Statement of compliance

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

The consolidated financial statements for the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors on March 11, 2023

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.

2. Change in accounting policies

Standards and Interpretations effective in the current period

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

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

3. Significant accounting judgements, 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 and/or 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
- Inflation
- Loan to value ratios
- Vacancy rates

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

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.

Impact of the current economic environment:

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

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

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 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 assets or liabilities.

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.

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 retail customers 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. Significant accounting policies

Basis of consolidation

The Credit Union has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of intercompany transactions and balances. The consolidated financial statements include the accounts of the Credit Union, and its subsidiary:

398329 BC Ltd.	60% interest

Consolidated entities' balances and transactions, and any unrealized gains and losses or income and expenses arising from consolidated entities' transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with investments in associates and joint ventures are eliminated to the extent of the Credit Union's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Cash resources

Cash resources are comprised of cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less.

Investments

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

Member loans receivable

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

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 losses on loans and gains reduce loan losses. Property acquired in the settlement of loans with the intention to sell is classified as property held for resale. At December 31, 2022 this includes nil property held for resale (2021 - two). Property acquired in settlement of loans with the intention to earn rentals and/or for capital appreciation are classified as investment property.

Investment property

Investment property is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

All investment property having a limited useful life is depreciated using the straight-line method over the estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Investment property is depreciated from the date of acquisition.

The residual value, useful life and depreciation method is reviewed at least annually and adjusted if necessary.
The depreciation rate applicable during the current and comparative period is as follows:

	Method	***Rate***
Buildings	declining balance	40 years

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

Property and equipment

Property 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 and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Property and equipment are recorded at cost. Depreciation is provided using the straight-line and declining balance methods at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Rate
Buildings and renovations	10, 20 and 40 years and 4%
Furniture and equipment	3-20 years and 20%
Leasehold improvements	10 and 20 years
Parking lot	10 years and 8%
Right-of-use buildings	Lease term

The useful lives of items of property and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets

Intangible assets with a limited life are depreciated over their estimated useful lives. The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

The Credit Union's intangible assets consist of computer software with estimated lives of 3-8 years.

Investments in joint arrangements

A joint arrangement is a contractual arrangement whereby the two or more parties have joint control. Joint control is the contractually agreed sharing control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to net assets of the arrangement.

The Credit Union reports its interests in joint ventures over which it has joint control using the equity method. Under the equity method, investments in the joint ventures are initially accounted for at cost, and thereafter adjusted for post-acquisition changes in the Credit Union’s share of the net assets of the joint venture, less any impairment in the value of an individual investment. Where losses of a joint venture exceed the Credit Union's interest in that joint venture, the excess is recognized only to the extent that the Credit Union has incurred legal or constructive obligations on behalf of the joint venture.

The Credit Union’s profit or loss and other comprehensive income includes its share of the joint venture’s profit or loss and other comprehensive income respectively. Distributions received from a joint venture reduce the carrying amount of the investment. All other net asset changes are recognized in equity.

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

Impairment of non-financial assets

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

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

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

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

Member deposits

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

Payables and accruals

Payables and accruals are stated at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Leases

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.

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

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 cost, 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.

Membership shares

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

Income taxes

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

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

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

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

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

Pension plans

The Credit Union participates in a multi-employer defined benefit plan. As sufficient information is not available to apply defined benefit accounting, the plans are accounted for using defined contribution accounting.

The Credit Union also provides retirement benefits for a portion of its employees under a multi-employer defined contribution plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the fees are paid. Premiums for defined contribution plans are expensed when an employee has rendered their services.

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

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 gains and losses are included in other income.

Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

Classification is 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 term deposits, member loans receivable, and accounts 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 Central 1 mandatory liquidity pool deposits.
- 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. The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Financial assets measured at fair value through profit or loss are comprised of cash resources and equity investments.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Where the Credit Union uses a credit derivative with a matching referenced name and seniority to manage all or part of a credit exposure, it may, at any time, designate that financial instrument to be measured at fair value through profit or loss to the proportional extent that it is so managed. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

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

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Investments measured at fair value through profit or loss are comprised of shares of Central 1, Southern Interior Innovation Fund VCC, CUPP Services Ltd. and other equity investments.

Refer to Note 20 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.

For member loans receivable 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 other receivables. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets’ contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. 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;

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

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

Refer to Note 20 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, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

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

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.

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

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

Classification and subsequent measurement

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

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

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

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 and hedge accounting

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

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

Qualifying hedging relationships are those where there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes that result from that economic relationship, and the hedge ratio of the hedging relationship is the same as that resulting from the actual quantities of the hedging instrument and the hedged item that the Credit Union uses for hedging purposes.

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

Cash flow hedges

The Credit Union uses cash flow hedges to hedge its exposure to the variability of cash flows related to variable interest bearing instruments or the forecasted assurance of fixed rate liabilities.

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

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

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

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

Rebalancing and discontinuation of hedging relationships

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

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

Fair value measurements

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

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

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

Revenue recognition

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

Interest

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

The 'effective interest rate' is the rate that exactly discounts 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 income

The Credit Union generates revenue from other revenue streams including services charges, loan fees and penalties. 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.

Consideration is typically due when when the policy has been rendered to the member. The amount of revenue recognized on these transactions is based on the price specified in the contract.

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

Management has not made any judgments in determining the amount of costs incurred to obtain or fulfil 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.

Standards issued but not yet effective

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

IFRS 16 Leases

Amendments to IFRS 16, issued in September 2022, add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 *Revenue from contracts with customers* to be accounted for as a sale.

The amendments are effective for transactions for annual reporting periods beginning on or after January 1, 2024. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

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

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

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

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

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

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

IAS 12 Income Taxes

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

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

5. Cash resources

	2022	2021
Cash and current accounts	**1,983,707**	20,075,584
Central 1 term deposits and accrued interest maturing in three months or less	**-**	12,030,861
	1,983,707	32,106,445

Under governing legislation, the Credit Union must maintain, for liquidity purposes, deposits of at least 8% of member deposits and Credit Union borrowings.

At December 31, 2022 the Credit Union liquidity deposits were in excess of the minimum requirements by $6,653,011. (2021 - $38,281,488).

6. Investments

	2022	2021
Investments		
Measured at amortized cost		
Term deposits and accrued interest maturing in greater than three months	**24,099,879**	25,091,236
Measured at fair value through other comprehensive income		
Central 1 mandatory liquidity deposits	**18,400,221**	18,465,063
	42,500,100	43,556,299
Equity investments		
Measured at fair value through profit or loss		
Central 1 Credit Union	**75,571**	69,295
Southern Interior Innovation Fund VCC	**-**	120,000
CUPP Services Ltd.	**-**	91,839
Other	**149**	149
	75,720	281,283
Investment in joint venture		
Investment including equity pickup *(Note 22)*	**5,953,751**	5,980,937
Total	**48,529,571**	49,818,519

Central 1 is the central financial association for the British Columbia and Ontario Credit Union systems. Investment in shares of Central 1 is required by governing legislation and as a condition of membership in Central 1.

7. Securitization

Private sale of mortgage pools

The Credit Union enters into agreements with other financial institutions to sell mortgage pools. The Credit Union does not retain any financial interest in these sold mortgages and substantially all of the risks and rewards are transferred. As part of the agreements, the Credit Union continues to act as administrative agent on these mortgages. During the year, the Credit Union did not sell any mortgages through these private sales (2021 - $nil).

8. Property and equipment

	Land	Buildings and renovations	Furniture and equipment	Leasehold improvements	Parking lot	Right-of-use buildings	Total
Cost							
Balance at December 31, 2020	325,144	2,161,251	1,485,388	998,669	108,924	103,250	5,182,626
Additions	-	-	51,252	20,692	-	-	71,944
Transfer to property held for resale	-	(222,922)	-	-	-	-	(222,922)
Balance at December 31, 2021	325,144	1,938,329	1,536,640	1,019,361	108,924	103,250	5,031,648
Additions	-	-	20,921	-	-	-	20,921
Disposals	-	(38,488)	(1,219,132)	(844,565)	-	-	(2,102,185)
Balance at December 31, 2022	325,144	1,899,841	338,429	174,796	108,924	103,250	2,950,384
Depreciation and impairment losses							
Balance at December 31, 2020	-	1,230,570	1,297,075	914,947	70,262	33,946	3,546,800
Additions	-	44,043	51,824	15,267	4,101	16,972	132,207
Transfer to property held for resale	-	(16,663)	-	-	-	-	(16,663)
Balance at December 31, 2021	-	1,257,950	1,348,899	930,214	74,363	50,918	3,662,344
Additions	-	37,632	54,803	16,300	3,892	16,974	129,601
Disposals	-	(38,488)	(1,214,472)	(844,026)	-	-	(2,096,986)
Balance at December 31, 2022	-	1,257,094	189,230	102,488	78,255	67,892	1,694,959
Net book value							
December 31, 2021	325,144	680,379	187,741	89,147	34,561	52,332	1,369,304
December 31, 2022	325,144	642,747	149,199	72,308	30,669	35,358	1,255,425

9. Intangible assets

	Computer software
Cost	
Balance at December 31, 2020	**305,220**
Additions	**-**
Balance at December 31, 2021	**305,220**
Additions	**-**
Disposals	**(305,220)**
Balance at December 31, 2022	**-**
Amortization and impairment losses	
Balance at December 31, 2020	**305,220**
Additions	**-**
Balance at December 31, 2021	**305,220**
Additions	**-**
Disposals	**(305,220)**
Balance at December 31, 2022	**-**
Carrying amounts	
At December 31, 2021	-
At December 31, 2022	**-**

10. Member deposits

	2022	*2021*
Demand	**140,667,665**	164,560,597
Term	**45,150,707**	36,798,974
Registered plans	**18,398,059**	18,657,342
Tax free savings	**16,209,028**	15,585,225
Accrued interest and deposits	**599,206**	414,798
	221,024,665	236,016,936

11. Borrowings

The Credit Union has authorized line of credits in the amount of $7,550,000 CDN (2021 - $4,000,000) and $100,000 USD (2021 - $100,000), and a demand loan with Central 1 in the amount of $7,000,000 CDN (2021 - $3,000,000). These facilities are secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1. These facilities are at a rate of 5.435% for Core Line of Credit and 5.485% for the demand loan. As at December 31, 2022 there was $3,650,000 (2021 - $nil) owing on the line of credit, and $5,850,000 (2021 - $nil) owing on the demand loan.

The Credit Union is an approved issuer of mortgage backed securities for inclusion in the Canada Mortgage Bond ("CMB") program administered by the Canada Housing Trust. The CMB represents the full repayment amount of 5-year bonds maturing in 2022 and are secured by specific pools of member loans receivable. In order to ensure sufficient assets are available to meet its repayment obligations, the Credit Union maintains reinvestment accounts as required under the terms of the CMB program. The outstanding balance of the CMB at December 31, 2022 was $nil (2021 - $1,113,823).

12. Leases

Leases as lessee

The Credit Union leases land and building for its Greenwood branch. This lease spans a period of 10 years.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented within property and equipment in the statement of financial position. Refer to Note 8 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:

	2022	*2021*
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**19,824**	19,217
One to five years	**22,125**	41,949
Total undiscounted lease liabilities	**41,949**	61,166
Lease liabilities included in the statement of financial position	**40,605**	58,314
Current	**18,863**	17,709
Non-current	**21,742**	40,605

Amounts recognized in profit or loss

The Credit Union has recognized the following amounts in the consolidated statement of comprehensive income:

	2022	*2021*
Interest expense on lease liabilities	**1,508**	2,016

13. Income taxes

The total provision for income taxes in the consolidated statement of other comprehensive income is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

		2022		*2021*
	Amount	***% of Pre-tax income***	*Amount*	*% of Pre-tax income*
Combined federal and provincial statutory income tax rates	**151,065**	**27.0 %**	207,706	27.0 %
Reduction for Credit Unions	**-**	**- %**	(28,326)	(3.7)%
Equity in earnings from subsidiaries	**(80,382)**	**(14.4)%**	(97,302)	(12.6)%
Non-deductible (non-taxable) and other items	**125,806**	**22.5 %**	150,188	19.5 %
Tax effect of amounts in other comprehensive income	**(30,980)**	**(5.5)%**	30,888	4.0 %
Dividend refund	**(67,083)**	**(12.0)%**	-	- %
Other	**(142,365)**	**(25.4)%**	(107,947)	(14.0)%
Loss carryback	**(8,479)**	**(1.5)%**	-	- %
Income taxes as reported	**(52,418)**	**(9.3)%**	155,207	20.2 %

The tax effects of temporary differences which give rise to the deferred tax liability reported on the consolidated statement of financial position is from differences between accounts deducted for accounting and income tax purposes for property and equipment and the allowance for impaired loans.

Net deferred income tax assets are comprised of the following:

	2022	*2021*
Deferred tax asset		
Property and equipment	**13,260**	4,438
Allowance for impaired loans	**46,093**	23,247
Lease liabilities	**892**	1,017
	60,245	28,702
Deferred tax liability		
Equity income and deferred gain on investments	**(774,312)**	(777,561)
Net deferred tax liability	**(714,067)**	(748,859)

14. Membership shares

The Credit Union may issue two classes of shares designated as membership equity with $1 par value.

Membership shares

Membership shares are a requirement in the Credit Union and are redeemable upon withdrawal from membership. Membership shares are non-transferable, voting and have a par value of $1.

Patronage shares

Patronage shares are issued as part of patronage rebates.

Membership shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

Dividends on membership shares of $82,292 (2021 - $63,592) are presented on the consolidated statement of changes in members' equity.

15. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") are defined by *IAS 24 Related Party Disclosure*s as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management. Key management personnel remuneration includes the following expenses:

	2022	*2021*
Salary and short term benefits	**404,890**	555,317
Management consulting	**299,065**	-
	703,955	555,317

Transactions with the joint venture of the Credit Union

	2022	*2021*
Rental income	**42,210**	42,210
Reimbursement paid for services	**(82,023)**	(51,309)
	(39,813)	(9,099)

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

Transactions with key management personnel

Loans made to directors and KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities.

There are no loans that are impaired in relation to loan balances with KMP.

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

	2022	*2021*
Aggregate of loans and lines of credit to Directors and KMP	**1,987,161**	1,409,666
Aggregate of unadvanced lines of credit to Directors and KMP	**263,673**	241,500

	2022	*2021*
Interest and other revenue earned on loans and revolving credit facilities to KMP	**43,117**	41,885
Total interest paid on deposits to KMP	**11,839**	15,580

	2022	*2021*
The total balance of member deposits from the Directors and KMP as at the year end:		
Chequing and demand deposits	**428,419**	1,104,014
Term deposits	**1,197,580**	1,049,472

Transactions with directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

16. Pension plan

The Credit Union principally provides pension benefits to its eligible employees through the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. The Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the Plan. As of December 31, 2022, this Division covered about 3,400 active employees, 2,200 inactive members and approximately 1,500 retired plan members, with reported assets of approximately $1,005 million (as of November 2022). At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the plan as at December 31, 2021 indicated a going concern surplus of $112.5 million and a solvency deficiency of $10.4 million. Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is scheduled for December 31, 2024 with results expected to be available in September 2025. The pension expense for the year ended December 31, 2022 amounted to $216,971 (2021 - $253,128) which has been recorded as an expense in earnings.

The Credit Union also provides retirement benefits for a portion of its employees under a multi-employer defined contribution pension plan.

17. Other income

	2022	2021
Account service fees	**568,212**	549,945
Investment in joint venture - equity pickup *(Note 22)*	**472,837**	572,367
Other	**278,063**	392,820
Foreign exchange gain	**120,765**	48,726
Rental income	**113,332**	125,277
Insurance commissions and fees	**75,304**	100,745
Safety deposit rentals	**15,468**	19,305
Loan administration fees	**(11,345)**	36,760
	1,632,636	1,845,945

18. Operating expenses

	2022	2021
Salaries and benefits	**2,811,186**	3,176,983
Other	**1,204,113**	374,398
Data processing	**489,758**	419,751
Premise, occupancy and office	**466,715**	498,015
Dues and assessments	**230,503**	192,088
Depreciation	**129,601**	132,207
Advertising	**115,988**	94,525
Human resources and administration	**35,177**	20,752
	5,483,041	4,908,719

19. Capital management

The Credit Union is required under governing provincial legislation to maintain a capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset. As at December 31, 2022, the Credit Union had a capital base equal to 24.38**%** (2021 - 22%)

The Credit Union's capital consists of retained earnings and membership shares.

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

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum established by legislation or regulations. The capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed asset. Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

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

	2022	*2021*
Primary capital		
Equity shares	**347,565**	368,925
Retained earnings - non-consolidated	**21,714,285**	17,864,299
Deferred income tax	**718,628**	753,420
Dividends paid	**87,091**	63,592
	22,867,569	19,050,236
Secondary capital		
Share of system retained earnings	**2,233,692**	2,461,936
Other equity shares	**1,106,034**	1,148,902
	3,339,726	3,610,838
Deductions from capital	**(5,952,817)**	(6,099,780)
	20,254,478	16,561,294

20. Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the 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 balance sheet assets such as loans, as well as off balance sheet assets such as investments in debt securities, and the Credit Union's lending activities.

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

Risk management process

Credit risk management is integral to the Credit Union’s activities. The Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by ensuring that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. Management carefully monitors and manages the Credit Union’s exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The 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.

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

- 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 and securitization processes.

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 guaranteed by the Government of Canada.

As at December 31, 2022, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2022	*2021*
Unadvanced lines of credit	**21,246,168**	19,756,218
Guarantees and standby letters of credit	**249,150**	259,150
Commitments to extend credit	**1,694,651**	1,735,852
Off-balance sheet loans granted through Canada Emergency Business Account	**3,700,000**	4,100,000
	26,889,969	25,851,220

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.

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

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.

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 not 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'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 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.

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

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 customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

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

Write-offs

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

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

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

20. Financial instruments *(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.

	12-month ECL	*2022 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and residential mortgages				
Low risk	**175,105,054**	**-**	**-**	**175,105,054**
Medium risk	**-**	**439,060**	**-**	**439,060**
Default	**-**	**-**	**402,534**	**402,534**
Total gross carrying amount	**175,105,054**	**439,060**	**402,534**	**175,946,648**
Less: loss allowance	**225,320**	**3,110**	**45,355**	**273,785**
Total carrying amount	**174,879,734**	**435,950**	**357,179**	**175,672,863**
Commercial loans and mortgages				
Low risk	**23,532,857**	**-**	**-**	**23,532,857**
Medium risk	**-**	**21,349**	**-**	**21,349**
Default	**-**	**-**	**94,601**	**94,601**
Total gross carrying amount	**23,532,857**	**21,349**	**94,601**	**23,648,807**
Less: loss allowance	**38,168**	**-**	**-**	**38,168**
Total carrying amount	**23,494,689**	**21,349**	**94,601**	**23,610,639**
Member loan receivables				
Total gross carrying amount	**198,637,911**	**460,409**	**497,135**	**199,595,455**
Add: accrued interest	**222,142**	**7,859**	**28,600**	**258,601**
Less: loss allowance	**263,488**	**3,110**	**45,355**	**311,953**
Net carrying amount	**198,596,565**	**465,158**	**480,380**	**199,542,103**

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

	12-month ECL	*2021 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and residential mortgages				
Low risk	149,474,358	-	-	149,474,358
Medium risk	-	933,772	-	933,772
Default	-	-	42,678	42,678
Total gross carrying amount	149,474,358	933,772	42,678	150,450,808
Less: loss allowance	74,680	2,195	34,085	110,960
Total carrying amount	149,399,678	931,577	8,593	150,339,848
Commercial loans and mortgages				
Low risk	22,991,727	-	-	22,991,727
Medium risk	-	-	-	-
Default	-	-	726,548	726,548
Total gross carrying amount	22,991,727	-	726,548	23,718,275
Less: loss allowance	45,000	-	114,633	159,633
Total carrying amount	22,946,727	-	611,915	23,558,642
Member loan receivables				
Total gross carrying amount	172,466,085	933,772	769,226	174,169,083
Add: accrued interest	194,282	2,735	101,464	298,481
Less: loss allowance	119,680	2,195	148,718	270,593
Total carrying amount	172,540,687	934,312	721,972	174,196,971

As at December 31, 2022, the maximum exposure to credit risk with respect to members' loan receivable without taking into account collateral held or other credit enhancements is $271,838,102 (2021 – $246,214,695). The Credit Union holds senior-ranking general security claims and property backed personal financial guarantees with respect to members' loan receivable.

20. Financial instruments *(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' loans receivable				
Balance at December 31, 2020	**78,374**	**206**	**412,807**	**491,387**
Provision for loan impairment	**67,332**	**1,235**	**83,670**	**152,237**
Write-offs, net of recoveries	**(26,026)**	**754**	**(347,759)**	**(373,031)**
Balance at December 31, 2021	**119,680**	**2,195**	**148,718**	**270,593**
Provision for loan impairment	**214,515**	**2,532**	**36,925**	**253,972**
Write-offs, net of recoveries	**(70,707)**	**(1,617)**	**(140,288)**	**(212,612)**
Balance at December 31, 2022	**263,488**	**3,110**	**45,355**	**311,953**

Market risk

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

Interest rate risk

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

Risk measurement

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

Objectives, policies and procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Board on a quarterly basis. Board reports are then submitted to British Columbia Financial Services Authority on a monthly basis.

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

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

	2022	*2021*
1% increase in interest rates		
Impact on financial margin (for the next 12 months)	**(48,000)**	237,618
1% decrease in interest rates		
Impact on financial margin (for the next 12 months)	**15,000**	(40,496)

(In thousands)

	Variable rate	***Within 3 months***	***Over 3 months to 1 year***	***Over 1 year***	***Non-Interest Sensitive***	***2022 Total***	*2021 Total*
Assets							
Cash resources	147	-	-	-	1,837	**1,984**	32,106
Average yield %	*4.40*	-	-	-	-	***0.69***	-
Investments	3,532	1,033	23,299	20,412	254	**48,530**	49,819
Average yield %	*4.70*	*1.05*	*2.44*	*3.41*	-	***2.88***	*0.87*
Member loans receivable	18,767	5,510	23,649	151,616	-	**199,542**	174,197
Average yield %	*3.33*	*3.34*	*3.49*	*3.17*	-	***3.18***	*2.88*
Other assets	-	-	-	-	118	**118**	86
	22,446	**6,543**	**46,948**	**172,028**	**2,209**	**250,174**	256,122
Liabilities							
Member deposits	27,573	5,097	53,662	7,750	126,943	**221,025**	236,017
Average yield %	-	*2.32*	*3.93*	*2.40*	-	***1.24***	*0.55*
Borrowings	-	9,500	-	-	-	**9,500**	1,114
Average yield %	-	*5.47*	-	-	-	***5.47***	*1.47*
Payables and accruals	-	-	-	-	818	**818**	630
Membership shares	-	-	-	-	1,451	**1,451**	1,515
Lease liability	-	-	-	-	41	**41**	58
Average yield %	-	-	-	-	*3.00*	-	*3.00*
	27,573	**14,597**	**53,662**	**7,750**	**129,253**	**232,835**	239,334
Net sensitivity	**(5,127)**	**(8,054)**	**(6,714)**	**164,278**	**(127,044)**	**17,339**	16,788

Currency risk

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

Risk measurement

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

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

Objectives, policies and processes

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between U.S. dollar assets and liabilities. 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, 2022, the Credit Union's exposure to foreign exchange risk was not significant.

Liquidity risk

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

Risk measurement

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

Objectives, policies and processes

The Credit Union's liquidity management framework is monitored by 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, 2022, the Credit Union had available funding sources totaling $14,650,000 (2021 - $4,100,000).

Legislation requires that the Credit Union maintain liquid assets of at least 8% of deposit and debt liabilities. Regulatory liquidity is reported to the Board monthly and the ILC receives regular 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.

21. Fair value measurements

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

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the beginning of the reporting period, the date of the event or change in circumstances that caused the transfer, etc.

In determining fair value measurements, the Credit Union uses valuation techniques including net present value techniques and discounted cash flow models, comparison with quoted or observable prices for similar instruments, Black-Scholes / binomial / polynomial option pricing models, monte carlo simulations, etc. The Credit Union uses assumptions and estimates for risk-free interest rates, market pricing movements, interest rate yield curves, expected volatilities, correlations between inputs, etc.

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

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:

				2022
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Cash and current accounts	**1,983,707**	**1,983,707**	**-**	**-**
Equity investments	**75,720**	**-**	**-**	**75,720**
Central 1 mandatory liquidity pool deposits	**18,400,221**	**18,400,221**	**-**	**-**
Total assets	**20,459,648**	**20,383,928**	**-**	**75,720**

				2021
	Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Cash and current accounts	20,075,584	20,075,584	-	-
Equity investments	281,283	-	-	281,283
Central 1 mandatory liquidity pool deposits	18,465,063	18,465,063	-	-
Total assets	38,821,930	38,540,647	-	281,283

Level 2 fair value measurements

There were no assets or liabilities categorized into level 2 of the fair value hierarchy.

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:

					2022
	Carrying amount	***Fair Value***	***Level 1***	***Level 2***	***Level 3***
Assets					
Amortized cost					
Member loans receivable	**199,542,103**	**185,612,610**	**-**	**185,612,610**	**-**
Central 1 term deposits	**24,099,879**	**23,636,418**	**-**	**23,636,418**	**-**
Other assets	**118,372**	**118,372**	**-**	**118,372**	**-**
Total financial assets	**223,760,354**	**209,367,400**	**-**	**209,367,400**	**-**

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

2022

	Carrying amount	***Fair Value***	***Level 1***	***Level 2***	***Level 3***
Liabilities					
Amortized cost					
Member deposits	**221,024,665**	**220,507,750**	**-**	**220,507,750**	**-**
Payables and accruals	**818,433**	**818,433**	**-**	**818,433**	**-**
Membership shares	**1,451,068**	**1,451,068**	**-**	**-**	**1,451,068**
Borrowings	**9,500,000**	**9,500,000**	**-**	**9,500,000**	**-**
Lease liabilities	**40,605**	**40,605**	**-**	**40,605**	**-**
Total financial liabilities	**232,834,771**	**232,317,856**	**-**	**230,866,788**	**1,451,068**

2021

	Carrying amount	*Fair Value*	*Level 1*	*Level 2*	*Level 3*
Assets					
Amortized cost					
Member loans receivable	174,196,971	176,635,101	-	176,635,101	-
Central 1 term deposits	37,122,097	36,624,536	-	36,624,536	-
Other assets	85,953	85,953	-	85,953	-
Total financial assets	211,405,021	213,345,590	-	213,345,590	-
Liabilities					
Amortized cost					
Member deposits	236,016,936	235,832,145	-	235,832,145	-
Payables and accruals	629,682	629,682	-	629,682	-
Membership shares	1,515,393	1,515,393	-	-	1,515,393
Borrowings	1,113,823	1,132,079	-	1,132,079	-
Lease liabilities	58,314	58,314	-	58,314	-
Total financial liabilities	239,334,148	239,167,613	-	237,652,220	1,515,393

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. Investment in joint venture

The Credit Union has a 50% interest in a joint venture, Growth Financial Corp ("Growth"), with another Credit Union. The Credit Union accounts for this using the equity method whereby on initial recognition the investment is recorded at cost, and the carrying amount is adjusted to recognize its share of profit or loss of the joint venture after the date of acquisition.

The following table illustrates summarized financial information representing the Credit Union's 50% interest in Growth:

	2022	*2021*
Share of Growth's statement of financial position		
Cash	**1,450,990**	1,414,669
Other current assets	**441,943**	450,014
Non-current assets	**7,529,983**	7,677,567
Current liabilities	**(384,617)**	(372,412)
Non-current liabilities	**(473,871)**	(578,247)
Equity	**8,564,428**	8,591,591

	2022	*2021*
Share of Growth's revenue and profit		
Revenue	**3,235,117**	3,252,308
Profit	**472,837**	572,367
Dividends	**500,000**	288,199
Investment in shares	**2,606,632**	2,606,632
Carrying amount of the investment	**5,953,751**	5,980,937

23. Commitments

Data processing

The contract with CGI to acquire online data processing services expires at the end of December 2023. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

Funds under administration

Off balance sheet funds under administration by the Credit Union is comprised of loans that have been syndicated and are administered in their capacity as an agent. Off balance sheet funds are not included in the consolidated statement of financial position and the balance as at year end is as follows:

	2022	*2021*
Syndicated loans	**1,300,456**	1,336,998

24. Events after the reporting period

On December 14, 2022, the members of Heritage Credit Union voted in favour of a merger with East Kootenay Credit Union. The merger is effective January 1, 2023 and will be operating under the legal name of StellerVista Credit Union.