2022

Consolidated Financial Statements

(Expressed in thousands of dollars)

Gulf and Fraser Fishermen's Credit Union
and Independent Auditor's Report thereon
Year ended December 31, 2022

Gulf & Fraser
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements have been prepared by the management of Gulf and Fraser Fishermen's Credit Union (the Credit Union) who are responsible for their reliability, completeness, and integrity. The consolidated financial statements were prepared in accordance with requirements of the Financial Institutions Act of British Columbia and conform in all material respects with International Financial Reporting Standards.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems provide assurance that all transactions are authorized, and proper records are maintained. Internal audit procedures provide management with the ability to assess the adequacy of these controls.

The Board of Directors has approved the consolidated financial statements. The Audit and Risk Committee of the Board has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. KPMG LLP, Chartered Professional Accountants, the independent external auditors appointed by the membership, examined the consolidated financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the management and staff of the Credit Union and the Audit and Risk Committee of the Board.

William Kiss
Co-Chief Executive Officer

Jeff Shewfelt
Co-Chief Executive Officer

Ron Lee
Chief Financial Officer

February 27, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Members of Gulf and Fraser Fishermen's Credit Union

Opinion

We have audited the consolidated financial statements of Gulf and Fraser Fishermen's Credit Union (the Credit Union), which comprise:

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

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated 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 (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but 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 the 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 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 27, 2023

Gulf and Fraser Fishermen's Credit Union

Consolidated Statement of Financial Position

(Expressed in thousands of dollars)

December 31, 2022, with comparative information for 2021

	Notes	2022	2021
Assets			
Cash		$ 34,886	$ 45,995
Financial investments	6	791,423	535,362
Derivative assets	7	1,168	1,820
Loans	8, 9	3,840,196	3,419,054
Asset held-for-sale	10	2,297	2,297
Premises and equipment	11	62,273	66,302
Intangible assets	11	2,702	2,723
Deferred income tax asset	12	1,217	10
Other assets	13	17,929	5,556
		$ 4,754,091	$ 4,079,119
Liabilities and Members' Equity			
Deposits	14	$ 4,313,815	$ 3,735,085
Members' shares	15	15,257	13,378
Secured borrowings	16	129,438	77,305
Derivative liabilities	7	34,035	-
Other liabilities	17, 18	29,441	27,771
		4,521,986	3,853,539
Members' equity:			
Accumulated other comprehensive loss		(31,702)	(792)
Contributed surplus	2	10,926	70,331
Retained earnings		252,881	156,041
		232,105	225,580
		$ 4,754,091	$ 4,079,119

Commitments	19
Subsequent events	26

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Floyd Yamamoto
Chair, Board of Directors

Lee Varseveld
Chair of the Audit Committee

Gulf and Fraser Fishermen's Credit Union

Consolidated Statement of Income

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	Notes	2022	2021
Interest income:			
Interest on loans		$ 148,050	$ 93,050
Other interest income		8,149	4,271
		156,199	97,321
Interest expense:			
Interest on deposits		64,072	31,137
Other interest expense		2,384	1,966
		66,456	33,103
Net interest income		89,743	64,218
Provision for credit losses		(3,027)	(601)
Net interest income after provision for credit losses		86,716	63,617
Other income:			
Member services income		18,675	17,984
Hedge ineffectiveness on cash flow hedges		81	13
Other income		1,659	859
		20,415	18,856
Net interest and non-interest income		107,131	82,473
Operating expenses:			
Salaries and employee benefits	20, 21	41,036	31,797
Depreciation		6,695	4,827
Data processing		6,210	4,821
Office and other administrative		5,873	3,919
Occupancy		3,829	2,931
Dues		3,158	2,142
Advertising and promotion		2,903	1,453
Professional and other services		2,754	2,704
Donations		1,795	1,541
		74,253	56,135
		32,878	26,338
Loss on sale of premises		(105)	-
Distribution to members		(806)	(562)
Income before income taxes		31,967	25,776
Provision for income taxes	12	5,458	4,791
Net income		$ 26,509	$ 20,985

See accompanying notes to consolidated financial statements.

Gulf and Fraser Fishermen's Credit Union

Consolidated Statement of Comprehensive Income (Loss)

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

		2022		2021
Net income	$	26,509	$	20,985
Items that may be reclassified to profit or loss where conditions are met:				
Net unrealized losses on effective portion of cash flow hedges net of income tax recovery of $5,419 (2021 - $442)		(26,456)		(2,157)
Net unrealized losses from financial instruments, classified as fair value through other comprehensive income net of income tax recovery of $912 (2021 - $248)		(4,454)		(1,212)
Total comprehensive income (loss)	$	(4,401)	$	17,616

See accompanying notes consolidated financial statements.

Gulf and Fraser Fishermen's Credit Union

Consolidated Statement of Changes in Members' Equity

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	Accumulated other comprehensive income (loss)	Contributed surplus	Retained earnings	Members' equity
Balance, January 1, 2021	$ 2,577	$ -	$ 135,056	$ 137,633
Cash flow hedges	(2,157)	-	-	(2,157)
Financial instruments classified as FVOCI	(1,212)	-	-	(1,212)
Impact of business combination (note 2)	-	70,331	-	70,331
Net income	-	-	20,985	20,985
Balance, December 31, 2021	(792)	70,331	156,041	225,580
Reclassification of contributed surplus to retained earnings	-	(70,331)	70,331	-
Cash flow hedges	(26,456)	-	-	(26,456)
Financial instruments classified as FVOCI	(4,454)	-	-	(4,454)
Impact of business combination (note 2)	-	10,926	-	10,926
Net income	-	-	26,509	26,509
Balance, December 31, 2022	$ (31,702)	$ 10,926	$ 252,881	$ 232,105

See accompanying notes to consolidated financial statements.

Gulf and Fraser Fishermen's Credit Union

Consolidated Statement of Cash Flows

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Net income	$ 26,509	$ 20,985
Adjustments:		
Depreciation	6,695	4,827
Provision for credit losses	3,027	601
Interest income	(156,199)	(97,321)
Interest expense	66,456	33,103
Deferred income tax	(1,008)	(245)
Change in derivative instruments	3,777	(1,663)
	(50,743)	(39,713)
Changes in non-cash operating working capital:		
Other assets	(11,869)	(473)
Accounts payable and other liabilities	8,162	7,121
Net increase in loans	(281,323)	(446,104)
Net increase in deposits	354,888	409,008
Interest income received on loans	151,860	96,112
Interest expense paid on deposits	(44,225)	(32,730)
Income taxes paid	(5,004)	(3,513)
	121,746	(10,292)
Investing activities:		
Cash acquired on business combination	26,900	21,665
Net acquisition of investments	(214,068)	16,840
Net acquisition of:		
Premises and equipment	3,611	(5,298)
Intangible assets	(955)	(434)
	(184,512)	32,773
Financing activities:		
Payment on lease liabilities	(2,171)	(1,856)
Net increase in:		
Members' shares	1,695	3,923
Borrowings	52,133	4,898
	51,657	6,965
Increase (decrease) in cash	(11,109)	29,446
Cash, beginning of year	45,995	16,549
Cash, end of year	$ 34,886	$ 45,995

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Gulf and Fraser Fishermen's Credit Union (the "Credit Union") is incorporated under the British Columbia Credit Union Incorporation Act and is a member of Central 1 Credit Union ("Central 1"), which is the central credit union and trade services organization for British Columbia and Ontario credit unions. The Credit Union provides financial services to its members principally in the Greater Vancouver and Fraser Valley areas of British Columbia. The Credit Union's head office is located at Suite 401 - 7300 Edmonds Street, Burnaby, British Columbia.

2. Business combination:

Vancouver Police Credit Union ("Legacy VPCU"):

On September 7, 2021, the Credit Union and Legacy VPCU submitted an application for consent to merge the respective credit unions, to the BC Financial Services Authority ("BCFSA"). The merger transaction was to be structured as an asset transfer under Section 16 of the Credit Union Incorporation Act ("ACT"), whereby the Credit Union would acquire all of the assets and assume all of the liabilities of Legacy VPCU. On October 19, 2021, consent was issued by BCFSA and on December 1, 2021, the members from Legacy VPCU voted on and approved the Asset Transfer Agreement.

On January 1, 2022 (the "acquisition date"), the Credit Union and Legacy VPCU combined their respective operations building on the strengths of each credit union to recognize operational synergies and to capture economies of scale as a combined entity.

On the acquisition date, one (1) class A membership equity share of the Credit Union was exchanged for each fully paid class A membership equity share of Legacy VPCU. Following the merger, each member is required to have five (5) Class A member equity shares.

Mount Lehman Credit Union ("Legacy MLCU"):

On September 7, 2021, the Credit Union and Legacy MLCU submitted an application for consent to merge the respective credit unions, to BCFSA. The merger transaction was to be structured as an asset transfer under Section 16 of the ACT, whereby the Credit Union would acquire all of the assets and assume all of the liabilities of Legacy MLCU. On October 19, 2021, consent was issued by BCFSA and on December 21, 2021, the members from Legacy MCLU voted on and approved the Asset Transfer Agreement.

On January 1, 2022 (the "acquisition date"), the Credit Union and Legacy MLCU combined their respective operations building on the strengths of each credit union to recognize operational synergies and to capture economies of scale as a combined entity.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

2. Business combination (continued):

On the acquisition date, one (1) class A membership equity share of the Credit Union was exchanged for each fully paid class A membership equity share of Legacy MLCU. Following the merger, each member is required to have five (5) Class A member equity shares.

On the acquisition date, the fair values of the assets and liabilities of Legacy VPCU and Legacy MLCU were determined on the basis set out below. The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the acquisition date:

January 1, 2022	Valuation technique		VPCU		MLCU
Cash and financial investments	Discounted cash flow	$	43,491	$	25,077
Loans	Discounted cash flow		95,742		43,219
Premises and equipment	Property appraisals		5,853		1,206
Other Assets	Discounted cash flow		339		165
Deferred income tax asset	Asset-liability method		108		90
Total assets acquired		$	145,533	$	69,757
Members' deposits	Discounted cash flow	$	136,880	$	66,803
Accounts payable and accrued liabilities	Discounted cash flow		293		388
Total liabilities assumed		$	137,173	$	67,191
Estimated net assets acquired		$	8,360	$	2,566

The following valuation methodologies were applied in determining the fair value of assets acquired and liabilities assumed:

- Discounted cash flow: Discount rates were derived based on average market rates by product type.
- Property appraisals: Based on independent appraisals using both income approach and direct comparison approach.
- Asset-liability method: Based on the tax-effected expected reversal of temporary differences.

The estimated net assets acquired of $8,360 from Legacy VPCU and $2,566 from Legacy MLCU comprise the balance of contributed surplus as of January 1, 2022 on the Consolidated Statement of Changes in Members' Equity.

2. Business combination (continued):

The business combinations were accounted for using the acquisition method under IFRS 3, *Business Combinations* (“IFRS 3”), with the Credit Union acquiring 100% of the net assets of Legacy VPCU and Legacy MLCU. Management judgment was required in the determination of the acquirer in accordance with IFRS 3 and IFRS 10, *Consolidated Financial Statements*. The fair value of the net assets acquired were subsequently measured in accordance with the accounting policies disclosed in note 4.

The results for the year ended December 31, 2022, include the results for the combined credit union after the merger date.

During the year ended December 31, 2022, the Credit Union commenced various integration activities including the business combination accounting and integrated financial reporting. As a result of these integration efforts, the reporting of segregated results in the Statement of Comprehensive Income for the year is considered impracticable. The amounts of revenue and net income reported in the Statement of Income for the year ended December 31, 2022 reflect the combined credit union.

In 2022, the Credit Union incurred $1,165 related to the acquisition and ongoing integration efforts (2021 - $1,317). These costs were recognized under professional and other services in the Consolidated Statement of Income.

<u>Aldergrove Credit Union - acquisition in 2021:</u>

On January 18, 2021, the Credit Union and the legacy credit union known as Aldergrove Credit Union (“Legacy ACU”) submitted an application for consent to merge the respective credit unions, to BCFSA. The merger transaction was to be structured as an asset transfer under Section 16 of the AC, whereby the Credit Union would acquire all of the assets and assume all of the liabilities of Legacy ACU. On May 26, 2021, consent was issued by BCFSA and between June 21 and July 5, 2021, the members from Legacy ACU voted on and approved the Asset Transfer Agreement.

On August 1, 2021 (the “acquisition date”), the Credit Union and Legacy ACU combined their respective operations building on the strengths of each credit union to recognize operational synergies and to capture economies of scale as a combined entity.

On the acquisition date, one (1) class A membership equity share of the Credit Union was exchanged for each fully paid class A membership equity share of Legacy ACU. Following the merger, each member is required to have five (5) Class A member equity shares.

Included in the acquisition was Legacy ACU’s wholly-owned subsidiary, Aldergrove Financial Services Ltd.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

2. Business combination (continued):

On the acquisition date, the fair values of the assets and liabilities of Legacy ACU were determined on the basis set out below. The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the acquisition date:

	Valuation technique		August 1, 2021
Cash and financial investments	Discounted cash flow	$	227,638
Loans	Discounted cash flow		838,826
Derivative instruments	Discounted cash flow		170
Premises and equipment	Property appraisals		25,743
Right-of-use assets	Present value of future lease payments		2,616
Core deposit intangible asset	Net core demand deposit valuation		1,449
Total assets acquired		$	1,096,442
Members' deposits	Discounted cash flow	$	1,019,551
Accounts payable and accrued liabilities	Discounted cash flow		2,324
Deferred income tax liability	Asset-liability method		1,620
Lease liabilities	Present value of future lease payments		2,616
Total liabilities assumed		$	1,026,111
Estimated net assets acquired		$	70,331

The following valuation methodologies were applied in determining the fair value of assets acquired and liabilities assumed:

- Discounted cash flow: Discount rates were derived based on average market rates by product type.
- Property appraisals: Based on independent appraisals using both income approach and direct comparison approach.
- Present value of future lease payments: Based on the estimated cash flows and the Credit Union's incremental borrowing rate.
- Net core demand deposit valuation: Based on Legacy ACU's deposits offset against the estimated cost of servicing the respective deposits.
- Asset-liability method: Based on the tax-effected expected reversal of temporary differences.

The estimated net assets acquired of $70,331 comprised the balance of contributed surplus as of August 1, 2021 on the Consolidated Statement of Changes in Members' Equity.

2. Business combination (continued):

The business combination was accounted for using the acquisition method under IFRS 3, *Business Combinations* ("IFRS 3"), with the Credit Union acquiring 100% of the net assets of Legacy ACU. Management judgment was required in the determination of the acquirer in accordance with IFRS 3 and IFRS 10, *Consolidated Financial Statements*. The fair value of the net assets acquired were subsequently measured in accordance with the accounting policies disclosed in note 4.

The results for the year ended December 31, 2021 include the results for the combined credit union after the merger date. Since the acquisition date, the Credit Union has completed various integration activities including the business combination accounting and integrated financial reporting. As a result of these integration efforts, the reporting of segregated results in the Consolidated Statement of Income for the year was considered impracticable.

3. Basis of preparation:

(a) Statement of compliance:

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

These consolidated financial statements have been authorized for issue by the Board of Directors on February 27, 2023.

(b) Basis of measurement:

These consolidated financial statements were prepared using the historical cost basis, except for financial investments and derivative assets and liabilities, which are measured at fair value.

(c) Functional and presentation currency:

The Credit Union's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in thousands of Canadian dollars.

(d) Use of estimates and judgments:

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 5.

4. **Significant accounting policies:**

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary, Gulf and Fraser Insurance Services Ltd. These consolidated financial statements have been prepared using uniform accounting policies.

(b) Amalgamation:

The Credit Union completed an amalgamation of its two wholly-owned subsidiaries, Gulf and Fraser Insurance Services Ltd. and Aldergrove Financial Services Ltd. which was effective January 1, 2022 to form a single subsidiary that will continue to operate under the name Gulf and Fraser Insurance Services Ltd.

(c) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the credit union obtained control of the acquiree. The Credit Union controls an acquiree when it is exposed, or has rights, to variable returns from its involvement with the acquiree and has the ability to affect those returns through its power over the acquiree. In assessing control, the Credit Union considers factors primarily related to control such as relative size of the organizations, voting rights, and composition of the Board of Directors and senior management.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill, if any, is measured as the excess of the consideration transferred, including any amount of non-controlling interest in the acquiree, over the net of the recognized amounts of the identifiable assets acquired and liabilities assumed. Transaction costs are expensed as incurred.

(d) Financial instruments:

(*i*) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit and loss (“FVTPL”).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

4. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*i*) Recognition, classification and measurement (continued):

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held-for-trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Credit Union may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the Consolidated Statement of Income. For financial assets classified as measured at FVOCI for which an irrevocable election has been made, changes in fair value are recognized in the Consolidated Statement of Income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the Consolidated Statement of Income.

4. Significant accounting policies (continued):

(d) Financial instruments (continued):

(i) Recognition, classification and measurement (continued):

Business model assessment:

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed, and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held-for-trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition and ‘interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Credit Union considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

(ii) Reclassification of financial assets:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing those assets.

4. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*iii*) Impairment:

An impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

Loss allowances are measured on either of the following bases utilizing an expected credit loss ("ECL") model.

- 12-month ECL: these are losses that result from possible default events within the 12-months after the reporting date; and
- lifetime ECL: these are losses that result from all possible default events over the expected life of a financial instrument.

The ECL model requires the recognition of credit losses based on up to 12-months of expected losses of performing loans ("Stage 1") and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination ("Stage 2") and credit impaired assets ("Stage 3").

Assessment of significant increase in credit risk:

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, management judgment, and delinquency and monitoring. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short- and long-term, including periods of adverse changes in the economic or business environment.

4. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*iii*) Impairment (continued):

Measurement of ECL:

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default (“PD”); loss given default (“LGD”); and exposure at default (“EAD”).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

Credit-impaired and restructured financial assets:

At each reporting date, the Credit Union assesses whether financial assets measured at amortized cost or FVOCI are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its derecognition.

Presentation of impairment:

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities measured at FVOCI, the loss allowance is recognized in OCI instead of reducing the carrying amount of the asset.

Write-off:

Loan and debt securities are written off (either partially or full) when there is no probable prospect of recovery.

4. Significant accounting policies (continued):

(d) Financial instruments (continued):

(*iv*) Derecognition of financial instruments:

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either:
  - The Credit Union has transferred substantially all the risks and rewards of the asset; or
  - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement; and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union's continuing involvement in the asset. In that case the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Credit Union could be required to repay.

(e) Expected credit loss allowance:

The ECL model requires the recognition of credit losses based on 12-months of expected losses for performing loans ("Stage 1") and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination ("Stage 2"). Credit impaired assets require lifetime losses to be estimated ("Stage 3"). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

In determining whether there has been a significant increase in credit risk and in calculating the amount of the ECL, the Credit Union must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the ECL allowance.

4. Significant accounting policies (continued):

(e) Expected credit loss allowance (continued):

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Credit Union has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

(f) Derivative financial instruments and hedging:

Derivative financial instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial indices. The notional contract amounts related to derivatives are not included on the Consolidated Statement of Financial Position. In the ordinary course of business, the Credit Union enters into interest rate swaps and equity index-linked option contracts. The Credit Union enters into such contracts primarily to manage its exposure to fluctuations in interest rates and other financial indices as part of the Credit Union’s asset/liability management program.

Derivatives are carried at fair value and are recorded as assets when they have a net positive fair value and liabilities when they have a net negative fair value.

Non-hedging derivative instruments:

Derivatives that are not designated as hedging instruments are classified as held-for-trading.

Upon initial recognition, the Credit Union’s derivatives related to equity index-linked option contracts are classified as held-for-trading in order to avoid an accounting mismatch in relation to changes in fair value between the option contract and the underlying equity index-linked member deposit.

Non-hedging derivatives are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recognized in net income.

Hedging derivative instruments:

Derivatives can be designated for accounting purposes as either cash flow hedging instruments or fair value hedging instruments. The Credit Union has only entered into interest rate swap contracts as cash flow hedges at this time. Cash flow hedges modify exposure to variability in cash flows for variable interest-bearing instruments. The Credit Union’s cash flow hedges comprise hedges of variable rate mortgages and deposits.

4. Significant accounting policies (continued):

(f) Derivative financial instruments and hedging (continued):

Hedging derivative instruments (continued):

Each hedge undertaken by the Credit Union is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The Credit Union formally assesses prospectively and retrospectively at the hedge's inception and on an ongoing basis whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of cash flows attributed to hedged risks.

In a cash flow hedging relationship, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recognized in other comprehensive income. The ineffective portion is immediately recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the same period that the hedged cash flows affect net income.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time either remains in accumulated other comprehensive income and is amortized into net income over the remaining term of the original hedge or immediately when the hedged item is derecognized.

(g) Securitization:

The Credit Union periodically enters into asset transfer agreements with Central 1 and other third parties which include securitization of residential mortgages into special purpose entities which issue bonds to third party investors at specified interest rates.

The Credit Union reviews transfer agreements in order to determine whether the transfer of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third-party. An assessment is also made to determine whether substantially all the risks and rewards of ownership have been transferred.

Monies raised from securitization transactions whereby the Credit Union did not transfer substantially all of the risks and rewards of ownership of the mortgages in the securitization are accounted for as a secured borrowing.

4. Significant accounting policies (continued):

(h) Premises and equipment:

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

Asset	Useful life
Buildings	5 - 50 years
Furniture and equipment	2 - 10 years
Leasehold improvements	5 - 15 years

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

Gains or losses on disposal of an item of premises and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of premises and equipment and are recognized net within net income.

(i) Leased assets:

At inception of a contract, the Credit Union assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the Credit Union’s incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there are changes in the following: (*i*) in the lease term; (*ii*) the Credit Union’s assessment of whether it will exercise a purchase option; (*iii*) a change in an index or a change in the rate used to determine the payments; and (*iv*) amounts expected to be payable under residual value guarantees.

4. Significant accounting policies (continued):

(j) Intangible assets:

Intangible assets consist of computer software that is not integral to the computer hardware owned by the Credit Union and core deposit assets acquired through business combinations. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Software is depreciated on a straight-line basis over its estimated useful life of 2- to 5-years. The core deposit intangible asset is depreciated on a straight-line basis over its estimated useful life of 5-years.

(k) Impairment of non-financial assets:

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

(l) Employee benefits:

The Credit Union provides defined retirement benefits to certain employees through a multiemployer plan governed and administered by an independent Board of Trustees. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in the Credit Union’s opinion, there is no reasonable way to allocate any defined benefit obligations, as defined benefit information on a discrete employer basis is not available. Accordingly, the Credit Union’s participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. The Credit Union has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in note 20.

(m) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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

4. Significant accounting policies (continued):

(m) Income taxes (continued):

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

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

(n) Foreign currency translation:

Transactions in foreign currencies are translated into the functional currency of the Credit Union at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing exchange rates at the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Realized and unrealized gains and losses arising from translation are included in the Consolidated Statement of Comprehensive Income.

(o) Revenue recognition:

Interest income is recognized on an effective interest basis over the term of the underlying financial instrument. Other income from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

(p) Provisions:

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

(q) New accounting standards not yet effective:

A number of new standards are effective for annual periods beginning after January 1, 2023 and earlier application is permitted. The Credit Union has not early adopted the amended standards in preparing these consolidated financial statements.

4. Significant accounting policies (continued):

(q) New accounting standards not yet effective (continued):

The following amended standards and interpretations are not expected to have a significant impact on the Credit Union's consolidated financial statements:

- Disclosure of Accounting Policies (amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (amendments to IAS 8); and
- Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12).

(r) Interest Rate Benchmark Reform:

The IASB has issued amendments to financial reporting standards on interest rate benchmark reform, with requirements to commence transition from the Interbank Offer Rates ("IBOR") to Alternative Benchmark Rates ("ABR"). Interest rate benchmarks are referenced in financial instruments globally, including but not limited to derivatives, investments, and loans.

The Canadian Dollar Offer Rates ("CDOR") has been the primary benchmark used by Canadian financial institutions. On December 16, 2021, the Canadian Alternative Reference Rate working group ("CARR") recommended the administrator, Refinitiv Benchmark Services UK Limited ("RBSL"), to cease publication of CDOR immediately after June 28, 2024, using a two-stage transition approach. By the end of the first stage on June 30, 2023, CARR expects that all new derivative contracts and securities will use the Canadian Overnight Repo Rate Average ("CORRA"), with the exception of derivatives that hedge or reduce CDOR exposures from derivatives or securities transacted before June 30, 2023, or loan agreements entered into before June 28, 2024. All remaining CDOR exposures should be transitioned to CORRA by June 28, 2024, marking the end of the second stage. On May 16, 2022, following public consultation, RBSL announced that CDOR will cease publication immediately after June 28, 2024, in line with CARR recommendations.

The credit union has applied the IASB's Phase 1 and 2 Amendments to IFRS 9, *Financial Instruments: Recognition and Measurement,* IAS 39, *Financial Instruments: Recognition and Measurement,* and IFRS 7, *Financial Instruments: Disclosures*.

Phase 1 modified certain hedge accounting requirements to provide relief from the uncertainty arising from IBOR reform during the period prior to replacement of IBORs. The credit union expects the selection of an economically equivalent benchmark rate from the industry, and does not expect a material impact on cashflows.

4. Significant accounting policies (continued):

(r) Interest Rate Benchmark Reform (continued):

Phase 2 addresses issues that arise from implementation of IBOR reform. The amendments provide a practical expedient for modification of a financial contract and allow relief from discontinuing hedging relationships, in combination with new disclosures on the nature and extent of risks arising from the reform and how these risks are managed. The assessment of the impact on the credit union’s hedging relationships and its mitigation plans are still in progress.

As a result of the transition the credit union is exposed to operational and financial risks. The operational risks include the review and updating of contractual terms where needed, and the revision of controls related to the reform and regulatory risks. Financial risk is mostly related to interest rate risk.

To mitigate these risks, the Investment and Lending Committee will monitor the transition. Transition activities underway with contracted third parties include an evaluation of all instruments that reference IBOR, with the aim of determining whether contracts need to be amended or whether they already include a fallback clause. A contract that is not yet transitioned is referred to as an unreformed contract when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR. Assessments are also being made on the loans and commitments issued by the credit union to its members. As this work progresses, the magnitude of reformed versus unreformed contracts, as well as the expected dates of transition, will be reported to the Investment and Lending Committee.

The table below shows the total amount of unreformed financial instruments as at December 31, 2022 for which contracts are indexed to CDOR and will mature after June 28, 2024. The amounts for investments and securitization debt obligations are shown at their carrying amounts, while those of derivative assets and liabilities (interest rate swaps) are shown at their notional amounts.

	Total amount of unreformed contracts	Total amount with appropriate fallback clauses
Investments	$ 20,738	$ -
Derivative liabilities	565,000	-

5. Critical accounting estimates and judgments:

In preparing these consolidated financial statements, management has made judgments and estimates that affect the application of the Credit Union's accounting policies and the reported amounts of assets, liabilities, income and expenses.

(a) Significant judgments:

The critical judgments that management has made in the process of applying the Credit Union's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Classification and measurement of financial assets:

Determining the appropriate classification and measurement of the Credit Union's financial assets requires management to make judgments as to the objectives of the business models that the financial assets are held within and whether the contractual cash flows of the financial assets represent solely payments of principal and interest on the principal amount outstanding on initial recognition. In assessing the Credit Union's business models, management considers all relevant evidence available at the date of assessment, including but not limited to:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and the financial assets held within it and the way in which those risks are managed;
- how managers of the business model are compensated; and
- the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

(b) Assumptions and estimates:

The preparation of these consolidated financial statements requires that management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Credit Union's assets and liabilities at the end of the reporting period. Actual results may differ from these estimates as the estimation process is inherently uncertain. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Credit Union's assets and liabilities are accounted for prospectively.

5. Critical accounting estimates and judgments (continued):

(b) Assumptions and estimates (continued):

The significant assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period are as follows:

Loss allowance for expected credit losses on financial assets:

In determining the amount recognized as a loss allowance for ECLs on financial assets measured at amortized cost, management first assesses whether there has been a significant increase in credit risk for its financial assets. This assessment reflects management's view of the risk of default occurring in future periods for the respective financial assets. Actual occurrence of default may differ from these estimates.

The calculation of 12-month ECLs for Stage 1 financial assets and lifetime ECLs for Stage 2 financial assets and Stage 3 credit-impaired financial assets requires management to make estimates of the probabilities of default, current collateral values and resulting loss given default, exposure at default, impacts of forward looking information and forecasts of macroeconomic conditions to the Credit Union's ECLs and expected remaining lives of the financial assets. Changes in any one of the inputs to the ECL calculation can significantly affect the amount of loss allowance recognized in the Credit Union's consolidated financial statements.

A higher level of uncertainty with respect to future economic outlook has resulted in an increased reliance on management's judgement to determine the data and assumptions used in the ECL model. With the significant shift in economic climate, the forward-looking macroeconomic information used in the Credit Union's ECL model have changed considerably and will continue to evolve.

Management overlays to loss allowance for ECL are adjustments which are used in circumstances where management determines that existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic or political factors, along with expected changes to data that are not incorporated in current inputs or forward-looking information are examples of such circumstances.

Fair value of financial instruments:

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in notes 6, 7, 8, 14, 16 and 22.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

6. Financial investments:

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

	2022	2021
Measured at amortized cost:		
Central 1 term deposits	$ 379,032	$ 207,265
Accrued interest on term deposits	987	55
Portfolio investments	23,010	-
Other financial institution deposits	1,740	-
Measured at FVOCI:		
Statutory Liquidity held-in-trust	379,309	323,675
Measured at FVTPL:		
Central 1 - Class A shares	1,255	1,098
Central 1 – Class E shares	1	1
Other investments	6,089	3,268
	$ 791,423	$ 535,362

Prior to 2021, the Credit Union maintained its statutory liquidity requirement in the form of interest-bearing deposits with Central 1. As mandated by the Credit Union's regulator, BCFSA, this structure changed on January 1, 2021. Under the new structure, the Credit Union now maintains its statutory liquidity requirement by investing directly in marketable securities that qualify as high-quality liquid assets ("HQLA"). The Credit Union must maintain liquidity reserves of at least 8% of total members' deposits, non-equity shares and borrowing by investing in HQLA that are held in a trust, with the Credit Union as the beneficiary, Central 1 as the trustee, and Credential Qtrade Securities Inc. as the investment manager.

The Credit Union also invests excess liquidity with Central 1. The fair value of term deposits with Central 1 is $378,426 at December 31, 2022 (2021 - $207,245).

Portfolio investments include investment funds consisting of both equity and fixed income.

Other financial institution deposits represent interest bearing deposit notes held at other financial institutions

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

Central 1 shares and other investments, which are comprised of shares of credit union system entities, are measured at fair value, the determination of which is based on the par value of the underlying share classes. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

7. Derivatives:

	Notional amounts Maturities of derivatives Within 1 year	1 to 3 years	3 to 5 years	2022	Fair value 2022	2021
Derivatives used to manage interest rate risks:						
Receive fixed interest rate swaps	$ 25,000	$ 25,000	$ 540,000	$ 590,000	$ (34,035)	$ (290)
Forward fixed interest rate swaps	-	-	-	-	-	986
Other derivatives:						
Index-linked option contracts	1,767	5,905	5,203	12,875	1,168	1,124
Total derivative contracts	$ 26,767	$ 30,905	$ 545,203	$ 602,875	$ (32,867)	$ 1,820

8. Loans:

The following table provides information on loans by type. The maximum exposure to credit risk would be the carrying values as detailed below:

	2022	2021
Residential mortgages and personal loans	$ 2,779,354	$ 2,489,364
Commercial lending	1,062,856	933,067
	3,842,210	3,422,431
Accrued interest receivable	9,803	5,358
	3,852,013	3,427,789
Allowance for credit losses (note 9)	(11,817)	(8,735)
Net loans to members	$ 3,840,196	$ 3,419,054

At December 31, 2022, $2,833,498 (2021 - $2,140,209) of loans are expected to be settled more than 12-months after the reporting date.

(a) Terms and conditions:

Loans can have either a variable or fixed rate of interest and mature within 6-years.

Variable rate loans are based on a “prime rate” formula. The rate is determined by the type of security offered and the members’ credit worthiness. The Credit Union’s prime rate at December 31, 2022 was 6.45% (2021 - 2.45%).

8. Loans (continued):

(a) Terms and conditions (continued):

The interest rate offered on fixed rate loans being advanced to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans secured by residential property and generally receive monthly blended payments of principal and interest or interest only. Personal loans consist of term loans and lines of credit with various repayment terms.

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

(b) Fair value:

The fair value of loans at December 31, 2022 was $3,705,625 (2021 - $3,415,819).

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

(c) Securitized loans:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund mortgage growth by securitizing loans to Central 1 or unrelated third parties. The Credit Union reviews these securitization arrangements in order to determine whether they should result in all or a portion of the transferred mortgages being derecognized from the Consolidated Statement of Financial Position.

The amounts of residential mortgages that were transferred but which were not derecognized at December 31, 2022 was $129,528 (2021 - $77,387). The Credit Union has also recognized $129,438 (2021 - $77,305) of secured borrowings (note 16) relating to the securitization transactions, as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans and they are held as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 2.09% (2021 - 1.55%) and it matures over the same term as the underlying mortgages.

As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

8. Loans (continued):

(d) Credit quality of loans:

A breakdown of the security held on a portfolio basis is as follows:

	2022	2021
Loans - insured by government	$ 186,156	$ 156,063
Loans - real estate secured	3,629,263	3,246,237
Loans - otherwise secured	10,842	8,863
Loans - unsecured	15,949	11,268
	$ 3,842,210	$ 3,422,431

9. Allowance for credit losses:

(a) Reconciliation of allowance for credit losses:

The following tables show reconciliations from the opening balance to the closing balance of the Credit Union's ECL allowance on loans, by class of financial asset and loss allowance category.

2022	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
Balance, January 1	$ 6,543	$ 494	$ 20	$ 7,057
Provision for credit losses:				
Transfers to Stage 1	45	(45)	-	-
Transfers to Stage 2	(236)	236	-	-
Transfers to Stage 3	(11)	-	11	-
Originations	3,265	144	-	3,409
Maturities	(3,273)	(252)	-	(3,525)
Remeasurements	782	260	(2)	1,040
Net write-offs	-	-	(11)	(11)
Balance, December 31	$ 7,115	$ 837	$ 18	$ 7,970
Residential mortgages and personal loans:				
Balance, January 1	$ 876	$ 753	$ 47	$ 1,676
Provision for credit losses:				
Transfers to Stage 1	30	(30)	-	-
Transfers to Stage 2	(38)	38	-	-
Transfers to Stage 3	(66)	(18)	84	-
Originations	1,121	458	120	1,699
Maturities	(384)	(174)	(70)	(628)
Remeasurements	640	477	31	1,148
Net write-offs	-	-	(48)	(48)
Balance, December 31	$ 2,179	$ 1,504	$ 164	$ 3,847

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

9. Allowance for credit losses (continued):

(a) Reconciliation of allowance for credit losses (continued):

2022	Stage 1	Stage 2	Stage 3	Total
Total loans:				
Balance, January 1	$ 7,419	$ 1,247	$ 67	$ 8,733
Provision for credit losses:				
Transfers to Stage 1	75	(75)	-	-
Transfers to Stage 2	(274)	274	-	-
Transfers to Stage 3	(77)	(18)	95	-
Originations	4,386	602	120	5,108
Maturities	(3,657)	(426)	(70)	(4,153)
Remeasurements	1,422	737	29	2,188
Net write-offs	-	-	(59)	(59)
Balance, December 31	$ 9,294	$ 2,341	$ 182	$ 11,817

2021	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
Balance, January 1	$ 6,701	$ 183	$ -	$ 6,884
Provision for credit losses:				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(207)	207	-	-
Transfers to Stage 3	-	(1)	1	-
Originations	3,895	69	-	3,964
Maturities	(3,130)	(122)	-	(3,252)
Remeasurements	(715)	159	18	(538)
Net write-offs	-	-	-	-
Balance, December 31	$ 6,544	$ 495	$ 19	$ 7,058
Residential mortgages and personal loans:				
Balance, January 1	$ 807	$ 444	$ 64	$ 1,315
Provision for credit losses:				
Transfers to Stage 1	8	(8)	-	-
Transfers to Stage 2	(20)	20	-	-
Transfers to Stage 3	-	-	-	-
Originations	839	297	5	1,141
Maturities	(307)	(79)	(38)	(424)
Remeasurements	(449)	79	80	(290)
Net write-offs	-	-	(65)	(65)
Balance, December 31	$ 878	$ 753	$ 46	$ 1,677

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

9. Allowance for credit losses (continued):

(a) Reconciliation of allowance for credit losses (continued):

2021	Stage 1	Stage 2	Stage 3	Total
Total loans:				
Balance, January 1	$ 7,508	$ 627	$ 64	$ 8,199
Provision for credit losses:				
Transfers to Stage 1	8	(8)	-	-
Transfers to Stage 2	(227)	227	-	-
Transfers to Stage 3	-	(1)	1	-
Originations	4,734	366	5	5,105
Maturities	(3,437)	(201)	(38)	(3,676)
Remeasurements	(1,164)	238	98	(828)
Net write-offs	-	-	(65)	(65)
Balance, December 31	$ 7,422	$ 1,248	$ 65	$ 8,735

(b) Loans past due but not impaired:

Loans that are past due but not impaired as at December 31, 2022 and 2021 are as follows:

2022	Residential mortgages and personal loans	Commercial lending	Total
31 to 90 days	$ 8,085	$ 46	$ 8,131
Over 90 days	-	-	-
Balance, December 31, 2022	$ 8,085	$ 46	$ 8,131

2021	Residential mortgages and personal loans	Commercial lending	Total
31 to 90 days	$ 1,626	$ -	$ 1,626
Over 90 days	-	10	10
Balance, December 31, 2021	$ 1,626	$ 10	$ 1,636

Forward-looking information is incorporated into both the assessment of whether a loan has experienced a significant increase in credit risk since its initial recognition and the estimation of ECL. The models used to estimate ECL consider macroeconomic factors that are most closely correlated with credit risk in the relevant portfolios. The primary macroeconomic variables impacting ECL are BC unemployment rates, BC House Price Index (“HPI”), and Canadian Gross Domestic Product (“GDP”).

9. Allowance for credit losses (continued):

(c) Forecasting forward-looking information:

ECL is sensitive to changes in the base scenario as well as the other more optimistic and more pessimistic scenarios. The Credit Union continues to assess its modeled ECL to reflect expert credit judgements to its estimation of ECL. Hindsight cannot be used, so while these evolving assumptions may result in future forecasts that differ from those used in the ECL estimation as at December 31, 2022, those changes will be reflected in future quarters.

10. Asset held-for-sale:

The Credit Union has classified the site of its previous corporate office at 7375 Kingsway, Burnaby, British Columbia, and two adjacent properties as assets held-for-sale. The properties are available for immediate sale and it is management’s intention to sell the properties. As such, the carrying value will be recovered principally through a sale transaction.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

11. Premises and equipment and intangible assets:

	Premises and equipment						Intangible assets		
	Land	Building	Leasehold improvement	Furniture and equipment	Right-of-use assets / Building	Total	Core deposit asset	Computer software	Total
Cost:									
Balance, December 31, 2020	$ 3,283	$ 21,462	$ 10,475	$ 10,597	$ 12,374	$ 58,191	$ -	$ 7,084	$ 7,084
Impact of business combination (note 2)	7,294	14,606	1,839	1,125	2,616	27,480	1,449	879	2,328
Additions	-	87	2,143	1,035	2,033	5,298	-	434	434
Balance, December 31, 2021	10,577	36,155	14,457	12,757	17,023	90,969	1,449	8,397	9,846
Impact of business combination (note 2)	5,262	1,236	10	115	-	6,623	-	436	436
Additions	-	417	1,510	1,157	1,866	4,950	-	1,295	1,295
Disposals	(5,070)	(5,792)	(58)	(1,383)	-	(12,303)	-	(1,570)	(1,570)
Balance, December 31, 2022	$ 10,769	$ 32,016	$ 15,919	$ 12,646	$ 18,889	$ 90,239	$ 1,449	$ 8,558	$ 10,007
Accumulated depreciation:									
Balance, December 31, 2020	$ -	$ 912	$ 7,230	$ 8,163	$ 3,346	$ 19,651	$ -	$ 6,588	$ 6,588
Depreciation expense	-	834	1,294	932	1,956	5,016	121	414	535
Balance, December 31, 2021	-	1,746	8,524	9,095	5,302	24,667	121	7,002	7,123
Depreciation expense		1,324	2,003	1,403	2,311	7,041	290	1,122	1,412
Disposals	-	(2,329)	(49)	(1,364)	-	(3,742)	-	(1,230)	(1,230)
Balance, December 31, 2022	$ -	$ 741	$ 10,478	$ 9,134	$ 7,613	$ 27,966	$ 411	$ 6,894	$ 7,305
Net book value:									
As at December 31, 2021	$ 10,577	$ 34,409	$ 5,933	$ 3,662	$ 11,721	$ 66,302	$ 1,328	$ 1,395	$ 2,723
As at December 31, 2022	10,769	31,275	5,441	3,512	11,276	62,273	1,038	1,664	2,702

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

11. Premises and equipment and intangible assets (continued):

Included in depreciation expense for the year ended December 31, 2022 is a credit of $1,758 (2021 - $724) related to the depreciation of the remaining fair value adjustments as part of the business combination described in note 2.

12. Provision for income taxes:

		2022		2021
Current income taxes:				
Current year	$	6,466	$	5,036
Deferred income taxes:				
Origination and reversal of temporary differences		(1,008)		(245)
	$	5,458	$	4,791

At December 31, 2022, a deferred income tax liability for temporary differences of $2,526 (2021 - $1,232) related to investments in subsidiaries was not recognized because the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

During the year ended December 31, 2022, income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 27% (2021 - 27%) to income before income taxes. The reasons for the differences are as follows:

	2022			2021		
Combined basic federal and provincial statutory income tax	$	8,632	27.0%	$	6,960	27.0%
Decrease in tax due to:						
Preferred rate deduction available to credit unions		(3,147)	(10.0%)		(2,582)	(10.0%)
Non-taxable portion of capital gain		(343)	(1.1%)		-	-%
Non-deductible and other items		316	1.2%		413	1.6%
Total income taxes	$	5,458	17.1%	$	4,791	18.6%

At December 31, 2022, income taxes receivable of $5,517 is included in other assets (2021 - taxes payable of $259).

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

12. Provision for income taxes (continued):

The components of deferred income taxes are as follows:

		2022		2021
Deferred income tax asset:				
Allowance for impaired loans	$	1,729	$	831
Deposits		420		784
Leases		134		98
Other		786		613
Deferred income tax liability:				
Prepaid expense		(159)		(202)
Premises and equipment		(1,693)		(2,114)
Net deferred tax asset	$	1,217	$	10

As at December 31, 2022 and 2021, the Credit Union has considered contingent tax liabilities and uncertain tax treatments, as well as interest and penalties, and determined that no amount need be accrued in respect of such amounts.

13. Other assets:

		2022		2021
Prepaid expenses	$	5,237	$	4,362
Accounts receivable		252		1,142
Income tax receivable		5,517		-
Other assets		6,923		52
	$	17,929	$	5,556

14. Deposits:

		2022		2021
Demand deposits	$	1,090,735	$	1,124,443
Term deposits		2,633,391		2,122,829
Registered Retirement Savings Plans		176,538		160,001
Registered Retirement Income Funds		114,485		95,891
Registered Education Savings Plans		7,206		6,306
Tax Free Savings Accounts		249,322		206,146
		4,271,677		3,715,616
Accrued interest payable		42,138		19,469
	$	4,313,815	$	3,735,085

14. Deposits (continued):

At December 31, 2022, $493,168 (2021 - $719,182) of deposits are expected to be settled more than 12-months after the reporting date.

(a) Terms and conditions:

Demand deposits primarily consist of chequing and savings accounts. Interest rates and account fees are specific to each type of deposit account.

Term deposits bear fixed or variable rates of interest for terms of up to 5-years. Interest can be paid annually, monthly or upon maturity.

The Registered Retirement Savings Plans (“RRSP”) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above.

Registered Retirement Income Funds (“RRIF”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The Registered Education Savings Plans (“RESP”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above.

The Tax-Free Savings Accounts (“TFSA”) can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

(b) Fair value:

The fair value of deposits at December 31, 2022 was $4,316,742 (2021 - $3,745,691).

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

15. Members’ shares:

The members’ shares of the Credit Union are divided into four classes of shares being membership shares, investment equity shares, patronage shares and non-equity shares. All of the Credit Union’s member shares are classified as financial liabilities as each class of shares is redeemable at the option of the member. The member shares are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

15. Members’ shares (continued):

(a) Terms and conditions:

(*i*) Membership shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold five dollars in membership shares. These membership shares are redeemable at par (one dollar) when withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in membership shares are not insured by the Credit Union Deposit Insurance Corporation (“CUDIC”). The withdrawal of membership shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year.

(*ii*) Investment equity shares:

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable at par (one dollar) when withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in investment equity shares are not insured by CUDIC. The withdrawal of investment equity shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year.

(*iii*) Patronage shares:

Patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par (one dollar). There is no limit on the number of patronage shares which can be held by a member.

Funds issued in patronage shares are not insured by CUDIC. The withdrawal of patronage shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year. Patronage rebates are at the discretion of the Directors. All issued shares are fully paid.

(*iv*) Non-equity shares*:*

Non-equity shares are withdrawable on demand by the member and may be redeemed by the Credit Union at par (one dollar). Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

15. Members' shares (continued):

(b) Number of shares outstanding:

	Membership shares	Investment equity shares	Patronage shares	Non-equity shares	Total
Balance, December 31, 2020	2,873	5,721	681	180	9,455
Impact of business combination (note 2)	2,694	-	-	-	2,694
Issued during the year	201	1,778	46	2	2,027
Redeemed during the year	270	489	29	10	798
Balance, December 31, 2021	5,498	7,010	698	172	13,378
Impact of business combination (note 2)	184	-	-	-	184
Issued during the year	455	2,238	16	-	2,709
Redeemed during the year	328	638	45	3	1,014
Balance, December 31, 2022	5,809	8,610	669	169	15,257
Authorized shares - 2021	Unlimited	Unlimited	Unlimited	Unlimited	
Authorized shares - 2022	Unlimited	Unlimited	Unlimited	Unlimited	

16. Secured borrowings:

	2022	2021
Central 1 - secured loan (note 8(c))	$ 129,438	$ 77,305

The fair value of borrowings as at December 31, 2022 was $125,744 (2021 - $76,177).

In addition to the Central 1 secured loan noted above, the Credit Union has an authorized operating line and term loan facility of $202,376 (2021 - $169,101) with Central 1, bearing interest that varies with the bankers' acceptance rate. This facility is secured by an assignment of book accounts.

The Credit Union also has a credit facility agreement with Fédérations des caisses Desjardins du Québec authorized up to $70,000 (2021 - $70,000) and is secured by a first charge against eligible residential mortgages. This credit facility bears interest that varies with the bankers' acceptance rate.

As of December 31, 2022, no amounts (2021 - nil) were drawn against the Central 1 and Desjardins du Québec credit facilities.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

17. Other liabilities:

		2022		2021
Accounts payable and accrued liabilities	$	16,483	$	13,505
Deferred revenue		895		1,711
Income tax payable		-		259
Lease liability (note 18)		12,063		12,296
	$	29,441	$	27,771

18. Lease liability:

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2022 and 2021:

		2022		2021
Less than one year	$	2,655	$	2,331
Between one and five years		7,827		7,612
More than five years		2,511		3,318
Total undiscounted lease obligations		12,993		13,261
Impact of discounting		(930)		(965)
	$	12,063	$	12,296
Lease liabilities included in statement of financial position:				
Current	$	2,382	$	2,078
Non-current		9,681		10,218
Total	$	12,063	$	12,296

The Credit Union has used a weighted average incremental borrowing rate of 2.31% (2021 - 2.50%) to discount its lease obligations.

19. Commitments:

(a) Letters of credit:

In the normal course of business, the Credit Union issues letters of credit on behalf of its members. Letters of credit are not reflected in the Consolidated Statement of Financial Position. At December 31, 2022, the Credit Union has outstanding letters of credit on behalf of members in the amount of $9,121 (2021 - $11,762).

19. Commitments (continued):

(b) Contractual obligations:

The Credit Union has a license agreement with a third-party vendor for banking system software and associated supporting applications. The Credit Union also has a data processing agreement with the third-party vendor to operate the software on behalf of the Credit Union, providing related services and interfaces. Both agreements expire on March 31, 2026.

The Credit Union has a subscription agreement with a third-party vendor for a customer relationship management application. This agreement expires on January 13, 2025.

20. Employee benefits:

As a result of the business combinations that took effect on August 1, 2021 and January 1, 2022 (note 2), the Credit Union assumed responsibility for a defined retirement benefit plan that serves a number of active and retired employees but is closed to new entrants.

The BC Credit Union Employees' Pension Plan is a contributory, multiemployer, multidivisional registered pension plan governed by an independent 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. Based on the fourth quarter's information for 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 $1,050 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 scheduled actuarial valuation date will be performed no later than December 31, 2024. The Credit Union paid $1.0 million in employer contributions to the plan in fiscal year 2022 (2021 - $0.3 million).

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

21. Related party transactions:

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

	2022	2021
Compensation:		
Salaries and employee benefits	$ 4,897	$ 4,194
Post-employment benefits	361	1,600
	$ 5,258	$ 5,794
Transactions with key management personnel:		
Loans outstanding	$ 4,403	$ 4,107
Term and savings deposits	4,826	1,976
	$ 9,229	$ 6,083

The Credit Union’s policy for lending to, and for receiving deposits from, key management personnel is that the loans are approved, and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. The employees of the Credit Union are eligible for reduced interest rates on personal loans, lines of credit and mortgages. Directors are not eligible for these benefits.

During the year ended December 31, 2022, the Credit Union’s Board of Directors received aggregate remuneration of $384 (2021 - $314) which is included in compensation to key management personnel above.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

22. Financial instrument classification and fair value:

(a) Financial instrument classification:

The following table represents the carrying amount by classification.

	Measured at amortized cost	Measured at FVTPL	Measured at FVOCI	Total
December 31, 2022:				
Cash	$ 34,886	$ -	$ -	$ 34,886
Financial investments	404,769	7,345	379,309	791,423
Derivative assets	-	1,168	-	1,168
Loans	3,840,196	-	-	3,840,196
Accounts receivable	252	-	-	252
Deposits	(4,313,815)	-	-	(4,313,815)
Members' shares	(15,257)	-	-	(15,257)
Secured borrowings	(129,438)	-	-	(129,438)
Derivative liabilities	-	(34,035)	-	(34,035)
Accounts payable	(16,483)	-	-	(16,483)
Lease liability	(12,063)	-	-	(12,063)
	$ (206,953)	$ (25,522)	$ 379,309	$ 146,834

	Measured at amortized cost	Measured at FVTPL	Measured at FVOCI	Total
December 31, 2021:				
Cash	$ 45,995	$ -	$ -	$ 45,995
Financial investments	207,320	4,367	323,675	535,362
Derivative assets	-	1,820	-	1,820
Loans	3,419,054	-	-	3,419,054
Accounts receivable	1,142	-	-	1,142
Deposits	(3,735,085)	-	-	(3,735,085)
Members' shares	(13,378)	-	-	(13,378)
Secured borrowings	(77,305)	-	-	(77,305)
Accounts payable	(13,505)	-	-	(13,505)
Lease liability	(12,296)	-	-	(12,296)
	$ (178,058)	$ 6,187	$ 323,675	$ 151,804

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

22. Financial instrument classification and fair value (continued):

(b) Financial instruments measured at fair value:

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

- Level 1 - fair value measurements based on unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 - fair value measurements based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - fair value measurements based on inputs that are not based on observable market data.

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement.

Financial assets and financial liabilities are classified in their entirety into only one of three levels:

	Level 1	Level 2	Level 3	Total
December 31, 2022:				
Statutory Liquidity	$ 379,309	$ -	$ -	$ 379,309
Central 1 - Class A shares	-	1,255	-	1,255
Central 1 - Class E shares	-	1	-	1
Derivative assets	-	1,168	-	1,168
Other investments	-	6,089	-	6,089
Derivative liabilities	-	(34,035)	-	(34,035)
	$ 379,309	$ (25,522)	$ -	$ 353,787

	Level 1	Level 2	Level 3	Total
December 31, 2021:				
Statutory Liquidity	$ 323,675	$ -	$ -	$ 323,675
Central 1 - Class A shares	-	1,098	-	1,098
Central 1 - Class E shares	-	1	-	1
Derivative assets	-	1,820	-	1,820
Other investments	-	3,268	-	3,268
	$ 323,675	$ 6,187	$ -	$ 329,862

The fair value of derivative assets has been determined through present value techniques. The fair value of the other financial instruments in the table above is described in note 7.

There were no transfers between any of the levels in the fair value hierarchy in 2022 or 2021.

There were no Level 3 investments held as at December 31, 2022 and 2021.

22. Financial instrument classification and fair value (continued):

(c) Financial instruments not measured at fair value:

The fair value of the Credit Union’s cash, accounts receivable, members’ shares and accounts payable approximates carrying value due to their short-term nature or ability to be settled on demand. These financial instruments are classified as Level 2 in the fair value hierarchy because while settlement amounts or prices are available, there is no active market for these instruments.

The fair value of: loans disclosed in note 8, deposits disclosed in note 14 and secured borrowings in note 16 has been determined using present value techniques, which include inputs based on market observable data. Accordingly, these financial instruments are classified as Level 2 in the fair value hierarchy.

23. Financial instrument risk management:

The Credit Union is exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments. Below is a description of those risks and how the Credit Union manages its exposure.

(a) Credit risk:

Credit risk is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. The Credit Union’s exposure to credit risk is concentrated primarily in its loans. Risk management policies are implemented by management and the Board. These policies include evaluating the member’s ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over limit amounts.

Notes 8 and 9 provide further discussion over the Credit Union’s loan balances and exposure to credit risk. Concentrations of credit risk arise when members are engaged in similar economic activities or in similar geographic areas. The Credit Union’s market service area is primarily the Greater Vancouver and Fraser Valley Areas of British Columbia and as a result, repayment by members is dependent in part upon the general economic conditions of this geographic region.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan. The Credit Union’s credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures 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.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

23. Financial instrument risk management (continued):

(a) Credit risk (continued):

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. With respect to credit risk, the Board of Directors receives quarterly reports summarizing new loans, delinquent loans, overdraft utilization, bad debts analysis and allowance for impaired loans.

(b) Credit risk exposure:

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the consolidated statement of financial position, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

	2022	2021
On-balance sheet exposures	$ 3,840,196	$ 3,419,054
Off-balance sheet exposures	532,228	476,540
	$ 4,372,424	$ 3,895,594

The following tables set out information about the credit quality of the Credit Union's loans measured at amortized cost, inclusive of accrued interest, by category of loss allowance at December 31, 2022. The amounts in the table represent the carrying amounts of loans.

December 31, 2022	Stage 1	Stage 2	Stage 3	Total
Residential mortgages and personal loans:				
Beacon score > 750 (excellent)	$ 1,752,927	$ 1,954	$ 49	$ 1,754,930
Beacon score 650 – 749 (good)	839,565	16,568	173	856,306
Beacon score 600 – 649 (satisfactory)	90,885	36,379	399	127,663
Beacon score < 600 (poor)	11,287	27,014	2,154	40,455
Accrued interest	4,259	225	54	4,538
Loss allowance	(2,179)	(1,504)	(164)	(3,847)
	$ 2,696,744	$ 80,636	$ 2,665	$ 2,780,045

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

23. Financial instrument risk management (continued):

(b) Credit risk exposure (continued):

December 31, 2021	Stage 1	Stage 2	Stage 3	Total
Residential mortgages and personal loans:				
Beacon score > 750 (excellent)	$ 1,578,102	$ 502	$ 5	$ 1,578,609
Beacon score 650 - 749 (good)	761,353	10,253	79	771,685
Beacon score 600 - 649 (satisfactory)	88,282	26,282	7	114,571
Beacon score < 600 (poor)	9,379	15,116	4	24,499
Accrued interest	2,468	60	1	2,529
Loss allowance	(877)	(753)	(47)	(1,677)
	$ 2,438,707	$ 51,460	$ 49	$ 2,490,216

December 31, 2022	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
R1 Excellent	$ 28,938	$ -	$ -	$ 28,938
R2 Good	510,305	-	-	510,305
R3 – R5 Satisfactory	181,208	36	-	181,244
R6 – R7 Satisfactory with higher risk	241,587	90,031	-	331,618
R8 Less than satisfactory	6,444	4,289	-	10,733
R9 – R10 Credit Impaired	-	-	18	18
Accrued interest	4,350	915	-	5,265
Loss allowance	(7,115)	(837)	(18)	(7,970)
	$ 965,717	$ 94,434	$ -	$ 1,060,151

December 31, 2021	Stage 1	Stage 2	Stage 3	Total
Commercial lending:				
R1 Excellent	$ 3,678	$ 37	$ -	$ 3,715
R2 Good	447,913	275	-	448,188
R3 - R5 Satisfactory	148,923	2	-	148,925
R6 - R7 Satisfactory with higher risk	255,652	44,186	-	299,838
R8 Less than satisfactory	32,382	-	-	32,382
R9 - R10 Credit Impaired	-	-	19	19
Accrued interest	2,636	193	-	2,829
Loss allowance	(6,544)	(495)	(19)	(7,058)
	$ 884,640	$ 44,198	$ -	$ 928,838

23. Financial instrument risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due. Cash flows payable under financial liabilities by their remaining contractual maturities are included in the interest rate sensitivity analysis included in note 23(d).

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union is required to maintain, in the form of cash and term deposits, a minimum of 8% liquidity at all times, based on total members' deposits and non-equity shares, and borrowings. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(d) Market risk:

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates and other market prices. The level of market risk to which the Credit Union is exposed varies depending on market conditions and the composition of the Credit Union's investment, lending, and deposit portfolios.

The Credit Union's business is predominantly conducted in Canadian currency. However, some of the Credit Union's deposits are denominated in US funds. The Credit Union economically hedges its exposure to negative impacts from US currency fluctuations by maintaining US dollar denominated investments in amounts which approximate its US deposits. Therefore, exposures to foreign currency fluctuations are managed to immaterial levels on an ongoing basis.

Interest rate risk is the potential impact on the Credit Union's earnings and economic value due to changes in interest rates. The Credit Union continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modeling its assets, liabilities, and equity against the impact of various possible rate increases or decreases.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

23. Financial instrument risk management (continued):

(d) Market risk (continued):

The Credit Union has formal internal policies that establish acceptable levels of interest rate risk. These policies are directed at ensuring that expected net interest income has a high probability of falling within an acceptable range. There are further policies designed to ensure that the market value of equity is not eroded by interest rate changes beyond an acceptable range. The Credit Union also consults with independent experts with regards to both the quality and interpretation of its internal interest rate risk management programs. Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing interest rate risk.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within one year, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. There are no maturities for the non-interest sensitive financial liabilities as the amounts are payable on demand. All financial liabilities classified as within one year have a contractual maturity of less than one year.

December 31, 2022	Weighted average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets								
Cash and financial investments	3.50%	$ 651,253	$ 82,921	$ 44,017	$ 19,519	$ 6,245	$ 22,354	$ 826,309
Loans	5.15%	1,964,709	466,845	475,380	636,514	293,655	3,093	3,840,196
Others		-	-	-	-	-	87,586	87,586
		$ 2,615,962	$ 549,766	$ 519,397	$ 656,033	$ 299,900	$ 113,033	$ 4,754,091
Liabilities and Members' Equity								
Deposits and members' shares	3.04%	$ 2,852,353	$ 399,546	$ 55,799	$ 21,307	$ 16,517	$ 983,550	$ 4,329,072
Other	2.17%	11,323	12,285	28,931	65,126	11,807	63,442	192,914
Members' equity		-	-	-	-	-	232,105	232,105
		$ 2,863,676	$ 411,831	$ 84,730	$ 86,433	$ 28,324	$ 1,279,097	$ 4,754,091
Swaps		$ (565,000)	$ -	$ 25,000	$ 120,000	$ 420,000	$ -	-
Interest sensitivity position		$ (812,714)	$ 137,935	$ 459,667	$ 689,600	$ 691,576	$(1,166,064)	$ -

December 31, 2021	Weighted average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets								
Cash and financial investments	0.75%	$ 432,321	$ 60,457	$ 39,243	$ 21,193	$ 8,541	$ 19,602	$ 581,357
Loans	3.17%	1,866,412	353,479	309,058	321,857	571,969	(3,721)	3,419,054
Others		-	-	-	-	-	78,708	78,708
		$ 2,298,733	$ 413,936	$ 348,301	$ 343,050	$ 580,510	$ 94,589	$ 4,079,119
Liabilities and Members' Equity								
Deposits and members' shares	1.24%	$ 2,016,327	$ 455,186	$ 252,522	$ 5,829	$ 5,646	$ 1,012,953	$ 3,748,463
Other	1.63%	23,745	11,449	10,347	24,323	7,523	27,689	105,076
Members' equity		-	-	-	-	-	225,580	225,580
		$ 2,040,072	$ 466,635	$ 262,869	$ 30,152	$ 13,169	$ 1,266,222	$ 4,079,119
Swaps		$ (145,000)	$ 25,000	$ -	$ -	$ 120,000	$ -	-
Interest sensitivity position		$ 113,661	$ (27,699)	$ 85,432	$ 312,898	$ 687,341	$(1,171,633)	$ -

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

23. Financial instrument risk management (continued):

(d) Market risk (continued):

The following table summarizes the pre-tax impact of an immediate and sustained parallel 1% increase or decrease shift in interest rates over the next 12-months on net interest income, assuming that no further hedging is undertaken. These measures are based upon assumptions made by management.

All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the risk management initiatives.

	2022		2021	
Impact of	Amount	Percentage of base forecast	Amount	Percentage of base forecast
100 bp increase in interest rates	$ 37	0.05%	$ 2,391	3.27%
100 bp decrease in interest rates	40	0.05%	5,745	7.85%

24. Capital management:

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. To ensure processes are in place to meet its objectives, the Credit Union follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis. The capital plan is updated annually and provides a forecast of capital requirements over a three-year period.

The *Financial Institutions Act of British Columbia* requires the Credit Union to maintain a prescribed capital base at all times. This base consists primarily of equity shares and retained earnings. The level of capital required is based on a percentage of the total value of risk-weighted assets. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. The *Financial Institutions Act of British Columbia* prescribes a minimum capital ratio of 8%, to avoid certain operating restrictions.

The Internal Capital Target guideline issued by the British Columbia Financial Services Authority sets a Supervisory level for credit unions of 10% for internal capital targets.

To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk-weighted asset levels. At December 31, 2022 and 2021, the Credit Union's estimated capital ratio exceeded the required capital ratio.

(Tabular amount expressed in thousands of dollars, except for indicated otherwise)

25. Funds under administration:

Funds under administration by the Credit Union comprise loans that have been syndicated and administered in the capacity as an agent, including loans issued by the Credit Union under the Canada Emergency Business Account ("CEBA") program. It also includes investment portfolios and mutual fund accounts that are managed on behalf of members. Funds under administration are kept separate from Credit Union assets and therefore are not reflected in the Consolidated Statement of Financial Position.

	2022	2021
Syndicated loans	$ 85,282	$ 131,544
CEBA loans	25,158	27,419
Investment portfolios and mutual funds at market value	541,492	584,511
	$ 651,932	$ 743,474

26. Subsequent events:

(a) Merger:

The Credit Union completed a merger subsequent to December 31, 2022 with Grand Forks District Savings Credit Union ("GFCU"). The merger was effective January 1, 2023 (the "merger date") and the combined entity will continue to operate under the name Gulf and Fraser Fishermen's Credit Union ("Gulf & Fraser").

On the merger date, each class A membership equity share of GFCU was exchanged for one class A membership equity share of Gulf & Fraser.

The entities respective operations were combined by way of asset transfer agreement to build on the strengths of each credit union to recognize operational synergies and to capture economies of scale as a combined entity.

Key dates of the merger:

- March 29, 2022 — GFCU and Gulf & Fraser entered into an agreement to combine their businesses.
- July 5, 2022 — The credit unions submitted an Application for Consent to the proposed merger of GFCU and Gulf & Fraser.
- October 5, 2022 — Consent to the proposed merger of GFCU and Gulf & Fraser issued by BCFSA.
- December 13, 2022 — The merger was voted on and approved by members of GFCU.
- January 1, 2023 — Merger date.

26. Subsequent events:

(a) Merger (continued):

GFCU was incorporated pursuant to the Credit Union Incorporation Act and their primary business activities included providing financial services to their members through personal banking and business banking.

Due to the timing of the merger, given the ongoing nature of the fair value process in determining the identifiable assets acquired and liabilities assumed, and consideration transferred, a preliminary purchase price allocation was not available as of February 27, 2023.

Gulf and Fraser Fishermen's Credit Union and Interior Savings Credit Union have entered into a Memorandum of Understanding on October 3, 2022 to merge the two credit unions, the outcome of which is still undetermined.