COASTAL COMMUNITY
CREDIT UNION

Consolidated Financial Statements
(Expressed in thousands of dollars)

COASTAL COMMUNITY CREDIT UNION

And Independent Auditor’s Report thereon

Year ended December 31, 2023

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the accompanying notes are the responsibility of the management of Coastal Community Credit Union (the Credit Union).

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards and include, where appropriate, estimates based on the best judgment of management.

As part of its responsibilities, the Credit Union maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Credit Union's assets are appropriately accounted for and adequately safeguarded.

The Board of the Credit Union carries out its responsibilities with regard to the consolidated financial statements mainly through its Audit and Finance Committee (the Committee). The Committee reviews the annual consolidated financial statements and recommends them to the Board for approval. The Committee meets periodically with management, internal auditors and the external auditors. Following these meetings, the Committee meets privately with the auditors to ensure free and open discussion of any subject the Committee or the auditors wish to pursue. The Committee also recommends the engagement or reappointment of the external auditors, reviews the scope of the audit and approves the fees of the external auditors for audit and non-audit services.

These consolidated financial statements, audited by KPMG LLP, have been approved by the Board, on the recommendation of the Audit and Finance Committee.

Adrian Legin	Barbara Coe, CPA, CGA
President and Chief Executive Officer	*Chief Financial Officer*

March 20, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Members of Coastal Community Credit Union

Opinion

We have audited the consolidated financial statements of Coastal Community Credit Union (the Credit Union), which comprise:

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of comprehensive income 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 material accounting policy information.

(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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the 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 Accounting Standards, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 20, 2024

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2023, with comparative information for 2022

	Notes	2023	2022
Assets			
Cash and cash equivalents		$ 131,934	$ 143,637
Investments	6	255,263	276,280
Investment in joint venture	25	29,181	29,437
Loans to members	7	2,837,122	2,788,532
Premises and equipment	9	24,194	23,330
Intangible assets	9	1,461	1,510
Derivative financial instruments	13	3,271	5,088
Deferred income tax assets	15	3,297	2,884
Income taxes receivable		-	109
Other assets	10	8,898	7,535
		$ 3,294,621	$ 3,278,342
Liabilities and Members' Equity			
Member deposits	11	$ 2,965,186	$ 2,990,657
Borrowings	12	43,358	26,839
Other liabilities	14, 24	35,281	34,909
Income taxes payable		1,721	1,350
Members' shares	17	2,354	2,413
		3,047,900	3,056,168
Members' equity:			
Retained earnings		246,029	226,924
Accumulated other comprehensive gain (loss)		692	(4,750)
		246,721	222,174
		$ 3,294,621	$ 3,278,342

Commitments and contingencies	23
Subsequent event	26

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

Approved on behalf of the Board:

Dominique Roelants
Chair, Board of Directors

Debra Oakman
Chair, Audit and Finance Committee

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2023, with comparative information for 2022

	Notes	2023	2022
Interest income:			
Interest on loans to members		$ 125,195	$ 92,102
Other		12,118	13,114
		137,313	105,216
Interest expense:			
Interest on member deposits		49,142	21,704
Other		1,170	2,063
		50,312	23,767
Net interest income		87,001	81,449
Loan impairment expense	8	761	2,347
Other income	18	19,390	20,777
		105,630	99,879
Operating expenses:			
Chequing, electronic and other services		4,016	3,891
Data processing		8,090	6,960
Depreciation and amortization		4,301	4,231
Employee salaries and benefits		46,705	43,050
Occupancy		3,994	3,342
Other operating and administrative		14,326	11,656
		81,432	73,130
Income from operations		24,198	26,749
Provision for (recovery of) income taxes	15		
Current income tax		5,506	5,067
Deferred income tax		(413)	(799)
		5,093	4,268
Net income		19,105	22,481
Other comprehensive gain (loss), net of tax:			
Items that were or may be reclassified to net income:			
Change in unrealized gains on cash flow hedges net of tax expense of $541 (2022 - $821)		1,894	4,010
Reclassification of unrealized gains (losses) on cash flow hedges net of tax expense of nil (2022 - recovery $383)		-	(1,871)
Change in unrealized gains (losses) on investments held at fair value through other comprehensive income (FVOCI) net of tax expense of $923 (2022 - recovery $657)		3,548	(3,209)
		5,442	(1,070)
Comprehensive income		$ 24,547	$ 21,411

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

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

Year ended December 31, 2023, with comparative information for 2022

	Investments held at FVOCI	Cash flow hedges	Accumulated other comprehensive loss	Retained earnings	Total
Balance, December 31, 2021	$ (1,856)	$ (1,824)	$ (3,680)	$ 204,443	$ 200,763
Net income	-	-	-	22,481	22,481
Other comprehensive gain (loss)	(3,209)	2,139	(1,070)	-	(1,070)
Balance, December 31, 2022	(5,065)	315	(4,750)	226,924	222,174
Net income	-	-	-	19,105	19,105
Other comprehensive gain	3,548	1,894	5,442	-	5,442
Balance, December 31, 2023	$ (1,517)	$ 2,209	$ 692	$ 246,029	$ 246,721

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

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operating activities:		
Receipts:		
Interest on loans to members	$ 123,711	$ 89,307
Fees and commissions	18,526	19,714
Other interest income	11,602	15,857
Dividends	426	203
Other non-interest income	(66)	1,365
	154,199	126,446
Disbursements:		
Interest paid to members	(37,419)	(19,567)
Distributions to members	(33)	(34)
Operating expenses	(76,045)	(70,022)
Income taxes	(1,923)	(10,247)
	(115,420)	(99,870)
Net increase in loans to members	(47,868)	(278,777)
Net increase (decrease) in member deposits	(37,999)	43,690
Cash provided by operating activities	(47,088)	(208,511)
Investing activities:		
Change in equity instruments	67	845
Change in investment in joint venture	255	717
Change in interest bearing deposits with financial institutions	-	77,555
Purchases of Central 1 deposits	-	(584,000)
Proceeds from Central 1 deposits	10,000	849,000
Purchases of investment securities	(145,091)	(162,740)
Proceeds from maturities and sale of investment securities	160,282	156,364
Net acquisitions of premises and equipment and other intangibles	(5,116)	(4,729)
Cash used in investing activities	20,397	333,012
Financing activities:		
Payment on lease liabilities	(1,472)	170
Change in membership shares	(59)	(1,006)
Proceeds from securitization borrowings	42,640	-
Repayment of securitized borrowings	(26,121)	(54,933)
Cash provided by (used in) financing activities	14,988	(55,769)
Increase (decrease) in cash and cash equivalents	(11,703)	68,732
Cash and cash equivalents, beginning of year	143,637	74,905
Cash and cash equivalents, end of year	$ 131,934	$ 143,637

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

1. Reporting entity:

Coastal Community Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act (British Columbia). The operation of the Credit Union is subject to the Financial Institutions Act (British Columbia). The Credit Union is located in Canada and its registered office is 59 Wharf Street, Nanaimo, British Columbia. The Credit Union predominately serves members on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 20, 2024.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards.

(b) Basis of measurement:

These consolidated financial statements were prepared on the historical cost basis, except for financial assets held at fair value through profit or loss ("FVTPL") and derivative financial instruments, which are measured at fair value.

(c) Functional and presentation currency:

The Credit Union's functional and presentation currency is the Canadian dollar. Financial information is presented in thousands of dollars.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in compliance with IFRS Accounting Standards 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.

3. Basis of consolidation:

These consolidated financial statements include the assets and liabilities and results of operations of the Credit Union and its subsidiaries after the elimination of inter-company transactions and balances, as well as the Credit Union's proportionate share of profit or loss from an equity investment.

3. Basis of consolidation (continued):

The Credit Union is a financial institution and these consolidated results incorporate the following integrated business lines:

- The Credit Union, providing full-service retail and commercial lending and deposit products;
- The wholly-owned subsidiary, Coastal Community Financial Management Inc. ("CCFMI"), providing financial planning advice, products and services, and life insurance; and
- 50% equity interest in 1200089 B.C. Ltd., a joint venture that owns Interior Savings Insurance Services Inc. ("ISISI"), Coastal Community Insurance Services (2007) Ltd. ("CCIS"), and CCIS' wholly-owned subsidiary Van Isle Insurance Services Ltd. ISISI and CCIS offer full service general insurance, as a brokerage, including home, business, auto, RV and travel insurance (note 25).

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated, if based on an evaluation of the substance of its relationship with the Credit Union, and the SPE's risks and rewards, the Credit Union concludes that it controls the SPE. The Credit Union's activities have not resulted in any entity meeting the circumstances that would require an SPE to be consolidated within these consolidated financial statements.

4. Material accounting policies:

(a) 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 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 the asset 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. Material accounting policies (continued):

(a) 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 liabilities or 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 or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

4. Material accounting policies (continued):

(a) 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. There were no changes to any of the Credit Union’s business models for the year ended December 31, 2023.

4. Material accounting policies (continued):

(a) Financial instruments (continued):

(*iii*) Impairment:

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

The ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment. The ECL model requires the recognition of credit losses based on up to 12-months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk (“SICR”) since origination (Stage 2) and credit impaired assets (Stage 3).

Assessment of SICR:

The assessment of SICR 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, delinquency and monitoring, and management judgment. The importance and relevance of each specific macroeconomic factor depends on the loan 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 SICR. Qualitative factors may be assessed to supplement any gap.

For certain instruments with low credit risk 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.

Measurement of ECL:

ECL are a probability-weighted estimate of credit losses. Credit losses are measured at 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”).

4. Material accounting policies (continued):

(a) Financial instruments (continued):

(*iii*) Impairment (continued):

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.

<u>Credit-impaired and restructured financial assets:</u>

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.

<u>Presentation of impairment:</u>

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 other comprehensive income (loss).

<u>Write-off:</u>

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

(*iv*) Derecognition of financial instruments:

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred, or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled or expires.

4. Material accounting policies (continued):

(b) Premises and equipment:

Premises and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Land is carried at cost less any accumulated impairment losses. Depreciation is recognized in net income and is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful lives
Buildings	25 years
Leasehold improvements	Lesser of 10 years and term of lease
Furniture and equipment	5 to 10 years
Computer equipment	2 years

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

(c) Intangible assets and goodwill:

Intangible assets include computer software which is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over the estimated useful lives as follows:

Asset	Useful lives
Banking system	5 to 10 years
Computer software	2 years

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

Goodwill is the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired, excluding identifiable intangible assets which are recognized separately. Goodwill is not amortized but is subject to a fair value impairment test at least annually. Other intangible assets, such as customer lists, are amortized using a straight-line basis over their useful lives, not exceeding ten years. The amortization of intangible assets is recorded in operating expenses.

4. Material accounting policies (continued):

(d) Derecognition of financial assets and liabilities:

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred, or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled or expires.

(e) 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.

(f) 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 as 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 when 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 that is not a business combination, and at the time of the transaction affects neither accounting nor taxable profit or loss.

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

4. Material accounting policies (continued):

(g) Member deposits:

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

(h) Derivative financial instruments and hedging:

The Credit Union, in accordance with its risk management strategies, enters into derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets when they have a positive fair value, and as liabilities when they have a negative fair value, in both cases shown on the consolidated statement of financial position.

Hedge accounting is applied to financial assets and financial liabilities only when all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecasted transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed rate liabilities. The Credit Union’s cash flow hedges are primarily hedges of variable rate deposits.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in net income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in net income.

If the Credit Union closes out its hedge position early, the cumulative unrealized gain or loss recognized in other comprehensive income is reclassified to net income using the effective interest method.

4. Material accounting policies (continued):

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

IFRS 9, *Financial Instruments* includes an accounting policy choice to retain IAS 39, *Financial Instruments: Recognition and Measurement* for hedge accounting requirements until an amended standard is effective. The Credit Union has elected to continue applying hedge accounting under IAS 39.

Interest rate benchmark reform:

A hedge relationship is directly affected by Interbank Offer Rates ("IBOR") reform only if the reform gives rise to uncertainties about:

- The interest rate benchmark designated as a hedged risk, regardless of whether the rate is contractually specified; and/or
- The timing or amount of interest rate benchmark-based cash flows of the hedged items or of the hedging instrument.

As at December 31, 2023, there is no uncertainty in relation to IBOR reform for the Credit Union's hedge relationships.

(i) Pension plans:

The Credit Union participates in a multi-employer defined benefit pension plan; however, sufficient information is not available to use defined benefit accounting, as assets and liabilities are pooled and not tracked separately by employer group. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense on an accrual basis. The Credit Union also participates in a defined contribution plan as described in Note 16.

(j) Accounts payable and other payables:

Liabilities for trade creditors and other payables are classified as amortized cost and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

(k) 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 as the best estimate of the expenditure required to settle the obligation at the reporting date.

4. Material accounting policies (continued):

(l) Members' shares:

Members’ shares are classified as liabilities according to their terms. Members’ shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

(m) Revenue recognition:

Interest income and expense for interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of comprehensive income using the effective interest method. The effective interest method calculates the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

Revenue from commissions and 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.

Other interest revenue is recorded using the effective interest rate method. Dividends on equity instruments are recognized when the Credit Union’s right to receive payment is established.

(n) Leases:

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. Material accounting policies (continued):

(o) Foreign currency translation:

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

(p) Joint ventures:

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

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

The Credit Union's earnings include its share of the joint venture's earnings. Distributions received from a joint venture reduce the carrying amount of the investment. All other net asset changes are recognized in equity. The financial statements of the joint venture are prepared for the same reporting period as the Credit Union.

(*i*) Impairment of investment in joint venture:

An investor assesses whether there is an indication that its net investment in the joint venture is impaired. IFRS provides potential indicators, including significant financial difficulty of the investee, and significant adverse changes in the technological, market, economic or legal environment in which the investee operates.

If objective evidence of impairment exists, the investor performs an impairment test. The net investment is tested as one single asset under IFRS, by comparing its carrying amount to the recoverable amount (the higher of value in use and fair value less costs to sell.) This includes any fair value adjustments and goodwill arising from the acquisition of the investment. Impairment testing for joint ventures requires significant judgments and estimates to be made.

4. Material accounting policies (continued):

(q) New accounting standards adopted:

(*i*) Amendments to IAS 1:

Effective January 1, 2023, the Credit Union adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments require the disclosure of “material”, rather than “significant”, accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in this note in certain instances.

(*ii*) Amendments to IAS 12:

Effective January 1, 2023, the Credit Union adopted amendments to IAS 12 Income Taxes. The amendments narrow the scope of the initial recognition exemption of deferred tax related to assets and liabilities arising from a single transaction so that it does not apply to transactions that given rise to equal and offsetting temporary differences. As a result, there is recognition of a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and decommissioning provision. There was no significant impact upon adoption.

5. Critical accounting estimates and judgments:

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

(a) Use of estimates and judgments - 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 SICR since origination (Stage 2). Credit impaired assets requires lifetime losses (Stage 3). The determination of a SICR takes into account many different factors and varies by loan product and risk segment, which requires experienced credit judgment.

In determining whether there has been a SICR 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.

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

5. Critical accounting estimates and judgments (continued):

(a) Use of estimates and judgments - 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.

(*i*) Forecasting forward-looking information:

Forward-looking information is incorporated into both the assessment of whether a loan has experienced a SICR since its initial recognition and the estimation of ECL. The ECL model considers macroeconomic factors that are most closely correlated with credit risk in the relevant portfolios.

As at December 31, 2023, the Credit Union's macroeconomic forecast is slightly better than the economic forecast as at December 31, 2022. Inflation is lower and job vacancies have eased however lending rates and debt-to-income are high. Economic uncertainty remains.

The forward-looking macroeconomic scenario described below reflects the Credit Union's best estimate as at December 31, 2023. To the extent that the evolving environment may result in future forecasts that differ from those used in the ECL estimation as at December 31, 2023, those changes will be reflected in future years.

The primary macroeconomic variable that is the most sensitive in impacting ECL over the next 12-months and the remaining forecast period; thereafter, used to estimate ECL is the BC unemployment rate.

	Base-case scenario		Upside scenario		Downside scenario	
	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years
BC unemployment rate:						
Retail and small business	5.00%	5.83%	4.00%	5.83%	7.00%	5.83%
Large business	5.00%	5.83%	4.00%	5.83%	7.00%	5.83%

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

5. Critical accounting estimates and judgments (continued):

(b) Use of estimates - Fair value of financial instruments:

The Credit Union determines the fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. 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, in determining the fair value of financial instruments are disclosed in Notes 6, 13 and 20.

6. Investments:

	2023	2022
Term deposits with Central 1	$ -	$ 10,000
High quality liquid assets in trust classified as FVOCI	251,575	261,650
Equity instruments, classified as FVTPL:		
Central 1 shares	901	956
Other	38	50
Other investments, classified as amortized cost:		
Principal and interest reinvestment account pledged as collateral on CMB obligation	1,681	2,564
Accrued interest and dividends	1,068	1,060
	$ 255,263	$ 276,280

The Credit Union maintains its statutory liquidity requirement by investing directly in marketable securities that qualify as high-quality liquid assets. Credit Unions in British Columbia must maintain a portfolio of high-quality liquid assets in trust with Central 1 at a minimum of 8% of their deposit and debt liabilities. The marketable securities are invested at market rates for various terms and traded to rebalance or strategically position the portfolio as needed. See Note 21 for the average yield on the investments.

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 Central 1 Board of Directors. In addition, the member credit unions are subject to additional capital calls at the discretion of the Central 1 Board of Directors.

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

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

6. Investments (continued):

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union. Dividends on these shares are at the discretion of the Central 1 Board of Directors.

Class E shares are recorded at their cost of $0.01 per share as this is the best representation of fair value. There is no quoted market price for the shares, and the likelihood and timing of any future redemption of the shares cannot be determined.

Other equity instruments are recorded at cost. There is no separately quoted market value for these shares. The fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined; therefore, cost is the best representation of fair value.

7. Loans to members:

	2023	2022
Residential mortgages	$ 2,031,472	$ 1,955,617
Personal loans	54,032	58,065
Commercial loans	752,344	776,467
	2,837,848	2,790,149
Accrued interest receivable	8,675	7,192
Allowance for impaired loans (note 8)	(9,401)	(8,809)
Loans to members	$ 2,837,122	$ 2,788,532

At December 31, 2023, the Credit Union had $43,417 (2022 - $27,016) of residential mortgages which had been securitized in the Canada Mortgage Bonds program and are included in the consolidated statement of financial position as the securitization transactions do not meet the requirements for derecognition. Residential mortgages that have been securitized through the Canada Mortgage Bonds program and pledged as collateral for secured borrowings are disclosed in Note 12.

(a) Terms and conditions:

Member loans can have either a variable or fixed rate of interest with a maximum term of ten years.

Variable rate loans are based on a “prime rate” formula. The rate is determined by the type of security offered and the member's credit worthiness.

The interest rate offered on fixed rate loans varies with the type of security offered and the member’s credit worthiness.

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

7. Loans to members (continued):

(a) Terms and conditions (continued):

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

Personal loans consist of term loans and lines of credit that are not real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by personal property or investments.

Commercial loans consist 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) Average yields to maturity:

See Note 21 for the average yields on loans to members.

(c) Credit quality and credit risk exposures:

The following tables set out information about the credit quality of the Credit Union's loans measured at amortized cost and other credit risk exposures, by category of loss allowance at December 31, 2023. The amounts in the tables represent the carrying amounts of loans and committed amounts under loan commitments and letters of credit.

Risk Level	Stage 1	Stage 2	Stage 3	2023	2022
RESIDENTIAL MORTGAGES					
Very low	$ 55,854	$ -	$ -	$ 55,854	$ 49,426
Low	414,031	75	-	414,106	367,199
Medium	1,411,578	46,344	-	1,457,922	1,457,230
High	198,241	26,734	-	224,975	233,499
Very High	5,075	123,991	21	129,087	135,106
Default	-	33,222	-	33,222	30,068
Total	2,084,779	230,366	21	2,315,166	2,272,528
Loss allowance	(1,282)	(3,533)	(21)	(4,836)	(5,218)
	$ 2,083,497	$ 226,833	$ -	$ 2,310,330	$ 2,267,310

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

7. Loans to members (continued):

(c) Credit quality and credit risk exposures (continued):

Risk Level	Stage 1	Stage 2	Stage 3	2023	2022
PERSONAL LOANS					
Very low	$ 17,077	$ -	$ -	$ 17,077	$ 16,606
Low	41,453	-	-	41,453	41,024
Medium	56,629	2,141	11	58,781	61,808
High	5,181	2,356	23	7,560	7,484
Very High	252	4,093	24	4,369	4,532
Default	-	1,142	68	1,210	1,395
Total	120,592	9,732	126	130,450	132,849
Loss allowance	(161)	(427)	(118)	(706)	(799)
	$ 120,431	$ 9,305	$ 8	$ 129,744	$ 132,050

Risk Level	Stage 1	Stage 2	Stage 3	2023	2022
COMMERCIAL LOANS					
Very low	$ 5,635	$ -	$ -	$ 5,635	$ 6,318
Low	34,437	3,312	-	37,749	25,797
Medium	98,050	30,439	-	128,489	204,696
High	144,392	395,259	11,138	550,789	588,729
Very High	99,209	44,331	-	143,540	92,388
Default	-	6,644	1	6,645	4,647
Total	381,723	479,985	11,139	872,847	922,575
Loss allowance	(964)	(1,766)	(1,129)	(3,859)	(2,792)
	$ 380,759	$ 478,219	$ 10,010	$ 868,988	$ 919,783

(d) Fair value:

See Note 21 for the fair value of loans to members.

The estimated fair value of variable rate loans approximates 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. Level 3 inputs are used to measure the fair value.

(e) Concentration of risk:

There are no individual members or related groups of members with loans exceeding 10% of members’ equity.

The majority of member loans are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

7. Loans to members (continued):

(f) Canada Emergency Business Account ("CEBA") program:

The Government of Canada ("GOC") implemented a CEBA program to support Canadian businesses that have been adversely impacted by COVID-19. Eligible businesses that are approved by the GOC will have access to interest-free, partially forgivable loans of up to $60 made to qualifying small businesses and not-for-profit organizations to help cover their operating costs during a period when their revenues have been temporarily reduced. The CEBA program is underwritten by the GOC with the Credit Union acting as a credit facility administrator to provide loans to existing members that meet the underwriting standards of the GOC. Loans advanced under the CEBA program are not recognized on the consolidated balance sheet of the Credit Union as they are funded by the GOC and all of the resulting cash flows and associated risks and rewards, including any exposure to payment defaults and principal forgiveness, are assumed by the GOC. The Credit Union collects a servicing fee which is intended to reimburse the costs associated with administering the loans, which is recognized in the consolidated statement of income.

8. Allowance for credit losses:

Reconciliation of allowance for credit losses:

	Stage 1	Stage 2	Stage 3	Total
RESIDENTIAL MORTGAGES				
Balance, December 31, 2022	$ 1,399	$ 3,819	$ -	$ 5,218
Provisions for credit losses:				
Transfers to Stage 1	1,044	(1,044)	-	-
Transfers to Stage 2	(106)	106	-	-
Transfers to Stage 3	-	-	-	-
Originations	216	411	-	627
Maturities	(116)	(497)	-	(613)
Remeasurements	(1,155)	760	21	(374)
Net write-offs	-	(22)	-	(22)
Balance, December 31, 2023	$ 1,282	$ 3,533	$ 21	$ 4,836
PERSONAL LOANS				
Balance, December 31, 2022	$ 196	$ 516	$ 87	$ 799
Provisions for credit losses:				
Transfers to Stage 1	106	(106)	-	-
Transfers to Stage 2	(11)	11	-	-
Transfers to Stage 3	-	(8)	8	-
Originations	13	27	-	40
Maturities	(11)	(55)	(46)	(112)
Remeasurements	(132)	99	87	54
Net write-offs	-	(57)	(18)	(75)
Balance, December 31, 2023	$ 161	$ 427	$ 118	$ 706

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

8. Allowance for credit losses (continued):

	Stage 1	Stage 2	Stage 3	Total
COMMERCIAL LOANS				
Balance, December 31, 2022	$ 1,124	$ 1,667	$ 1	$ 2,792
Provisions for credit losses:				
Transfers to Stage 1	336	(336)	-	-
Transfers to Stage 2	(178)	178	-	-
Transfers to Stage 3	(4)	(9)	13	-
Originations	261	132	-	393
Maturities	(115)	(298)	(1)	(414)
Remeasurements	(460)	432	1,116	1,088
Net write-offs	-	-	-	-
Balance, December 31, 2023	$ 964	$ 1,766	$ 1,129	$ 3,859
TOTAL LOANS TO MEMBERS				
Balance, December 31, 2022	$ 2,719	$ 6,002	$ 88	$ 8,809
Provisions for credit losses:				
Transfers to Stage 1	1,486	(1,486)	-	-
Transfers to Stage 2	(295)	295	-	-
Transfers to Stage 3	(4)	(17)	21	-
Originations	490	570	-	1,060
Maturities	(242)	(850)	(47)	(1,139)
Remeasurements	(1,747)	1,291	1,224	768
Net write-offs	-	(79)	(18)	(97)
Balance, December 31, 2023	$ 2,407	$ 5,726	$1,268	$9,401

	Stage 1	Stage 2	Stage 3	Total
RESIDENTIAL MORTGAGES				
Balance, December 31, 2021	$ 1,065	$ 3,042	$ -	$ 4,107
Provisions for credit losses:				
Transfers to Stage 1	828	(828)	-	-
Transfers to Stage 2	(81)	81	-	-
Transfers to Stage 3	-	-	-	-
Originations	413	731	-	1,144
Maturities	(151)	(565)	-	(716)
Remeasurements	(675)	1,358	-	683
Net write-offs	-	-	-	-
Balance, December 31, 2022	$ 1,399	$ 3,819	$ -	$ 5,218
PERSONAL LOANS				
Balance, December 31, 2021	$ 176	$ 433	$ 84	$ 693
Provisions for credit losses:				
Transfers to Stage 1	116	(116)	-	-
Transfers to Stage 2	(11)	11	-	-
Transfers to Stage 3	-	(12)	12	-
Originations	16	33	-	49
Maturities	(12)	(31)	(9)	(52)
Remeasurements	(89)	229	25	165
Net write-offs	-	(31)	(25)	(56)
Balance, December 31, 2022	$ 196	$ 516	$ 87	$ 799

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

8. Allowance for credit losses (continued):

	Stage 1	Stage 2	Stage 3	Total
COMMERCIAL LOANS				
Balance, December 31, 2021	$ 700	$ 1,020	$ 12	$ 1,732
Provisions for credit losses:				
Transfers to Stage 1	217	(217)	-	-
Transfers to Stage 2	(164)	164	-	-
Transfers to Stage 3	-	-	-	-
Originations	345	596	-	941
Maturities	(94)	(349)	(7)	(450)
Remeasurements	120	457	(4)	573
Net write-offs	-	(4)	-	(4)
Balance, December 31, 2022	$ 1,124	$ 1,667	$ 1	$ 2,792
TOTAL LOANS TO MEMBERS				
Balance, December 31, 2021	$ 1,941	$ 4,495	$ 96	$ 6,532
Provisions for credit losses:				
Transfers to Stage 1	1,161	(1,161)	-	-
Transfers to Stage 2	(256)	256	-	-
Transfers to Stage 3	-	(12)	12	-
Originations	774	1,360	-	2,134
Maturities	(257)	(945)	(16)	(1,218)
Remeasurements	(644)	2,044	21	1,421
Net write-offs	-	(35)	(25)	(60)
Balance, December 31, 2022	$ 2,719	$ 6,002	$ 88	$ 8,809

Analysis of loans that are individually impaired or potentially impaired based on age of repayments outstanding:

	2023		2022	
	Carrying value	Stage 3	Carrying value	Stage 3
Period of delinquency:				
Less than 30 days	$ -	$ -	$ -	$ -
30 to 90 days	-	-	-	-
Over 90 days	8,564	1,101	471	18
Total loans in arrears	8,564	1,101	471	18
Total loans not in arrears	2,829,284	167	2,789,678	70
	$ 2,837,848	$ 1,268	$ 2,790,149	$ 88

8. Allowance for credit losses (continued):

(a) Inputs, assumptions and estimation techniques for measuring expected credit losses:

Significant increase in credit risk:

In determining the amount of loss allowance for ECLs to recognize, the Credit Union assesses at each reporting date whether there has been a SICR for a financial asset. In assessing whether a SICR has occurred, the Credit Union considers quantitative factors, qualitative factors and a rebuttable presumption.

A SICR is considered to have occurred when the risk rating of a loan has increased significantly at the reporting date compared to the origination date. For residential mortgages, personal loans and small business loans, SICR is assessed based on the credit score of the member.

For large business commercial loans, SICR is assessed based on the debt-service, working capital and debt-to-equity ratios.

For all loans to members, a SICR is considered to have occurred when the financial assets are more than 30-days past maturity and outstanding.

As permitted by IFRS 9, loans to members are assessed and measured on a collective basis in groups of financial assets that share credit risk characteristics. For this purpose, the Credit Union has grouped its financial assets into segments on the basis of shared credit risk characteristics for each component of the ECL calculation.

Probability of default:

The 12-month PDs for residential mortgages, personal loans are based on historical credit score data for Canadian credit unions. The 12-month PDs for commercial loans are based on Moody’s corporate default data.

The lifetime PDs for all loans to members are calculated based on the 12-month PDs for the financial assets and the expected remaining life of the financial assets, assuming a constant default rate during the lifetime of the financial assets.

Loss given default:

The LGD reflects the Credit Union’s estimate of cash shortfalls in the event of default. The LGD input to the ECL calculation for Stage 1 and Stage 2 financial assets is estimated to be equal. The LGD input, expressed as a percentage of EAD, is estimated based on the historical loss experience of the Credit Union taking into account the loan product, the net amount written off, and the gross exposure.

8. Allowance for credit losses (continued):

(a) Inputs, assumptions and estimation techniques for measuring expected credit losses:

Forward-looking information and macroeconomic factors:

The forward-looking information ("FLI") component of the ECL calculation represents management's estimate of the impacts of FLI and forecasts of macroeconomic conditions to the Credit Union's ECLs. In determining the FLI input to the ECL calculation, management makes forecasts of multiple probability-weighted-forward looking and macroeconomic scenarios. The forward looking and macroeconomic factor considered in determining the FLI inputs to the Credit Union's ECL calculation was the unemployment rate.

Exposure at default:

The EAD is an estimate of a loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan.

The starting point for determining EAD is the principal and interest payments of each loan within the portfolio as set out in the contractual terms of the financial asset. The EAD is adjusted by the expected prepayments (partial or full) prior to maturity on a portfolio basis. For lines of credit, the EAD is determined based on the Credit Union's expectations of drawdowns and repayments on the outstanding loan commitments on a portfolio basis.

Credit-impaired financial assets:

When identifying loans to members that are credit-impaired for which the loss allowance for ECLs is calculated individually, as the difference between the gross carrying amount of the financial assets and the present value of estimated future cash flows, the Credit Union determines whether indicators of a borrower's unlikeliness to pay exist.

The Credit Union applies a quantitative threshold of contractually 90 days in arrears for identifying loans to members that are credit-impaired.

(Tabular amounts expressed in thousands of dollars, unless otherwise indicated)

8. Allowance for credit losses (continued):

(b) Key assumptions in determining the allowance for credit losses:

Analysis of loans with repayments past due but not regarded as individually impaired:

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 2,074	$ 89	$ -	$ 2,163
Over 90 days	796	109	13,306	14,211
Balance, December 31, 2023	$ 2,870	$ 198	$ 13,306	$ 16,374

	Residential mortgages	Personal	Commercial	Total
30 to 90 days	$ 2,743	$ 198	$ -	$ 2,941
Over 90 days	704	101	-	805
Balance, December 31, 2022	$ 3,447	$ 299	$ -	$ 3,746

(Expressed in thousands of dollars, unless otherwise indicated)

9. Premises, equipment and intangible assets:

	Premises and equipment							Intangible assets
Cost:	ROU*	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2021	$ 13,836	$ 2,189	$ 11,770	$ 13,608	$ 4,358	$ 10,175	$ 55,936	$ 9,984
Additions	1,906	-	-	1,731	684	735	5,056	348
Transfers	-	-	-	(115)	(150)	(239)	(504)	(58)
Disposals	(689)	-	-	(1,806)	(161)	(851)	(3,507)	(157)
Balance, December 31, 2022	15,053	2,189	11,770	13,418	4,731	9,820	56,981	10,117
Additions	277	-	296	1,684	822	1,944	5,023	349
Transfers	-	-	-	-	(146)	(77)	(223)	(34)
Disposals	(132)			-	-	(71)	(203)	-
Balance, December 31, 2023	$ 15,198	$ 2,189	$ 12,066	$ 15,102	$ 5,407	$ 11,616	$ 61,578	$ 10,432

	Premises and equipment							Intangible assets
Accumulated depreciation and amortization:	ROU*	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and equipment	Total	Total
Balance, December 31, 2021	$ 4,548	$ -	$ 7,561	$ 9,610	$ 3,442	$ 8,014	$ 33,175	$ 8,403
Amortization	1,451	-	318	1,079	565	517	3,930	301
Disposals	(689)	-	-	(1,779)	(161)	(825)	(3,454)	(97)
Balance, December 31, 2022	5,310	-	7,879	8,910	3,846	7,706	33,651	8,607
Amortization	1,464	-	322	1,048	529	573	3,936	364
Disposals	(132)	-	-	-	-	(71)	(203)	-
Balance, December 31, 2023	$ 6,642	$ -	$ 8,201	$ 9,958	$ 4,375	$ 8,208	$ 37,384	$ 8,971
Net book value:								
Balance, December 31, 2023	$ 8,556	$ 2,189	$ 3,865	$ 5,144	$ 1,032	$ 3,408	$ 24,194	$ 1,461
Balance, December 31, 2022	9,743	2,189	3,891	4,508	885	2,114	23,330	1,510

*Right-of-Use Asset under IFRS 16.

(Expressed in thousands of dollars, unless otherwise indicated)

10. Other assets:

	2023	2022
Accounts receivable	$ 1,577	$ 1,343
Prepaid expenses	4,324	2,869
Deferred broker fee expense	2,997	3,323
	$ 8,898	$ 7,535

11. Member deposits:

	2023	2022
Demand	$ 1,587,104	$ 1,793,314
Term	1,070,491	915,034
Registered plans	282,740	269,982
Other	1	5
	2,940,336	2,978,335
Accrued interest payable	24,850	12,322
	$ 2,965,186	$ 2,990,657

(a) Terms and conditions:

Demand deposits are due on demand. Interest is calculated daily and paid on the accounts monthly.

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

Registered plans can be fixed or variable rate with terms and conditions similar to those described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

(b) Average yields to maturity:

See Note 21 for the average yields on member deposits.

11. Member deposits (continued):

(c) Fair value:

See Note 21 for the fair value of member deposits.

The estimated fair value of demand deposits and variable rate deposits approximates 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 options. Level 2 inputs are used to measure the fair value.

(d) Concentration of risk:

There are no member deposits held by an individual or a related group of members which exceed 2% of member deposits. The majority of member deposits are with members located on Vancouver Island, British Columbia and the Gulf Islands, British Columbia.

12. Borrowings:

The Credit Union maintains operating lines of credit with Central 1 and another financial institution.

The Credit Union's Board of Directors has approved an overall borrowing limit of $329,200 with Central 1 (2022 - $333,200). As of December 31, 2023, $109,400 (2022 - $109,400) of this limit was authorized which includes a $400 US dollar line of credit (2022 - $400 US dollar). The authorized credit facility is secured by a registered Commercial Security Agreement.

The other facility is authorized to a maximum of $50,000 (2022 - $50,000) and is secured by a first charge against specific insured residential mortgages to a maximum of 110% of the outstanding balance.

At December 31, 2023, none of these credit facilities were drawn (2022 - nil).

During the year, the Credit Union participated in the Canada Mortgage Bond program by transferring $42,640 (2022 - nil) in Mortgage-Backed Securities into the program. At December 31, 2023, the carrying amount of secured borrowings was $43,358 (2022 - $26,839). The carrying amount of the assets held as security was $43,417 (2022 - $27,016), which comprises of residential mortgages. The Credit Union receives the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in Note 21(e)(*ii*).

(Expressed in thousands of dollars, unless otherwise indicated)

13. Derivative financial instruments:

	2023			2022		
	Asset	Liability	Notional	Asset	Liability	Notional
Cash flow hedges used to manage interest rate risk:						
Pay fixed/receive floating interest rate swaps	$ 2,716	$ -	$ 50,000	$ 4,735	$ -	$ 130,000
Pay floating/receive fixed interest rate swaps	424	-	10,000	-	-	-
Accrued interest	131	-	-	353	-	-
Total fair value before adjustments	3,271	-	60,000	5,088	-	130,000
Adjustment for master netting agreements	-	-	-	-	-	-
	$ 3,271	$ -	$ 60,000	$ 5,088	$ -	$ 130,000

(Expressed in thousands of dollars, unless otherwise indicated)

14. Other liabilities:

	2023	2022
Accounts payable and accruals	$ 23,834	$ 21,200
Deferred fee income	1,363	2,065
Lease liabilities	9,277	10,384
Other	807	1,260
	$ 35,281	$ 34,909

For additional details regarding lease liabilities, see Note 24.

15. Income taxes:

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

	2023	2022
Current tax expense:		
Based on current year taxable income	$ 5,186	$ 5,130
Adjustments for over (under) provision in prior periods	320	(64)
	5,506	5,066
Deferred tax recovery:		
Origination and reversal of temporary differences	(413)	(798)
	$ 5,093	$ 4,268

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2022 - 27%) are as follows:

	2023	2022
Expected taxes based on the statutory rate	27%	27%
Reduction due to credit union additional deduction	(4.8%)	(10%)
Non-deductible portion of expenses and other items	(1.3%)	(1%)
	20.9%	16%

(Expressed in thousands of dollars, unless otherwise indicated)

15. Income taxes (continued):

The deferred tax liabilities and assets are:

	2023	2022
Deferred tax liabilities:		
Other	$ 2,088	$ 2,198
Deferred tax assets:		
Loan provisions	1,836	1,484
Other	3,549	3,598
	5,385	5,082
Net deferred tax asset	$ 3,297	$ 2,884

16. Pension plans:

The Credit Union and its employees contribute and participate in two pension plans offered and administered by Central 1.

(a) Group registered retirement savings plan:

Employer contributions for the majority of employees are made to a group retirement savings plan at a percentage of annual salary. Employer contributions made during the year totaled $4,283 (2022 - $3,906). Employees contributed a total of $938 (2022 - $969) during the year.

(b) Defined benefit pension plan:

The defined benefit pension plan is a multi-employer defined benefit plan with several active contributors from various credit unions. The Credit Union requires employees to make contributions, while the Credit Union assumes the remaining costs required to pay the employees' pension. The Plan is governed by a 12-member Board of Trustees which is responsible for overseeing the investment management of the Plan assets. The Plan at November 30, 2023 has about 3,400 active employees and approximately, 1,600 retired plan members. Total plan assets are $1.07 billion.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level. The most recent actuarial valuation was performed as at December 31, 2021, indicating a going concern surplus of $112.5 million, and a solvency deficiency of $10.4 million. As this is a multi-employer plan, the assets and liabilities of the Plan are pooled and not tracked separately by employer group, and therefore the actuary does not determine an individual employer’s own unfunded liability.

(Expressed in thousands of dollars, unless otherwise indicated)

16. Pension plans (continued):

(b) Defined benefit pension plan (continued):

The deficit is targeted to be financed over time through increased contributions. As at December 31, 2023 the Credit Union made contributions to the pension fund for 5-employees. Employer contributions made during the year totaled $94 (2022 - $123). Employees contributed a total of $49 (2022 - $60) during the year.

The next actuarial valuation is scheduled to be performed no later than December 31, 2024.

17. Members' shares:

		2023
	Authorized units	Outstanding
Class A membership equity	Unlimited	$ 2,354

		2022
	Authorized units	Outstanding
Class A membership equity	Unlimited	$ 2,413

Members' shares are classified as a liability and 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.

(a) Terms and conditions:

(i) Class A Membership equity shares:

As a condition of membership, each member is required to hold a minimum of $5 and a maximum of $1,000 in membership shares. These membership shares have voting rights and are redeemable at par only when a membership is withdrawn or terminated. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC"). These shares are classified as a liability because they are available for redemption at the option of the member.

(Expressed in thousands of dollars, unless otherwise indicated)

17. Members' shares (continued):

(a) Terms and conditions (continued):

(*ii*) Class B Investment equity shares:

Investment shares are voting as a separate class, can be issued only to members of the Credit Union and pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. The outstanding shares were redeemed in June 2022. Investment shares are closed to new purchases at this time.

(*iii*) Unissued shares:

The Credit Union has authorized, but has not issued or has outstanding, share classes as follows: Class C to Class P Equity shares, Class Q to Class Y Preferred Equity shares and Class Z Non-Equity shares. Class C to J equity shares are only issued to a CCCU member, Class K to P equity shares are issued to either a CCCU member or a person who is not a CCCU member. Each class consists of an unlimited number of shares containing various rights and restrictions as approved at the 2012 annual general meeting of the Credit Union.

(b) Distributions to members:

	2023	2022
Dividends on membership shares	$ 41	$ 33
Dividends on investment shares	-	11
	$ 41	$ 44

Distributions to members are recognized in net income in other operating and administrative expense.

18. Other income:

	2023	2022
Building and property income	$ 47	$ 101
Dividends on FVTPL investments	426	202
Gain on other assets	-	(104)
Insurance administration fees	714	676
Insurance and financial commissions	5,772	6,164
Member account service fees	4,740	4,743
Member loan fees	3,807	3,995
Mortgage payout fees	771	1,623
Other service income	2,922	3,180
Safety deposit box fees	191	197
	$ 19,390	$ 20,777

(Expressed in thousands of dollars, unless otherwise indicated)

19. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management and their close family members.

	2023	2022
Compensation:		
Salaries and other short-term employee benefits	$ 3,321	$ 2,863
Total pension and other post-employment benefits	231	196

	2023	2022
Loans to key management personnel:		
Aggregate value of loans advanced	$ 3,272	$ 2,447
Aggregate value of unadvanced loans	-	-
Total value of lines of credit advanced	168	228
Unused value of lines of credit	1,082	1,198

Loans must satisfy all normal lending criteria as set out in the Credit Union's Investment and Lending Policy and Lending Services Manual. All loans are subject to the same approval process as afforded regular member loans and in addition, the approval of staff and related party loans are to be in accordance with established processes.

	2023	2022
Deposits from key management personnel:		
Aggregate value of deposits	$ 8,861	$ 10,226

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

20. Financial instrument classification and fair value:

Fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the financial reporting date. The fair values of financial assets and liabilities with floating interest rates are assumed to equal their book values, as the interest rates on these instruments automatically re-price to market rates. Fair values of other financial assets and liabilities are assumed to approximate their carrying values, primarily due to their short-term nature. Fair values of derivative financial instruments and investments classified as FVOCI have been based on market price quotations. Fair values have not been determined for any other assets or liabilities that are not a financial instrument. Due to the judgment used in calculating fair value amounts, fair values are not necessarily comparable among financial institutions.

The calculation of estimated fair values is based on market conditions at the financial reporting date and may not be reflective of future fair value.

Assets and liabilities that are measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs for the asset or liability 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 in its entirety.

(Expressed in thousands of dollars, unless otherwise indicated)

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

The following table illustrates the classification of the Credit Union’s financial instruments.

	2023			2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial investments FVTPL:						
Equity instruments:						
Central 1 shares	$ -	$ 901	$ -	$ -	$ 956	$ -
Other membership shares	-	38	-	-	50	-
Financial investments FVOCI:						
High quality liquid assets in trust	252,639	-	-	262,689	-	-
Interest rate swaps	-	3,271	-	-	5,088	-
Financial assets at amortized cost:						
Cash and cash equivalents	-	131,934	-	-	143,637	-
Term deposits with Central 1	-	-	-	-	10,016	-
Principal and interest reinvestment account pledged as collateral on CMB obligation	-	1,685	-	-	2,569	-
Loans to members	-	-	2,837,122	-	-	2,788,532
Total assets	$ 252,639	$ 137,829	$ 2,837,122	$ 262,689	$ 162,316	$2,788,532

	2023			2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial liabilities at amortized cost:						
Member deposits	$ -	$ 2,965,186	$ -	$ -	$ 2,990,657	$ -
Borrowings	-	43,358	-	-	26,839	-
Other liabilities	-	33,860	-	-	32,770	-
Total liabilities	$ -	$ 3,042,404	$ -	$ -	$ 3,050,266	$ -

The following table discloses the carrying amount and fair value by classification of the Credit Union’s financial instruments, including derivatives. Differences between the carrying value and fair value of the Credit Union’s financial instruments are due primarily to changes in interest rates. The Credit Union normally expects to hold the instruments to maturity, so carrying values have not been adjusted to reflect the differences. The table does not include assets and liabilities that do not meet the definition of a financial instrument:

2023	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ 131,934	$ 131,935	$ 1
Investments	255,263	255,263	-
Loans to members	2,837,122	2,722,667	(114,455)
Other assets	1,577	1,577	-
Derivative financial instruments	3,271	3,271	-
Member deposits	(2,965,186)	(2,918,379)	46,807
Borrowings	(43,358)	(44,492)	(1,134)
Other liabilities	(33,860)	(33,860)	-
Members’ shares	(2,354)	(2,354)	-
Net financial instruments	$ 184,409	$ 115,628	$ (68,781)

(Expressed in thousands of dollars, unless otherwise indicated)

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

2022	Total carrying value	Total fair value	Fair value excess (deficiency)
Cash and cash equivalents	$ 143,637	$ 143,643	$ 6
Investments	276,280	270,973	(5,307)
Loans to members	2,788,532	2,672,740	(115,792)
Other assets	1,343	1,343	-
Derivative financial instruments	5,088	5,088	-
Member deposits	(2,990,657)	(2,941,646)	49,011
Borrowings	(26,839)	(26,628)	211
Other liabilities	(32,770)	(32,770)	-
Members' shares	(2,413)	(2,413)	-
Net financial instruments	$ 162,201	$ 90,330	$ (71,871)

21. Financial instrument risk management:

(a) General objectives, policies and processes:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's Enterprise Risk Management ("ERM") framework. This responsibility includes approving the ERM framework and the policies that comprise that framework and setting the organization's risk appetite. The Board has established the Risk Oversight Committee, comprised of five Directors, to oversee the risk management processes. The Committee receives quarterly risk reporting from management through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

(b) Credit risk:

Credit risk is the risk of a financial loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

(*i*) Risk measurement:

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay and the value of collateral available to secure the loan.

(*ii*) Objectives, policies and processes:

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 overall credit risk policies are complied with at the business and transaction level.

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(b) Credit risk (continued):

(*ii*) Objectives, policies and processes (continued):

Credit risk policies establish the minimum requirements for management of credit risk for a variety of transactions and portfolios and include the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications that set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

Reports summarizing delinquency, write-offs, and allowances are reviewed and approved quarterly by the Investment and Lending Committee of the Board of Directors.

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

(*iii*) Exposures to credit risk:

	2023	2022
On statement of financial position exposure:		
Loans to members	$ 2,846,523	$ 2,797,341
Term deposits with Central 1	-	10,016
High quality liquid assets in trust	252,639	262,689
Central 1 shares	939	1,006
	3,100,101	3,071,052
Off statement of financial position exposure:		
Undisbursed loans	64,827	132,449
Unutilized lines of credit	403,506	395,008
Letters of credit	3,607	3,154
	471,940	530,611
Maximum exposure to credit risk	$ 3,572,041	$ 3,601,663

For details of inputs, assumptions and estimation techniques for measuring expected credit losses, see note 8.

21. Financial instrument risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. 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.

(*i*) Risk measurement:

The Financial Institutions Act ("FIA") requires credit unions to maintain a minimum of 8.0% of total deposits and borrowings in a liquidity portfolio. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective Credit Union specific and market conditions and the related behaviour of its members and counterparties.

(*ii*) Objectives, policies and processes:

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 stress conditions.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows.
- Monitoring the maturity profiles of financial assets and liabilities.
- Maintaining diversified funding sources which include committed borrowing facilities as explained in Note 12.
- Monitoring the liquidity ratios monthly.

Management annually reviews its liquidity plan for various scenarios.

The Board of Directors receives quarterly liquidity reports. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

21. Financial instrument risk management (continued):

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates and currency rates.

Interest rate risk:

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through its traditional deposit taking and lending banking activities.

The Credit Union's goal is to manage the interest rate risk of the consolidated statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

(*i*) Risk measurement:

Interest rate risk is measured by its impact to earnings ("earnings-at-risk" or "EaR") and its impact to the fair value of equity ("economic value of equity" or "EVE"). The EaR metric measures the impact changes in interest rates have on the 12-month financial margin forecast. The EVE metric measures the longer-term impact that interest rates have on the equity of the Credit Union. The amount of interest rate risk that the Credit Union will undertake depends on income and capital positions, and the risk appetite established by the Board of Directors.

(*ii*) Objectives, policies and processes:

The objective for managing interest rate risk is to comply with the maximum EaR and EVE limits as established in the Investment and Lending Policy. The Asset Liability Committee ("ALCO") reviews monthly simulations of the impact on EaR and EVE for various interest rate scenarios. The Investment and Lending Committee reviews the simulation model results quarterly.

The Investment and Lending Policy is reviewed annually by the Investment and Lending Committee with updates being recommended to the Board of Directors for approval. For the year ended December 31, 2023, the Credit Union was in compliance with its interest rate risk policy limits.

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 variable, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest rate sensitive have been grouped together, regardless of maturity.

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(d) Market risk (continued):

Interest rate risk (continued):

	Variable rate	Less than 1 year	Over 1 to 5 years	Over 5 years	Non-rate sensitive	2023 Total
Assets:						
Cash and cash equivalents	$ 74,911	$ 25,768	$ -	$ -	$ 31,255	$ 131,934
Effective interest rate	*5.20%*	*5.14%*	-	-	-	*3.96%*
Investments:	-	117,479	135,777	-	2,007	255,263
Effective interest rate	-	*3.36%*	*3.67%*	-	-	*3.50%*
Loans to members	589,998	517,209	1,702,749	27,892	(726)	2,837,122
Effective interest rate	*8.25%*	*4.36%*	*3.40%*	*3.41%*	-	*4.59%*
Derivative financial instruments	3,271	-	-	-	-	3,271
Effective interest rate	-	-	-	-	-	-
Other assets	-	-	-	-	67,031	67,031
Effective interest rate	-	-	-	-	-	-
	$ 668,180	$ 660,456	$ 1,838,526	$ 27,892	$ 99,567	$ 3,294,621
Asset yield	7.87%	4.21%	3.42%	3.41%	-	4.38%
Liabilities:						
Member deposits	$ 601,214	$ 1,784,666	$ 554,442	$ 14	$ 24,850	$ 2,965,186
Effective interest rate	*1.42%*	*1.75%*	*4.10%*	*4.25%*	-	*2.10%*
Borrowings	-	6,352	37,006	-	-	43,358
Effective interest rate	-	*3.85%*	*4.20%*	-	-	*4.15%*
Other liabilities	-	-	-	-	39,356	39,356
Effective interest rate	-	-	-	-	-	-
Members' equity	-	-	-	-	246,721	246,721
Effective interest rate	-	-	-	-	-	-
	$ 601,214	$ 1,791,018	$ 591,448	$ 14	$ 310,927	$ 3,294,621
Total liability cost	1.42%	1.75%	4.10%	4.25%	-	1.95%
Interest rate swaps (notional amount):						
Asset	$ -	$ 50,000	$ 10,000	$ -	$ -	$ 60,000
Liability	-	(10,000)	(50,000)	-	-	(60,000)
2023 net mismatch	$ 66,966	$ (1,090,562)	$ 1,207,078	$ 27,878	$ (211,360)	$ -
2022 net mismatch	$ 64,447	$ (1,007,200)	$ 1,081,969	$ 40,178	$ (179,394)	$ -

(Expressed in thousands of dollars, unless otherwise indicated)

21. Financial instrument risk management (continued):

(d) Market risk (continued):

Interest rate risk (continued):

The expected timing and amount of interest payments related to the hedged portion of the Credit Union's variable rate deposits are as follows:

December 31, 2023	< 1 year	1 - 5 years	Total
Assets	$ 1,490	$ 1,815	$ 3,305
Liabilities	-	-	-
Net cash outflow	$ 1,490	$ 1,815	$ 3,305

December 31, 2022	< 1 year	1 - 5 years	Total
Assets	$ 2,828	$ 4,493	$ 7,321
Liabilities	-	-	-
Net cash outflow	$ 2,828	$ 4,493	$ 7,321

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

The expected change to net interest income as a result of an immediate change in interest rates is as follows:

	2023	2022
1 per cent increase in rates	$ 3,932	$ 5,801
1 per cent decrease in rates	(4,272)	(5,106)

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

Currency risk:

Currency risk is the impact on the Credit Union from the difference in the balances of foreign currency denominated assets and liabilities and from foreign currency transactions with members.

The Credit Union's currency risk is related to USD, GBP and Euro member accounts and transactions.

21. Financial instrument risk management (continued):

(d) Market risk (continued):

Currency risk (continued):

(i) Risk measurement:

The Credit Union's foreign currency asset and liability balances are measured and monitored daily. Foreign exchange rates charged to members and currency purchase costs are monitored daily.

(ii) Objectives, policies and processes:

The Credit Union manages currency risk by limiting the unhedged foreign exchange exposures to the limits established in the Investment and Lending Policy. Foreign exchange risk is mitigated by investing the USD, GBP and Euro deposits in investments denominated in the same currencies. As a result, there would be no significant impact to net income if there was an increase or decrease in foreign exchange rates.

Management reviews its foreign exchange plan annually. The Investment and Lending Committee receives quarterly foreign exchange reports. For the year ended December 31, 2023, the Credit Union's exposures to foreign exchange risk were within policy.

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

22. 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 regularly and provides a forecast of capital requirements over a three-year period.

Capital requirements are regulated by the BC Financial Services Authority ("BCFSA"). A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained.

The prescribed capital base consists primarily of equity shares and retained earnings. 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. 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, 2023, the Credit Union has met its minimum regulatory requirements.

(Expressed in thousands of dollars, unless otherwise indicated)

23. Commitments and contingencies:

(a) Credit:

The Credit Union made commitments to members for loans that had not been disbursed, unutilized portions of lines of credit and unexpired letters of credit as follows:

	2023	2022
Undisbursed loans	$ 64,827	$ 132,449
Unutilized lines of credit	403,506	395,008
Letters of credit	3,607	3,154

(b) Contractual:

The Credit Union has a banking system hosting agreement that renews annually each September with annual hosting costs of $422. The Credit Union is also committed to annual banking system software maintenance costs of approximately $1,036 to 2023.

(c) Other provisions:

The Credit Union is subject to litigation. Provisions are recorded for management's best estimate of the Credit Union's liability related to legal disputes for which it is probable that an amount will be paid. No amount has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether claims will be settled in or out of court or if the Credit Union will be successful in defending any actions.

As at December 31, 2023 and 2022, 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 2023 in respect of such amounts.

24. Lease obligations:

(a) The Credit Union as a lessee – right-of-use assets:

The Credit Union leases a number of branch and office premises. These leases typically run for a period of 5-years, with an option to renew the lease after that date.

The movement of right-of use assets during the year ended December 31, 2023 is as follows:

Balance, January 1, 2023	$ 9,743
Additions to right-of-use assets	277
Depreciation	(1,464)
Balance, December 31, 2023	$ 8,556

(Expressed in thousands of dollars, unless otherwise indicated)

24. Lease obligations (continued)

(b) Lease liabilities:

The following table presents the contractual undiscounted cash flows for lease obligations as at December 31, 2023:

Less than one year	$	1,799
Between one and five years		7,122
More than five years		1,769
Total undiscounted lease obligations	$	10,690
Lease liabilities included in statement of financial position:		
Current	$	1,457
Non-current		7,820
Total	$	9,277

The Credit Union has used a weighted average incremental borrowing rate of 4.3% (2022 - 3.70%) to discount its lease obligations.

25. Investment in joint venture:

The Credit Union holds an equity interest in the joint venture 1200089 B.C. Ltd. The joint venture is held 50% by the Credit Union and 50% by Interior Savings Credit Union ("ISCU") as at December 31, 2023. Subsequent to year end, ISCU and Gulf and Fraser Credit Union merged and changed their respective operating names to Beem Credit Union. The share holdings did not change in this joint venture.

		2023		2022
Opening interest in joint venture	$	29,437	$	30,153
Inter-company eliminations and amortization		(584)		(579)
Share of total comprehensive income (loss)		328		(137)
Carrying value of interest in joint venture – December 31	$	29,181	$	29,437
Percentage ownership interest		50%		50%
Assets	$	20,108	$	19,811
Intangible assets and goodwill		31,075		31,134
Liabilities		(7,254)		(7,673)
Net assets (100%)	$	43,929	$	43,272
Credit Union's share of net assets (50%)	$	21,965	$	21,636

(Expressed in thousands of dollars, unless otherwise indicated)

25. Investment in joint venture (continued):

		2023		2022
Commission income	$	24,456	$	22,986
Operating expenses		(23,870)		(23,229)
Income tax recovery (expense)		71		(31)
Profit and total comprehensive income (loss) (100%)	$	657	$	(274)
Credit Union's share of profit and total comprehensive income (loss) (50%)	$	328	$	(137)
Dividends received by the Credit Union	$	-	$	-

26. Subsequent events:

On February 26, 2024, the Credit Union and BlueShore Financial Credit Union entered into a Memorandum of Understanding to explore a merger between the two credit unions, the outcome of which is still undetermined.