REVELSTOKE CREDIT UNION

Consolidated Financial Statements

Year Ended December 31, 2022

REVELSTOKE CREDIT UNION

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Year Ended December 31, 2022

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Revelstoke Credit Union have been prepared in accordance with International Financial Reporting Standards (IFRS) When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

The integrity and reliability of Revelstoke Credit Union's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board meets periodically with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. Following its review of the financial statements and discussions with the auditors, the Board of Directors approves the financial statements. The Board also considers, approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited on behalf of the shareholders by Adams Wooley, Chartered Professional Accountants, in accordance with Canadian auditing standards.

Mr. Alan Chell, Chairman

Ms. Michelle Hardy, CEO

Revelstoke, BC
January 21, 2023

AdamsWooley
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Revelstoke Credit Union

Opinion

We have audited the consolidated financial statements of Revelstoke Credit Union (the Credit Union), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of income, retained earnings, comprehensive income and cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2022, and the consolidated financial performance and consolidated cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS)

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Credit Union in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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David M.W. Adams, BSc, CPA, CGA, CFP*
James R. Wooley, BPE, CPA, CGA*
Brian F. Adams, FCPA, FCGA* (Associate)

**Denotes Professional Corporation*

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Adams Wooley

Cranbrook, BC
January 21, 2023

Adams Wooley
Chartered Professional Accountants

REVELSTOKE CREDIT UNION

Consolidated Statement of Financial Position

December 31, 2022

	2022	2021
ASSETS		
CASH AND TERM DEPOSITS *(Note 5)*	**$ 46,716,765**	$ 43,254,220
INVESTMENTS *(Note 6)*	**74,984**	75,600
MEMBERS' LOANS *(Notes 7 and 8)*	**214,382,182**	206,508,151
PROPERTY, PLANT AND EQUIPMENT *(Notes 9 and 10)*	**3,456,111**	3,153,782
INTANGIBLE ASSETS *(Note 11)*	**1,070,536**	1,536,710
GOODWILL *(Note 12)*	**65,000**	65,000
OTHER *(Note 13)*	**920,377**	990,898
	$ 266,685,955	$ 255,584,361
LIABILITIES AND SHAREHOLDERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 1,260,871**	$ 1,096,052
MEMBERS' DEPOSITS *(Note 14)*	**246,662,189**	236,429,480
LEASE LIABILITY *(Note 9)*	**189,981**	-
DEFERRED INCOME TAXES *(Note 15)*	**157,660**	289,381
	248,270,701	237,814,913
SHAREHOLDERS' EQUITY		
SHARE CAPITAL *(Note 16)*	**320,550**	370,335
ACCUMULATED OTHER COMPREHENSIVE INCOME *(Note 17)*	**(396,700)**	9,876
RETAINED EARNINGS	**18,491,404**	17,389,237
	18,415,254	17,769,448
	$ 266,685,955	$ 255,584,361

APPROVED BY THE DIRECTORS

_______________________ *Director*

_______________________ *Director*

See notes to financial statements

REVELSTOKE CREDIT UNION

Consolidated Statement of Income

Year Ended December 31, 2022

	2022	2021
INTEREST INCOME		
Interest from Loans	**$ 7,201,210**	$ 6,174,957
Interest from Investments	**779,266**	304,453
	7,980,476	6,479,410
INTEREST AND LOAN RELATED EXPENSES	**2,533,788**	1,964,860
FINANCIAL MARGIN	**5,446,688**	4,514,550
OTHER INCOME (EXPENSES)		
Service Fees and Commissions	**3,026,179**	3,144,415
Gain on Sale of Liquidity Deposits	**-**	372,436
Losses on Loans	**(162,575)**	(221,986)
Processing and Handling Fees	**(217,861)**	(214,877)
	2,645,743	3,079,988
OPERATING EXPENSES	**6,129,469**	5,831,406
INCOME FROM OPERATIONS	**1,962,962**	1,763,132
REWARDS TO MEMBERS AND COMMUNITY GIVING		
Rewards to Members *(Note 16)*	**205,903**	202,748
Unrealized loss on revaluation of insurance license	**200,000**	-
Community Giving and Donations	**162,025**	132,000
	567,928	334,748
INCOME BEFORE INCOME TAXES	**1,395,034**	1,428,384
INCOME TAXES		
Current *(Note 18)*	**304,028**	226,169
Deferred *(Note 15)*	**(11,161)**	87,345
	292,867	313,514
NET INCOME	**$ 1,102,167**	$ 1,114,870

REVELSTOKE CREDIT UNION
Consolidated Operating expenses
Year Ended December 31, 2022

	2022	2021
Administrative		
Staff Salaries	**$ 3,308,518**	$ 3,147,252
Staff Benefits	**737,330**	746,822
Data Processing and Information Technology	**272,973**	259,099
Staff Travel and Training	**48,225**	28,990
Director and Committee Costs	**44,021**	49,005
Telephone	**42,918**	40,882
Insurance - Bonding	**41,917**	39,129
Postage	**36,184**	35,428
Stationery and Supplies	**25,285**	23,278
	4,557,371	4,369,885
Building and Occupancy		
Property Taxes	**97,546**	97,279
Amortization - Property	**97,335**	97,335
Janitor	**77,412**	70,088
Utilities	**47,275**	41,308
Repairs and Maintenance - Property	**40,962**	37,389
Insurance - Property	**16,869**	16,029
	377,399	359,428
Other		
Computer Software, License, Subscription	**287,306**	255,954
Stabilization and Inspection Assessments	**203,468**	192,141
Audit and Professional Fees	**119,216**	119,825
Amortization of Intangible Assets *(Note 11)*	**116,175**	107,366
Promotion, Advertising and Donations	**104,926**	98,298
Dues	**92,478**	55,002
Consulting	**82,559**	73,968
Repairs and Maintenance - Equipment	**71,235**	27,037
CUSO participation fee *(Note 11)*	**40,000**	33,333
Amortization - Furniture and Equipment	**24,446**	30,279
Miscellaneous	**19,336**	18,845
Loan Administration	**15,856**	18,844
Amortization of Right-of-Use Assets *(Note 9)*	**11,134**	71,675
Legal	**3,810**	(7,076)
Interest on Leasing Arrangements *(Note 9)*	**1,458**	547
Crisis Management	**861**	5,413
Annual Meeting	**435**	642
	1,194,699	1,102,093
	$ 6,129,469	$ 5,831,406

REVELSTOKE CREDIT UNION
Consolidated Statement of Comprehensive Income
Year Ended December 31, 2022

	2022	2021
NET INCOME	**$ 1,102,167**	$ 1,114,870
CHANGES IN COMPREHENSIVE INCOME (net of deferred income tax)		
Unrealized (loss) on revaluation of insurance license	**(129,750)**	-
Unrealized gain (loss) on fair value of interest rate swaps *(Note 17)*	**(19,387)**	(64,597)
Unrealized (realized) gain on available-for-sale liquidity assets *(Note 17)*	**-**	(271,878)
Unrealized (loss) on Mandatory Liquidity Pool investments *(Note 17)*	**(255,499)**	(125,055)
Deferred tax adjustment *(Note 17)*	**(1,940)**	-
COMPREHENSIVE INCOME FOR THE YEAR	**$ 695,591**	$ 653,340

See notes to financial statements

REVELSTOKE CREDIT UNION
Consolidated Statement of Retained Earnings
Year Ended December 31, 2022

	2022	2021
RETAINED EARNINGS - BEGINNING OF YEAR	**$ 17,389,237**	$ 16,274,367
NET INCOME	**1,102,167**	1,114,870
RETAINED EARNINGS - END OF YEAR	**$ 18,491,404**	$ 17,389,237

See notes to financial statements

REVELSTOKE CREDIT UNION

Consolidated Statement of Cash Flow

Year Ended December 31, 2022

	2022	2021
OPERATING ACTIVITIES		
Net income	$ 1,102,167	$ 1,114,870
Items not affecting cash:		
Amortization of property, plant and equipment	132,332	199,289
Amortization - intangible assets *(Note 11)*	116,175	107,366
Deferred income taxes	(11,161)	87,345
Unrealized gain (loss) on interest rate swaps *(Note 17)*	(26,556)	(88,488)
Unrealized (loss) on MLP investments *(Note 17)*	(349,999)	(171,308)
Unrealized gain on available-for-sale liquidity assets	-	(372,436)
Deferred tax on swaps sold prior to maturity *(Note 17)*	-	-
Unrealized loss on revaluation of insurance license	350,000	-
	1,312,958	876,638
Changes in non-cash working capital:		
Work in progress	3	-
Other	70,521	(103,635)
Accounts payable and accrued liabilities	164,818	(202,777)
	235,342	(306,412)
Cash flow from operating activities	1,548,300	570,226
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(234,833)	-
Acquisition of right-of-use assets	(200,412)	-
Purchase of intangible assets	-	(574,180)
Revaluation of intangible assets through other comprehensive income	(150,000)	-
Investments	616	814,451
Members' loans	(7,874,031)	(24,312,296)
Cash flow used by investing activities	(8,458,660)	(24,072,025)
FINANCING ACTIVITIES		
Members' deposits	10,232,709	10,582,990
Share capital	(49,785)	(10,937)
Proceeds from lease liability	200,412	-
Repayment of lease liability *(Note 9)*	(10,431)	(71,675)
Cash flow from financing activities	10,372,905	10,500,378
INCREASE (DECREASE) IN CASH FLOW	3,462,545	(13,001,421)
Cash - beginning of year	43,254,220	56,255,641
CASH - END OF YEAR	$ 46,716,765	$ 43,254,220
CASH CONSISTS OF:		
Cash	$ 12,510,062	$ 10,991,178
Deposits - Special and Term	34,076,837	32,192,188
Accrued Interest	129,866	70,854
	$ 46,716,765	$ 43,254,220

1. NATURE OF OPERATIONS

Revelstoke Credit Union (the "Credit Union") is incorporated under the Credit Union Act (the "Act") of British Columbia and is a member of Central 1 Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit and credit cards and Internet banking. The Credit Union head office is located at 110 2nd Street W, Revelstoke, British Columbia.

These financial statements have been authorized for issue by the Board of Directors on March 1, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 4*.

Basis of consolidation

The consolidated financial statements include the accounts of the Credit Union and its subsidiaries. As a result, figures as at December 31, 2022 or for the years then ended include the financial position of those subsidiaries and the results of their operations for the years then ended. The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition or incorporation. All intercompany balances and transactions have been eliminated.

Subsidiary	Ownership %	Year end
RCU Insurance Services Ltd.	100.00	December 31, 2022

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Cash and cash equivalents are carried at amortized cost, which is equivalent to fair value.

Investments - Central 1 deposits

These deposit instruments are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. If investments are available for sale, they are reported at fair value.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Mandatory Liquidity Pool (MLP)

The MLP investments are held to collect cashflows and to sell if an opportunity to benefit arises. They are initially measured at fair value, plus transaction costs. Subsequently they are carried at fair value through other comprehensive income, adjusted for the portion of premium paid or discount received on purchase. Expected credit loss is calculated on an ongoing basis.

Equity instruments

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

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in equity.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is recognized in equity.

Hedges

The Credit Union, in accordance with its risk management strategies, enters into various 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 totaling $2,000,000 (2021 - $5,000,000). These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where 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 forecast 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 assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as commercial and personal loans.

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 income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

If a hedge relationship fails an effectiveness test, hedge accounting ceases from the last date on which the hedge was demonstrated to be effective, which will usually be the beginning of the period in which the hedge fails the effectiveness test. If the hedged item is an available-for-sale asset, future changes in fair value, other than impairment and currency differences on monetary items, are recognized in equity. If the hedged item is a loan or receivable, future changes in fair value, other than impairment, are not recognized unless the item is sold.

If the Credit Union closes out its hedge position early, the cumulative gains and (losses) recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and (losses) on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

As permitted by IFRS 9, the Credit Union has elected to continue to apply the hedge accounting requirements of IAS 39.

Members' loans

All members loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the original effective interest rate, short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Bad debts written off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision of impairment had previously been recognized. If no provision had been recognized, the write-offs are recognized as expenses in net income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loan securitization

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

Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses), with the exception of land which is not amortized and was written up as provided in *Note 10.* Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Building	40 years
Parking Lot	20 years
Furniture and Equipment	1 to 10 years
Computer equipment - Right-of-use asset	1 to 2 years

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

Intangible assets

Intangible assets consist of computer software which are 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 its estimated useful life, unless it is deemed to have an indefinite life, and tested for impairment annually.

Impairment of non-financial assets

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes

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

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting 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 allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Member deposits

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

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

Pension plan

The Credit Union participates in a defined contribution pension plan administered by Credential Asset Management. The Credit Union accounts for the plan by recognizing contributions as an expense in the year to which they relate.

Accounts payable and other payables

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

Provisions

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Members' shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Patronage distributions

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Revenue recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

For any new contracts entered into on or after January 1, 2019, the Credit Union considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Credit Union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Credit Union
- the Credit Union has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Credit Union has the right to direct the use of the identified asset throughout the period of use. The Credit Union assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use

Measurement and recognition of leases as a lessee

At lease commencement date, the Credit Union recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Credit Union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Credit Union depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Credit Union also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Credit Union measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Credit Union’s incremental borrowing rate, which has been deemed to be the prime rate, since the Credit Union does not currently borrow.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Credit Union has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, there is an option to include right-of-use assets in property and equipment and lease liabilities in trade and other payables, but they have been included in separate line items instead.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Credit Union as a lessor

The Credit Union's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Credit Union classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

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 the 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. Exchange gains and (losses) arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and (losses) on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Examples of significant estimates include:

- providing for amortization of property and equipment;
- the estimated useful lives of assets;
- the allowance for losses on loans;
- the recoverability of long-term investments;
- the recoverability of intangible assets;
- the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
- certain actuarial and economic assumptions used in determining present value of future lease obligations.
- IFRS 16 requires entities to make certain judgements and estimations, and those that are significant should be disclosed here or within the asset and liability notes within the financial statements. Critical judgements are often required when an entity is, for example:
  - determining whether or not a contract contains a lease
  - establishing whether or not it is reasonably certain that an extension option will be exercised
  - considering whether or not it is reasonably certain that a termination option will not be exercised
  - determining whether or not variable leased payments are truly variable, or in-substance fixed
  - for lessors, determining whether the lease should be classified as an operating or finance lease.
  - Examples of key sources of estimation and uncertainty include:
    - calculating the appropriate discount rate to use
    - estimating the lease term
    - estimating variable lease payments dependant on an index or rate.

3. IFRSs NOT YET EFFECTIVE

Following is a listing of amendments, revisions and new International Financial Reporting Standards (IFRSs) issued and the effective date. Unless otherwise indicated, earlier application is permitted. The Credit Union is currently evaluating the impact of adopting the changes, which it intends to do when required.

IAS 17 - Insurance contracts (annual periods beginning on or after January 1, 2023)

Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

4. 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 experiences may differ from these estimates and assumptions.

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

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

Fair value of financial instruments

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

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in *Note 6.*

Member loan loss provision

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

In determining a collective loan loss provision, management used estimates based on the understanding of possible risks in the economy and objective evidence of impairment. The Credit Union has employed a collective loan loss provision in 2022 of $540,874 (2021 - $411,226).

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate for the tax liability including the related interest and penalties in the current tax provision. Management believes it has adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

5. CASH AND TERM DEPOSITS

The Credit Union's cash and current accounts are held with Central 1. The average yield in the accounts at December 31, 2022 is 2.76% (2021 - 0.61%).

	2022	2021
Central 1 deposits		
Discount deposits - Canadian	**$ 12,313,195**	$ 10,673,322
Central 1 bid deposits	**8,000,000**	4,000,000
Discount deposits - US	**528,804**	511,895
Accrued interest	**30,712**	3,570
Total Central 1 deposits	**20,872,711**	15,188,787
Mandatory Liquidity Pool (MLP)		
MLP	**26,084,383**	24,197,485
Accrued interest	**99,154**	65,570
MLP - Allowance for ECL	**(7,546)**	(5,297)
Total MLP	**26,175,991**	24,257,758
Concentra deposits		
Concentra Evergreen deposit	**-**	4,000,000
Accrued interest	**-**	1,714
Total Concentra	**-**	4,001,714
	47,048,702	43,448,259
Other cash and deposit accounts	**(331,937)**	(194,039)
	$ 46,716,765	$ 43,254,220

The Credit Union must maintain liquidity reserves at 8% of total assets at December 31, for regulatory purposes. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The Board of Directors has set an internal target to maintain total liquidity reserves of at least 9% of total assets, which is 1% above regulatory requirements.

The Liquidity Requirement Regulation ("LRR") under the Financial Institutions Act ("FIA") was amended effective January 1, 2021, to enable the legal segregation of the credit unions' statutory liquidity into a bare trust structure (referred to as the Mandatory Liquidity Pool ("MLP") segregation). The former requirement for a credit union to place its statutory liquidity as a deposit in Central 1 Credit Union ("Central 1") was replaced with the requirement for a credit union to hold its statutory liquidity as unencumbered assets in trust with Central 1. A credit union has adequate liquid assets if it holds unencumbered assets placed in trust with Central 1 that are at least equal to 8% of the credit union's aggregate deposit and other debt liabilities.

The permitted liquid assets placed in trust with Central 1 include the following:

- Assets held in the trust that are High Quality Liquid Assets ("HQLA") as defined by the Office of the Superintendent of Financial Institutions (Canada) ("OSFI") or by BCFSA rules;
- Specified short term bankers' acceptances held in the trust;
- Cash deposits held in the trust; and
- Cash on hand held by the credit union.

Total cash deposits and bankers' acceptances held in the trust and cash on hand held by the credit union is limited to 2% of the credit union's aggregate deposit and other debt liabilities. Cash deposits and bankers' acceptances held in trust with Central 1 do not qualify as HQLA, in order to ensure that the credit union holds 6% HQLA for statutory liquidity, not including cash on hand held by the credit union.

(continues)

5. CASH AND TERM DEPOSITS *(continued)*

(a) Initial measurement

Liquidity deposits and MLP assets are initially measured at fair value plus transaction costs that are directly attributable to their acquisition.

(b) Classification and subsequent measurement

Liquidity deposits are classified and subsequently measured at amortized cost because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Liquidity deposits are subsequently reduced by a loss allowance, if any. Liquidity deposits were disposed of in early 2021 and transferred to the MLP at fair value.

The MLP assets are classified and subsequently measured at fair value, because they are predominantly derivative instruments that do not meet the criteria of being solely payments of principal and interest. MLP assets are subsequently reduced by a loss allowance, if any. The credit union holds the investments to collect cashflows, but also sells the bonds before maturity, if there is an opportunity to meet its objectives. At December 31, the MLP portfolio has an average yield to maturity of 2.539%, including the amortization of the premium paid on acquisition, and an average duration to maturity of less than one year.

(c) Credit risk

The Credit Union holds cash held on deposit with Central 1. Liquidity deposits and MLP assets have been determined to have low credit risk and therefore the loss allowances for liquidity deposits is measured at an amount equal to 12-month ECL. MLP assets have been measured to have an expected credit loss of approximately 0.01% of the nominal value of the government bonds and 0.02% of the nominal value of the corporate bonds in the portfolio.

(d) Fair value measurement

The carrying amounts of liquidity deposits and cash held on deposit with Central approximate fair value due to having similar characteristics as cash and equivalents.

Discount deposits at Central 1 are due within one year.

MLP assets are measured at fair value through other comprehensive income since the objectives are achieved through a mix of interest earned and realized gains on sales.

6. INVESTMENTS

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

		2022		2021
Equity instruments				
Central 1 Credit Union - Class A Shares	**$**	**74,673**	$	75,289
Central 1 Credit Union - Class E Shares		**50**		50
Stabilization Central Credit Union - Shares		**161**		161
CUSO Wealth Strategies Inc. (CUSO) - Shares		**100**		100
	$	**74,984**	$	75,600

a) Recognition and initial measurement

The Credit Union recognizes equity instruments on the settlement date, which is the date that the asset is received by the Credit Union. The instruments are initially measured at fair value. Any change in fair value between trade date and settlement date is recognized in net income.

b) Classification and subsequent measurement

The Credit Union classifies its equity instruments as FVOCI. The equity instruments are subsequently measured at fair value with changes in fair value recognized in OCI. Gains and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

c) Derecognition

The Credit Union derecognizes investments when the contractual rights to the cash flows from the investment expires or the Credit Union transfers the investment. On derecognition, any cumulative gain or loss recognized in OCI is not recognized in profit or loss.

d) Fair value measurement

The carrying amounts of investments approximate fair value. The table above provides information on the investments by type of security and issuer.

The Credit Union is a member of a national financial services entity named Central 1 Credit Union. The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the direction of the Board of Directors of Central 1. 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 Board of Directors of Central 1. The member credit unions were previously subject to additional capital calls at the discretion of the Board of Directors, but was amended at the May 5, 2022 Annual General Meeting, as follows:

i) elimination of certain provisions providing for a mandatory capital call by way of required subscriptions for shares,

ii) addition of provisions for a voluntary capital call by way of subscriptions for shares,

iii) amendments providing for redemptions of Class E shares to occur over an extended period after a member leaves the membership of Central 1,

iv) provisions permitting a member to transfer to a different class of membership, subject to certain terms and conditions, and

v) elimination of further annual determinations of the Class A shares subscribed by Class A members (share rebalancing), effective following a voluntary capital call.

Class A Central 1 shares were previously subject to an annual rebalancing mechanism, which were issued and redeemable at par value. This provision has been eliminated, as provided above. 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 transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are redeemable at $100 per share. The Credit Union accounts for the remaining 5,031 Class E shares at cost, as redemption of the shares at the shares' stated redemption value is uncertain.

The company owns 100 common shares of CUSO Wealth Strategies Inc., comprising 9.09% of the voting shares currently issued and outstanding, and accounts for its investment in CUSO using the cost method.

7. MEMBERS' LOANS

	2022	2021
Residential Mortgages	**$ 153,435,201**	$ 149,773,367
Commercial Mortgages and Loans	**41,938,885**	39,140,698
Personal Loans	**17,026,863**	15,408,439
Commercial Revolving Credits	**2,084,683**	2,255,239
Accrued Interest	**437,424**	341,634
Subtotal	**214,923,056**	206,919,377
Deduct: Allowance for Impaired Loans *(Note 8)*	**(540,874)**	(411,226)
	$ 214,382,182	$ 206,508,151

Terms and conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 10%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2022 was 6.45% (2021 - 2.45%).

The interest rate offered on fixed rate loans being advanced at December 31, 2022 ranges from 5.44% to 6.29%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

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

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by promissory notes and personal property or investments, and others are secured by promissory notes only.

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, charges on specific equipment, investments and personal guarantees.

Average yields to maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

(continues)

7. MEMBERS' LOANS *(continued)*

	2022 Yield	2021 Yield
Variable rate	**7.95%**	4.08%
Fixed rate due less than one year	**3.72%**	2.89%
Fixed rate due between one and five years	**3.70%**	2.59%

(a) Recognition and initial measurement

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

(b) Classification and subsequent measurement

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

(c) Derecognition and contract modifications

The Credit Union derecognizes member loans when the contractual rights to the cash flows from the member loans expire, or the Credit Union transfers the member loans.

On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

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

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

(d) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union’s member loans.

i) Credit risk management

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

(continues)

7. MEMBERS' LOANS *(continued)*

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise 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 which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Maintaining the Credit Union’s watch list for loans whose credit risk has increased since origination with appropriate follow-up and risk mitigation techniques;
- Developing and maintaining the Credit Union’s internal credit risk grading system; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

The Credit Union allocates a credit risk grade at initial recognition based on available information about the borrower. Under this system, the credit risk grades are defined as follows:

1 – undoubted - assigned to undoubted member loans with virtually no risk

2 – low - assigned to member loans that have minimal risk of any loss

3 – moderate – assigned to member loans that have normal risk of any loss

4 – cautionary – assigned to member loans that are higher risk and that should be placed on a watch list for increased monitoring

5 – unsatisfactory – assigned to member loans that are impaired and require immediate action

6 – unacceptable - assigned to member loans where there is little or no likelihood of repayment

The Credit Union does not have any member loans that originate in a credit risk grade of 4. Member loans are subject to ongoing monitoring, which may result in the member loan being moved to a different credit risk grade. The monitoring typically involves the use of information obtained during periodic review of customer files, for example, audited financial statements, data from credit reference agencies, actual and expected significant changes in the regulatory and technological environment of the borrower or in its business activities, payment record including overdue status and existing and forecast changes in business, financial and economic conditions.

The Credit Union monitors personal loans primarily by delinquency status.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of the provision for credit losses on member loans and allowance for loan losses monthly.

(continues)

7. MEMBERS' LOANS *(continued)*

A sizeable portfolio of the loan book is secured by residential property in Revelstoke, BC. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LTV) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

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.

ii) Amounts arising from ECL

The Credit Union recognizes allowance for loan losses for ECL on member loans.

(continues)

7. MEMBERS' LOANS *(continued)*

The Credit Union measures allowance for loan losses at each reporting period date according to a three-stage ECL model as follows:

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition.	Following a significant increase in credit risk (SICR) relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit impaired (i.e. when credit default has occurred).
Criteria for movement	At origination, all member loans are categorized into stage 1. A commercial or agricultural loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement in the credit risk grading is approved by credit managers. For personal loans, migration back to stage 1 may occur upon approval of loan officers if all signs of previous credit deterioration are remedied and the member has 6 months of principal and interest payments made with no delinquency.	The Credit Union determines a SICR has occurred when: • the loan moves to the Credit Union's watch list; • the member migrates to a credit risk grade of 4; or • a contractual payment is more than 30 days past due. Additionally, the Credit Union incorporates forward looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition.	A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred: • a breach of contract such as a default or delinquency in interest or principal payments; • significant financial difficulty of the borrower; • the restructuring of a loan by the Credit Union on terms that the Credit Union would not consider otherwise; • payment on a loan is overdue 90 days or more; or • it is becoming probable that the borrower will enter bankruptcy or other financial reorganization. A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

(continues)

7. MEMBERS' LOANS *(continued)*

<table>
<tr><th>Stage</th><th>1 – No Significant Increase in Credit Risk Since Initial Recognition</th><th>2 – Significant Increase in Credit Risk Since Initial Recognition</th><th>3 – Credit-Impaired</th></tr>
<tr><td>ECL methodology</td><td>Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months (12-month expected credit loss)</td><td colspan="2">Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss)</td></tr>
<tr><td>Collective or individual assessment</td><td colspan="2">Collective assessment of member loans grouped on the basis of similar risk characteristics based on loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.</td><td>Each credit-impaired member loan is individually assessed.</td></tr>
<tr><td>Application of ECL methodology</td><td colspan="2">Expected credit loss on a group of member loans is measured on the basis of a loss rate approach. The Credit Union develops loss rates for member loans in stage 1 and loss rates for member loans stage 2, based on historical default and loss experiences for those types of member loans, adjusted for current economic conditions and forecasts of future economic conditions. The loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans, unused lines of credit, letters of credit).
For member loans in stage 1 with undrawn loan commitments, the estimate of drawdown within 12 months of the reporting date is based on historical drawdown information.
For member loans in stage 2 with undrawn loan commitments, the estimate of drawdown over the life of the loan commitment is also based on historical drawdown information.</td><td>The probability of default on credit-impaired member loans is 100%, therefore, the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.</td></tr>
<tr><td>Key forward looking information</td><td colspan="3">Local unemployment rates, local economic outlook, credit environment, and other relevant economic variables impacting subsets of the Credit Union's members.</td></tr>
</table>

(e) Fair value measurement

The fair value of member loans at December 31, 2022 was $203,348,000 (2021 - $207,510,000).

The estimated fair value of the variable rate loans is assumed to be equal to the 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.

(continues)

7. MEMBERS' LOANS *(continued)*

Credit quality of loans

It is not practical to value all collateral as at the year end date due to the variety of assets and conditions.

	2022				2021
	12-month Expected Credit Loss	Lifetime Expected Credit Loss (not credit-impaired)	Lifetime Expected Credit Loss (credit-impaired)	Total	Total
Residential Mortgages and Personal Loans					
Current	$ 170,438,494	$ -	$ -	$ 170,438,494	$ 165,181,807
> 30 days past due	23,571	-	-	23,571	-
> 90 days past due	-	-	-	-	-
Otherwise defaulted	-	-	-	-	-
	170,462,065	-	-	170,462,065	165,181,807
Allowance for loan losses	(457,668)	-	-	(457,668)	(360,239)
Carrying amount	$ 170,004,397	$ -	$ -	$ 170,004,397	$ 164,821,568
Commercial Loans					
1 - undoubted	$ 13,192	$ -	$ -	$ 13,192	$ 246,341
2 - low	1,128,532	-	-	1,128,532	2,002,632
3 - moderate	42,881,843	-	-	42,881,843	38,801,943
4 - cautionary	-	-	-	-	345,020
5 - unsatisfactory	-	-	-	-	-
6 - unacceptable	-	-	-	-	-
	44,023,567	-	-	44,023,567	41,395,936
Allowance for loan losses	(83,206)	-	-	(83,206)	(50,987)
Carrying amount	$ 43,940,361	$ -	$ -	$ 43,940,361	$ 41,344,949
Balance at December 31	$ 213,944,758	$ -	$ -	$ 213,944,758	$ 206,166,517

Concentration of risk

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

The significant majority of member loans are with members located in and around Revelstoke, British Columbia. Where a member's loan is not in the Revelstoke area, an exception to policy is made.

8. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision at December 31, 2022 is comprised of a specific provision of $NIL (2021 - $NIL) and a collective provision of $540,874 (2021 - $411,226).

Movement in individual specific provision and collective provision for impairment:

	2022	2021
Balance at January 1	**$ 411,226**	$ 208,437
Provision charged to net income	**129,648**	202,789
Balance at December 31 *(Note 7)*	**$ 540,874**	$ 411,226

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding at December 31.

	2022	2021
Period of delinquency		
Less than 30 days	**$ 809,905**	$ 598,832
30 to 90 days	**23,563**	-
Total loans in arrears	**833,468**	598,832
Total loans not in arrears	**213,652,164**	205,978,912
Total loans (excluding accrued interest)	**$ 214,485,632**	$ 206,577,744

Key assumptions in determining the allowance for impaired loans collective provision

The Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Management to reduce any differences between loss estimates and actual loss experience.

The Credit Union determined that a collective (non-specific) impaired loan provision should be applied to 2022 in the amount of $540,874 (2021 - $411,226).

9. RIGHT-OF-USE ASSETS AND LIABILITIES

The credit union has a lease for computer equipment and service. With the exception of short-term leases and leases of low-value underlying assets, the total lease asset is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Credit Union sales) are excluded from the initial measurement of the lease liability and asset. The Credit Union classifies its right-of-use assets in a consistent manner to its property and equipment (see *Note 10*).

The table below describes the nature of the Credit Union's leasing activities by type of right-of-use asset recognised on balance sheet:

				Number of leases with			
Right-of-use asset	Number of right-of-use assets leased	Range of remaining term (months)	Average remaining lease term (years)	Extension options	Options to purchase	Variable payments linked to an index	Termination options
Computer equipment	Multiple	34	3	1	-	-	1

Right-of use assets

Additional information on the right-of-use assets by class of assets is as follows:

	Asset	Carrying amount	Additions	Amortization	Impairment
Computer equipment	$ 200,412	$ 189,278	$ 200,412	$ 11,134	$ -

The right-of-use assets are included in a separate line on the statement of financial position.

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	December 31, 2022	December 31, 2021
Current	$ 64,274	$ -
Non-current	125,707	-
	$ 189,981	$ -

(continues)

9. RIGHT-OF-USE ASSETS AND LIABILITIES *(continued)*

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities is as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
December 31, 2022						
Lease payments	$ 71,336	$ 71,336	$ 59,446	$ -	$ -	$ 202,118
Finance charges	(7,062)	(4,071)	(1,004)	-	-	(12,137)
Net present values	$ 64,274	$ 67,265	$ 58,442	$ -	$ -	$ 189,981
December 31, 2021						
Lease payments	$ -	$ -	$ -	$ -	$ -	$ -
Finance charges	-	-	-	-	-	-
Net present values	$ -	$ -	$ -	$ -	$ -	$ -

Lease payments not recognised as a liability

The Credit Union has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

Sale and leaseback transactions

There have been no sale and leaseback transactions in the current year.

10. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	**2022 Net book value**	2021 Net book value
Land	$ 570,136	$ -	**$ 570,136**	$ 570,136
Building	4,503,478	1,864,780	**2,638,698**	2,499,723
Furniture and Equipment	1,641,577	1,589,489	**52,088**	76,534
Parking Lot	38,457	32,546	**5,911**	7,389
Computer equipment	399,621	399,621	**-**	-
Computer equipment - Right-of-Use Asset	200,412	11,134	**189,278**	-
	$ 7,353,681	$ 3,897,570	**$ 3,456,111**	$ 3,153,782

The carrying value of the land owned by the credit union was increased from the historical cost of $52,241 to fair value of $317,923 as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 16, as determined by an appraisal prepared by Corrie Appraisals Ltd. on January 29, 2010. The credit union owns the land on which the building and parking lot are located in Revelstoke, BC. No impairment in the fair value has accrued in 2022.

The following assets included above are held under lease *(Note 9)*:

	Cost	Accumulated amortization	**2022 Net book value**	2021 Net book value
Computer equipment - Right-of-Use Asset	$ 200,412	$ 11,134	**$ 189,278**	$ -

11. INTANGIBLE ASSETS

	2022	2021
Indefinite Life		
Insurance Corporation of British Columbia AutoPlan license	**$ 600,000**	$ 950,000
Software license	**119,896**	119,896
	719,896	1,069,896
Finite Life		
Book of business	**210,000**	210,000
Less: Accumulated amortization	**(210,000)**	(210,000)
	-	-
Payments Modernization	**394,000**	394,000
Forge	**51,639**	51,639
SoftPhones	**18,642**	18,642
Less: Accumulated amortization	**(150,275)**	(70,733)
	314,006	393,548
Initiation fee - CUSO Wealth Strategies Inc.	**59,900**	59,900
Onboarding fee - CUSO Wealth Strategies Inc.	**50,000**	50,000
Less: Accumulated amortization	**(73,266)**	(36,634)
	36,634	73,266
	$ 1,070,536	$ 1,536,710

The intangible asset is comprised of an AutoPlan license issued by Insurance Corporation of British Columbia (ICBC). As there is an active market for these licenses in the province of British Columbia, the current value of the AutoPlan licenses can be reliably obtained. The fair value can be adjusted annually, with a resulting increase or decrease, as the case may be.

Currently, the active market for ICBC Autoplan licenses has diminished due to changes in ICBC business practices, including: (i) the new Enhanced Care insurance model, and (ii) a planned online insurance platform. Because of these changes, the current Autoplan license sales are sporadic, and are not a reliable measure of fair value. An Autoplan license will continue to be necessary to sell Autoplan insurance, and will continue to bring value to the company, but the final impact of the new ICBC business practices has yet to be determined.

The AutoPlan licenses have no expiration date and have therefore been assessed an indefinite useful life. As such, these assets will not be amortized, but will be tested for impairment on an annual basis. Fair value shall be determined by reference to the active market for these licenses. Revaluations shall be made with such regularity that at the end of the reporting period, the carrying value will not differ materially from the fair value.

As a result of a valuation prepared by Robert O'Connor & Company Inc. on June 11, 2010, the carrying value of the license was increased to fair value as at January 1, 2010 in accordance with the provisions of IFRS 1 and IAS 27, with the resulting increase recognised in retained earnings. The valuation prepared by Robert O'Connor & Company Inc. determined that the ICBC licence had a fair market value of $800,000. In 2015 it was determined that the fair value of the ICBC licence had increased to $1,200,000, resulting in an additional increase in fair value of $400,000. In 2019 and 2022, recent comparable sales of ICBC licences resulted in a decrease of the fair value by $250,000 and $350,000 respectively.

The AutoPlan license was revalued to its fair market value in 2010, 2015, 2019 and 2022. The license has been tested for impairment of the carrying value as well as current fair value.

(continues)

11. INTANGIBLE ASSETS *(continued)*

The software license relates to Lodestar Business Intelligence. The license has an indefinite life, as long as the monthly maintenance fees are paid. The Credit Union's intention is to continue using this software for an indefinite period. Amortization has not been taken, in accordance with IAS 38. A test for impairment is required annually to determine whether events and circumstances continue to support an indefinite useful life assessment. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change to an accounting estimate in accordance with IAS 8.

RCU Insurance Services Ltd. purchased a mutual fund Book of Business on December 1, 2016 for the total consideration of $275,000. The agreement provides that the purchase amount may be reduced in the event that at least 90% of the business is not retained in the first year. An independent valuation of the Book of Business was prepared that reflected an upper value range of $210,000; therefore, the Company allocated that value to the Book of Business and the remaining $65,000 to Goodwill *(Note 12)*.

The Company further decided that the Book of Business is a finite intangible asset that has an expected life of 3 years. As the transfer of clients was still taking place at December 31, 2016 amortization at the rate of $70,000 per year commenced on January 1, 2017.

During the 2020 year, the company's directors agreed to subscribe for shares in the capital of CUSO Wealth Strategies Inc. ("CUSO"), with an effective date of January 1, 2021. CUSO provides investment management services to the wealth management department of the company. The term of the agreement is 3 years and the initiation and onboarding fees paid to CUSO will be amortized over the length of the agreement. In addition to the initial fees, there is an annual participation fee that is expensed every year.

12. GOODWILL

	2022	2021
Goodwill	**$ 65,000**	$ 65,000

As described in *Note 11*, Goodwill arose on the purchase of a mutual fund Book of Business on December 1, 2016. The Goodwill will not be amortized, but will be tested for impairment during each year and in the event the Fair Value is determined to be less than the carrying value an appropriate adjustment will be made to the carrying value of the Goodwill by a charge reflected in the Income Statement. At December 31, 2022 it was determined that Goodwill was not impaired.

13. OTHER

	2022	2021
Prepaid expenses and accounts receivable	**$ 920,377**	$ 990,898

14. MEMBERS' DEPOSITS

	2022	2021
Chequing	**$ 63,279,020**	$ 70,600,668
Plan 24	**36,458,047**	48,002,795
Term deposits	**101,070,675**	72,472,829
Registered savings plans	**10,015,291**	10,992,182
Registered retirement income funds	**5,657,424**	6,039,947
Registered education savings plans	**2,113,928**	1,949,001
Registered disability savings plans	**409,791**	350,445
BC TESG savings plans	**199,634**	218,672
Tax free savings account	**26,123,944**	24,995,758
	245,327,754	235,622,297
Accrued Interest Payable	**1,334,435**	807,183
	$ 246,662,189	$ 236,429,480

Terms and conditions

Chequing deposits are due on demand. A portion of the accounts pay interest at a negotiated rate.

Maximizer deposits are due on demand and bear interest at tiered rates. Interest is paid on the accounts monthly.

Plan 24 deposits bear interest at 0.25%. Interest is calculated daily and paid monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually or upon maturity. The interest rates offered on term deposits issued on December 31, 2022 range from 4.45% to 4.75%.

The registered retirement savings plan (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above and may also pay interest semi-annually. The interest rates on fixed rate RRSPs range from 0.25% to 4.75%. Variable rate RRSPs bear interest at 0.25% at December 31, 2022.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amount vary according to individual needs and statutory requirements. The interest rates on fixed rate RRIFs range from 0.25% to 4.75%. Variable rate RRIFs bear interest at 0.25% at December 31, 2022.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing deposits is an amount of $468,113 denominated in US dollars (2021 - $399,772).

Average yield to maturity

Members' deposits bear interest at both variable and fixed rates with an average yield of 3.77% (2021 - 1.01%).

a) Recognition and initial measurement

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

b) Classification and subsequent measurement

(continues)

14. MEMBERS' DEPOSITS *(continued)*

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

c) Concentration of risk

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

Individual or related groups of member deposits which exceed 5% of member deposits:

	2022	2021
Chequing	$ 63,279,020	$ 70,600,668
Demand	36,458,047	48,002,795
Term	101,070,675	72,472,829
Registered savings plans	18,396,068	19,550,247
Tax free savings accounts	26,123,944	24,995,758
	$ 245,327,754	$ 235,622,297

The significant majority of member deposits are with members located in and around Revelstoke, British Columbia.

d) 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. Liquidity risk primarily arises from the Credit Union's members' deposits, which are its most significant financial liability.

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

Provisions of the Credit Unions and Caisse Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 9%, which is 1% greater than the statutory minimum liquidity of 8%.

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 adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(continues)

14. MEMBERS' DEPOSITS *(continued)*

As at December 31, 2022, the position of the Credit Union is as follows:

	Maximum exposure
Qualifying liquid assets on hand	
Cash	$ 12,548,174
Mandatory Liquidity Pool	26,206,703
Discount deposits and term deposits	-
	38,754,877
Total liquidity requirement (8% of total assets)	21,344,551
Excess liquidity requirement	$ 17,410,326

The maturities of liabilities are shown under Terms and Conditions. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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.

e) Fair value measurement

The fair value of members deposits and non-equity shares at December 31, 2022 was $246,472,000 (2021 - $236,742,000)

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

Concentration of risk

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

15. DEFERRED INCOME TAXES

Deferred income taxes are calculated on timing differences between amounts claimed as expenses or revenues on the financial statements and the corporation income tax return. Such differences may include claims for amortization of property, plant and equipment being different from rates of capital cost allowance allowed under the Income Tax Act and amounts that have been amortized over an expected useful life that are allowable for full write off in the year of acquisition under the Income Tax Act.

The adoption of IFRS allowed the Credit Union to increase the carrying value of its land and investment in RCU Insurance Services Ltd. to fair value. The change in fair value of interest rate swaps reflected in the Statement of Other Comprehensive Income are shown net of deferred income taxes, with an offset to deferred income tax liability or asset. In addition, a fair value change of the liquidity assets in 2021 produced a significant deferred tax liability for the year, as provided in *Note 17.*

The deferred income taxes reflected on the Statement of Financial Position include both of the above components as follows:

	2022	2021
Arising from timing differences, accounted for in operations	**$ 201,707**	$ 212,868
Arising from fair values, accounted for in retained earnings and accumulated other comprehensive income	**(44,047)**	76,513
	$ 157,660	$ 289,381

A faster write-off of property and equipment in the accounting records than permitted for tax purposes results in a deferred income tax asset.

An increase in the fair value of AutoPlan licenses for accounting purposes without a corresponding increase in the carrying value for tax purposes results in a deferred income tax liability.

The deferred income tax liability would only be realized upon sale of the AutoPlan license *(Note 11)*. The general rate of corporate tax has been used to record the deferred income tax liability on intangible assets.

The tax rates used to calculate deferred tax on timing differences increased to the general corporate rate (27.0%) in 2022 because the associated companies' income exceeded the Small Business Deduction threshold, and is expected to continue in future years.

IAS 12 does not permit the recognition of a deferred tax liability arising on the initial recognition of goodwill, or a subsequent reduction in a deferred tax liability that is unrecognised because it arose from the initial recognition of goodwill. However, taxable temporary differences are recognized to the extent they are deductible for tax purposes. Therefore, goodwill is recognized, resulting in a deferred tax liability.

16. MEMBERS' SHARES

Revelstoke Credit Union has established three classes of shares:

"A" Equity Membership

"B" Non-Voting Equity Shares

"D" Non Equity Shares

Rights, restrictions and privileges attached to the various classes are set out in Credit Union Rules 2.1 to 2.16.

As at December 31, the three classes of shares consisted of the following issued and fully paid shares:

	2022	2021
"A" Equity Membership	**$ 95,015**	$ 98,335
"B" Non-Voting Equity Shares	**225,535**	272,000
	$ 320,550	$ 370,335

Investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost. If they are recognized as liability, they are initially recognized at fair value net of any transactions costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Membership shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $5 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in "A" and "B" shares are not insured by Credit Union Deposit Insurance Corporation of British Columbia. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital *(Note 22)*, as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as equity.

Distributions to members

	2022	2021
Patronage distributions	**$ 200,452**	$ 199,535
Dividends on members' shares	**5,451**	3,213
	$ 205,903	$ 202,748

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

As described in *Note 2* the Credit Union invests in both Equity Instruments and Hedges (in the form of Interest Rate Swaps). IFRS requires the values of these investments to be reported at Fair Value, less the applicable amount of income tax that would be payable if the Fair Value was realized, which is recorded as Deferred Income Taxes. By their nature, the Fair Value of these investments fluctuates with market conditions. In addition, the method of reporting the Fair Value of the Hedges depends on whether the Hedge is considered to be effective or ineffective.

Adjustments to Comprehensive Income and Deferred Income Taxes arising from the treatment of both Equity Instruments and Hedges are set out below:

	2022	2021
Opening balance	**$ 9,876**	$ 471,406
Changes in other comprehensive income		
Revaluation of investment in subsidiary	**(150,000)**	-
Deferred tax on revaluation	**20,250**	-
	(129,750)	-
Fair value of swaps sold prior to maturity	**-**	-
Amortization of swaps sold prior to maturity	**-**	(39,550)
Revaluation of swaps to fair value	**(26,556)**	(48,938)
Deferred tax on swaps	**7,169**	23,891
	(19,387)	(64,597)
Unrealized (realized) gain on available for sale liquidity assets	**-**	(372,436)
Deferred tax on available for sale liquidity assets	**-**	100,558
	-	(271,878)
Current year unrealized loss on fair value of MLP investments	**(349,999)**	(171,308)
Deferred tax on current year unrealized loss on fair value of MLP investments	**94,500**	46,253
	(255,499)	(125,055)
Deferred tax adjustment	**(1,940)**	-
	(1,940)	-
Ending balance, accumulated other comprehensive income	**$ (396,700)**	$ 9,876

These changes are recorded in the Statement of Comprehensive Income and in the Deferred Income Tax account as at December 31, 2022 and the comparative figures for 2021.

18. INCOME TAXES

The Credit Union incurs tax at the general corporate rate of 27.0% for taxable income that exceeds the $500,000 Business Limit. The Business Limit is reduced by a formula when the Taxable Capital of the associated companies exceeds $10,000,000 in the previous year, and is completely eliminated when the Taxable Capital of the associated companies exceeds $15,000,000. A change in tax law raises the upper limit of taxable capital from $15,000,000 to $50,000,000, with the change being effective starting with the 2023 tax year.

The Taxable Capital of the associated companies at December 31, 2022 was $21,592,041 (2021: $20,596,036).

The Credit Union is eligible for preferred tax treatment based on the cumulative amount of income that was taxed at the small business corporate income tax rate in previous years.

	2022	2021
Income before income taxes	**$ 1,395,034**	$ 1,428,384
Increase (decrease) resulting from:		
Non-deductible expenses	**4,038**	2,041
Adjustment to reserve for allowance for losses on loans	**206,201**	20,279
Capital cost allowance in excess of amortization on property, plant and equipment	**55,593**	(304,055)
Capital lease	**(3,669)**	-
Taxable income	**$ 1,657,197**	$ 1,146,649
Income taxes	**$ 304,028**	$ 226,169
Income tax rate	**18.35 %**	19.72 %

19. PENSION PLAN

The Credit Union makes contributions to a defined contribution Pension Plan, on behalf of its staff and its wholly owned subsidiary RCU Insurance Services Ltd. The plan is a money purchase plan administered by Credential Asset Management.

The amount contributed to the plan for 2022 was $184,155 (2021 - $192,042). The contributions were made for current service and have been recognized in income. There are currently 43 individuals in the pension plan.

20. RELATED PARTY TRANSACTIONS

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

	2022	2021
Compensation		
Salaries and other short-term benefits	**$ 546,606**	$ 509,431
Total pension and other post-employment benefits	**45,103**	44,137
Other long term benefits	**5,206**	4,285
	$ 596,915	$ 557,853
Loans to key management personnel and directors		
Aggregate value of loans advanced	**$ 1,727,626**	$ 2,239,505
Interest received on loans advanced	**27,190**	46,325
Total value of lines of credit advanced	**800,463**	503,623
Unused value of lines of credit	**297,037**	750,877
	$ 2,852,316	$ 3,540,330
Deposits from key management personnel and directors	**$ 898,151**	$ 930,421

Loans to key management personnel and directors

The Credit Union's policy for lending to key management personnel and directors is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit; however, as part of its remuneration and benefit package the Credit Union offers all staff members a reduction from current interest rates subject to specific maximum amounts as approved by the Board of Directors.

Deposits from key management personnel and directors

The Credit Union's policy for receiving deposits from key management personnel and directors is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit; however, as part of its remuneration and benefit package, the Credit Union offers all staff members a 1.0% bonus above certain current interest rates to a maximum of $200,000, as approved by the Board of Directors.

21. FINANCIAL INSTRUMENT CLASSIFICATION

The following table represents the carrying amount by classification.

	2022	2021
Cash and term deposits	**$ 46,716,765**	$ 43,254,220
Investments	**74,984**	75,600
Members' loans	**214,382,182**	206,508,151
Other	**920,377**	990,898
	262,094,308	250,828,869
Members' deposits	**(246,662,189)**	(236,429,480)
	$ 15,432,119	$ 14,399,389

An analysis of instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

All of the investments are classified under level 2. See *Note 6* for investments.

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

22. FINANCIAL INSTRUMENT RISK MANAGEMENT

General objectives, policies and processes

The Board of Directors has overall responsibility for determination of the Credit Union's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing the operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor or credit obligations.

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 value of collateral available to secure the loan.

Objectives, policies and procedures

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise 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 include Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- 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.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans monthly.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is NIL (2021 - NIL).

A sizeable portfolio of the loan book is secured by residential property in Revelstoke, British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of (losses) from loans undertaken is primarily reduced by the nature and quality of the security taken.

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22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

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.

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.

Risk measurement

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

Objectives, policies and procedures

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

Provisions of the Credit Unions Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 9%, which is 1% greater than the statutory minimum liquidity of 8%.

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 adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Credit Union is required to measure its capital adequacy based on the British Columbia Financial Services Authority ("BCFSA") regulations. Based on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weighting factor. The regulatory ratio is computed and must meet a minimum capital to risk-weighted ratio of 8%. The Credit Union manages its capital based on the statutory requirements applied to its assets on a monthly basis and reported to the Board. There have been no significant changes from the previous year in the exposure to risk, or policies, procedures and the methods used to measure the risk and/or capital adequacy.

As at the year end date, the position of the Credit Union is as follows:

	2022	2021
• Risk weighted assets	$97,415,756	$93,814,657
• Capital adequacy ratio	20.32%	20.06%
• Risk weighted asset ratio	36.41%	36.68%

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

(continues)

22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

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 traditional banking activities, such as deposit taking and lending.

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

Risk measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer price rates.

Objectives, policies and procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the regulatory bodies in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of British Columbia as required by Credit Union regulations. For the year-ended 2022, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest changes. 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.

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Variable rate	$ 39,702,964	6.36	$ 5,726,625	3.04	$ 33,976,339
Interest sensitive					
0 - 3 months	9,782,126	3.18	18,870,100	2.99	(9,087,974)
4 - 12 months	49,799,949	3.61	91,608,368	3.85	(41,808,419)
1 - 2 years	44,102,519	3.25	19,911,294	4.03	24,191,225
2 - 5 years	117,361,093	3.73	9,570,023	4.40	107,791,070
Non-interest sensitive	5,937,304	0.02	120,999,545	0.18	(115,062,241)
	$ 266,685,955	3.91	$ 266,685,955	2.13	$ -

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 the Credit Union is to intermediate between the expectations of borrowers and depositors.

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22. FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rate of 1% could result in a decrease to the fair value of equity of $3,263,000 (2021 - $4,382,000 decrease) while a decrease in interest rates of 1% could result in an increase to the fair value of equity of $3,331,000 (2021 - $4,051,000 increase), when including the swaps.

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.

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. Foreign currency changes are monitored by the Credit Union for effectiveness of its foreign exchange mitigation activities and holdings are adjusted from time to time.

Risk measurement

The Credit Union's position is reviewed daily and measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs. 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.

23. COMMITMENTS

Credit Facilities

The Credit Union has authorized lines of credit with Central 1 totaling $5,500,000 (2021 - $1,500,000). Included in this total is an authorized Line of Credit of $5,000,000 and a Capital Markets line in the amount of $500,000. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

Member loans

The Credit Union has the following commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	2022	2021
Consumer		
Unadvanced loans	**$ 202,293**	$ 1,830,013
Unused lines of credit	**12,373,046**	13,108,662
Commercial		
Unused lines of credit	**$ 10,443,321**	$ 8,831,935
Letters of credit	**1,033,485**	782,679

Contractual obligations

The Credit Union has an agreement with Fiserv, which provides the Credit Union with data processing services and access to various automated banking machines and electronic funds transfer at point of sale networks. A renewal of the contract was negotiated for a term of 7 years commencing May 11, 2018.

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23. COMMITMENTS *(continued)*

Capital

The Credit Union has no material commitments for capital expenditures, but is planning a renovation of the premises from which the Credit Union operates.