



Consolidated Financial Statements

Creston & District Credit Union

December 31, 2022

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Independent auditor's report

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To the members of [Creston & District Credit Union](#)

Opinion

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

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

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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:

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

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

Kelowna, Canada
March 23, 2023

Grant Thornton LLP

Chartered Professional Accountants

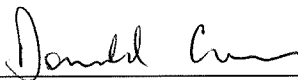
Creston & District Credit Union

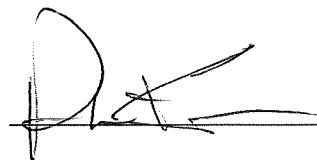
Consolidated Statement of Financial Position

December 31	2022	2021
Assets		
Cash and cash equivalents (Note 5)	\$ 9,121,525	\$ 18,743,436
Investments (Note 6)	72,861,241	64,696,203
Receivables and prepaid expenses	331,470	368,086
Loans (Note 7)	96,764,573	92,528,546
Property and equipment (Note 9)	977,118	985,841
Investment properties (Note 10)	346,667	356,221
Investment in and advances to associates (Note 11)	<u>10,264,377</u>	<u>10,328,205</u>
Total assets	<u>\$ 190,666,971</u>	<u>\$ 188,006,538</u>
Liabilities		
Deposits (Note 12)	\$ 164,492,088	\$ 163,212,665
Payables and other liabilities (Note 13)	1,156,335	741,297
Income taxes payable	94,257	92,058
Deferred income tax (Note 14)	<u>29,000</u>	<u>24,000</u>
Total liabilities	<u>165,771,680</u>	<u>164,070,020</u>
Members' equity		
Retained earnings	21,564,298	20,093,550
Members' shares (Note 15)	3,574,585	3,900,494
Accumulated other comprehensive loss	<u>(243,592)</u>	<u>(57,526)</u>
Total members' equity	<u>24,895,291</u>	<u>23,936,518</u>
	<u>\$ 190,666,971</u>	<u>\$ 188,006,538</u>

Commitments (Note 21)
 Post-reporting date events (Note 22)

On behalf of the Board


 _____ Director


 _____ Director

Creston & District Credit Union Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31	2022	2021
Financial income		
Loans	\$ 3,520,561	\$ 3,121,578
Cash and cash equivalents and investments	<u>1,532,836</u>	<u>972,183</u>
	<u>5,053,397</u>	<u>4,093,761</u>
Financial expense		
Deposits	677,219	509,819
Provision for credit losses (Note 8)	<u>102,000</u>	<u>41,000</u>
	<u>779,219</u>	<u>550,819</u>
Financial margin	4,274,178	3,542,942
Equity in income of subsidiaries	436,172	537,013
Other income (Note 16)	<u>906,707</u>	<u>882,504</u>
Operating Income	5,617,057	4,962,459
Operating expenses (Note 17)	3,309,844	2,992,074
Distribution to members	<u>408,573</u>	<u>285,028</u>
	3,718,417	3,277,102
Earnings before income taxes	1,898,640	1,685,357
Income taxes (Note 14)	<u>427,892</u>	<u>291,877</u>
Net earnings	<u>\$ 1,470,748</u>	<u>\$ 1,393,480</u>
Other comprehensive loss, (net of tax)		
Items that will be reclassified subsequently to net earnings		
Unrealized loss on debt securities	186,066	57,526
	<u>186,066</u>	<u>57,526</u>
Total other comprehensive loss for the year	186,066	57,526
Total comprehensive income for the year	<u>\$ 1,284,682</u>	<u>\$ 1,335,954</u>

Creston & District Credit Union Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2022

	<u>Members'</u> <u>shares</u>	<u>Retained</u> <u>earnings</u>	<u>Accumulated</u> <u>other</u> <u>comprehensive</u> <u>income</u>	<u>Total</u> <u>members'</u> <u>equity</u>
Balance on December 31, 2020	\$ 4,041,572	\$ 18,700,070	\$ -	\$ 22,741,642
Net earnings	-	1,393,480	-	1,393,480
Unrealized loss on debt securities, net of tax (\$21,277)	-	-	(57,526)	(57,526)
Redemption of members' shares, net	(141,078)	-	-	(141,078)
Balance on December 31, 2021	3,900,494	20,093,550	(57,526)	23,936,518
Net earnings	-	1,470,748	-	1,470,748
Unrealized loss on debt securities, net of tax (\$68,818)	-	-	(186,066)	(186,066)
Redemption of members' shares, net	(325,909)	-	-	(325,909)
Balance on December 31, 2022	\$ 3,574,585	\$ 21,564,298	\$ (243,592)	\$ 24,895,291

Creston & District Credit Union Consolidated Statement of Cash Flows

Year ended December 31	2022	2021
Increase (decrease) in cash and cash equivalents		
Operating activities		
Earnings before income taxes	\$ 1,898,640	\$ 1,685,358
Adjustments for non-cash items		
Depreciation	78,377	85,983
Equity in income of subsidiaries	(436,172)	(537,013)
Provision for credit losses	102,000	41,000
Changes in non-cash operating working capital		
Income taxes paid, net	(351,874)	(204,133)
Receivables and prepaid expenses	36,616	(281,408)
Loans, net of repayments	(4,338,027)	(3,601,505)
Deposits, net of withdrawals	1,279,423	23,272,500
Payables and other liabilities	415,037	40,881
	(1,315,980)	20,501,663
Financing activities		
Redemption of equity shares, net	(325,909)	(141,078)
Investing activities		
Purchase of investments, net	(8,419,922)	(22,641,942)
Purchase of property, equipment and intangible asset	(60,100)	(53,220)
Repayment from related party	500,000	600,000
	(7,980,022)	(22,095,162)
Net decrease in cash and cash equivalents	(9,621,911)	(1,734,577)
Cash and cash equivalents, beginning of year	18,743,436	20,478,013
Cash and cash equivalents, end of year	\$ 9,121,525	\$ 18,743,436

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

1. Governing legislation and nature of operations

Creston & District Credit Union ("the Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in the Creston Valley area of British Columbia. The products and services offered to its members include mortgages, personal, commercial and other, chequing and savings accounts, term, demand and other deposits. The Credit Union's head office is located at 140 11th Avenue North, Creston, British Columbia.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 23, 2023.

2. Summary of presentation and statement of compliance

Basis of presentation

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

The Credit Union and its subsidiaries functional and presentation currency is the Canadian dollar.

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

3. Summary of significant accounting policies

Basis of consolidation

The Credit Union's financial statements consolidate those of the parent organization and its subsidiaries up to December 31, 2022. The parent controls a subsidiary if it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries controlled through 100% ownership include B4D Investments Ltd. which has a reporting date of December 31, 2022.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

3. Summary of significant accounting policies (continued)

All transactions and balances between the Credit Union and its subsidiary are eliminated on consolidation. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Credit Union.

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 consolidated statement of cash flows, bank overdrafts that are repayable on demand.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through other comprehensive income ("FVOCI"); or
- fair value through profit or loss ("FVTPL").

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial assets

Financial assets at amortized cost

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. The Credit Union's cash and cash equivalents, term deposits, GICs and bonds and accrued interest, loans and receivables and other assets, fall into this category of financial instruments.

Financial assets at fair value through other comprehensive income (FVOCI)

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

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

The Credit Union's debt securities fall into this category of financial instruments. For debt securities measured at FVOCI, realized gains or losses and impairments are reclassified to profit and loss.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL,

if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply, as disclosed below.

The category also contains equity investments. The Credit Union accounts for its investments in in Central 1 Shares, Stabilization Central Credit Union shares, and CUPP Services Ltd. at FVTPL and did not make the irrevocable election to account for these investments at fair value through other comprehensive income (FVOCI).

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

IFRS 9's impairment requirements the use of more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements include all financial assets measured at amortized cost except cash and cash equivalents.

The Credit Union considers information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Impairment of financial assets (continued)

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second and third categories.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

The Credit Union's financial liabilities include payables, deposits and other liabilities, and members' shares.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Investment in associates

The investment in associates is accounted for using the equity method.

The carrying amount of the investment in associates is increased or decreased to recognize the Credit Union's share of profit or loss and dividends, adjusted where necessary to ensure consistency with the accounting policies of the Credit Union.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

3. Summary of significant accounting policies (continued)

Revenue recognition

Revenue arises mainly from interest earned on loans.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The accounting treatment for loan fees varies depending on the transaction. Loan administration fees are deferred and amortized over the term of the loans using the effective interest method. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Loan prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the loan, in which case the fees are capitalized and amortized over the average remaining term of the original loan.

Property and equipment

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

Building	20 to 50 years
Computer equipment	55%
Furniture and equipment	5 years
Paving	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation and are accounted for initially at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on buildings is recognized in net earnings and is provided on a straight-line basis over the estimated useful life of 10 and 40 years, as well as a using the declining balance basis at 4% per annum. Land is not depreciated.

Rental income and operating expenses from investment property are reported within 'other income' and 'operating expenses' respectively.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

3. Summary of significant accounting policies (continued)

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

Income taxes

Tax expense recognized in net earnings comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from net earnings in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless it affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Credit Union and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Credit Union's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax recoveries or expense in net earnings, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

3. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Members' shares

Membership shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union Board of Directors, the shares are classified as equity.

Distributions to members

Patronage distributions and rebates are recognized in net earnings when declared and approved by the Board of Directors.

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year-end exchange rates are recognized in net earnings.

Standards and interpretations not yet effective

At the date of authorization of these consolidated financial statements, several new, but not yet effective Standards and amendments to existing Standards and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been early adopted by the Credit Union.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Credit Union's consolidated financial statements.

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

4. Judgments and estimates

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these judgments, estimates and assumptions.

Judgments

During the current year, management was not required to make judgments about the recognition and measurement of assets, liabilities, income and expenses.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in earnings 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.

1) Allowance for impaired loans

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by loan type and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 30-day past due and delinquency status. The assessment of a significant increase in credit risk requires experienced credit judgment.

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

2) Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2022, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 9. Actual results, however, may vary due to technical obsolescence, particularly for computer equipment and system software.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

4. Judgments and estimates (continued)

Estimates (continued)

3) Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

4) Income taxes

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

5. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the cash resources at December 31, 2022 is 2.86% (2021 – 1.35%).

	2022	2021
Cash and current accounts	\$ 9,121,525	\$ 18,743,436

6. Investments

	2022	2021
Term deposits and accrued interest	\$ 29,762,463	\$ 17,595,595
GICs, bonds and accrued interest	28,147,707	33,025,742
Shares		
Central 1 Credit Union Class A shares	54,929	50,279
Central 1 Credit Union Class E shares	31	31
CUPP Services Ltd.	-	45,132
Stabilization Central Credit Union	104	104
Debt securities (Mandatory Liquidity Pool)		
Government bonds	1,197,167	2,522,000
Corporate bonds	2,610,406	882,375
Provincial bonds	5,983,645	4,634,691
Mortgage-backed securities	5,038,693	5,900,935
Accrued interest on debt securities	66,096	39,319
	\$ 72,861,241	\$ 64,696,203

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

6. Investments (continued)

The Mandatory Liquidity Pool ("MLP"), consisting of high quality liquid assets ("HQLA"), meets regulatory requirements and ensures the funds are bankruptcy remote and creditor-proof.

Term 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 liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

The fair value of investments other than debt securities at December 31, 2022 was \$81,352,424 (2021 – \$81,280,303) and have an average yield of 2.86% (2021 – 1.35%).

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

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

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 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.

7. Loans

	2022	2021
Personal loans		
Residential mortgages	\$ 58,817,574	\$ 58,302,955
Other	5,278,189	4,670,965
Commercial loans		
Mortgages	24,885,422	23,497,283
Other	7,864,230	6,113,212
	96,845,415	92,584,415
Accrued interest	132,652	106,576
	96,978,067	92,690,991
Allowance for impaired loans (Note 8)	(213,494)	(162,445)
	\$ 96,764,573	\$ 92,528,546

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

7. Loans (continued)

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to 5 years.

Variable rate loans are based on a "prime rate" formula, ranging from prime plus 0.00% to prime plus 5.00%. The Credit Union's prime rate at December 31, 2022 was 6.45% (2021 – 2.95%).

The interest rates offered on fixed rate loans advanced at December 31, 2022 range from 2.09% to 7.05% (2021 – 3.00% to 5.50%).

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

Other personal loans consist of term loans and lines of credit that are non-real estate secured and have various repayment terms. Some of these loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial mortgages are loans and lines of credit secured by commercial property and are generally repayable monthly with either blended payments of principal and interest or interest 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:

	<u>2022</u>		<u>2021</u>	
	<u>Principal</u>	<u>Yield</u>	<u>Principal</u>	<u>Yield</u>
Variable rate	\$ 12,517,236	7.98%	\$ 10,538,183	4.60%
Fixed rate due less than one year	17,771,942	3.54%	25,211,062	3.23%
Fixed rate due between one and seven years	<u>66,556,237</u>	<u>3.82%</u>	<u>56,835,170</u>	3.09%
	<u>\$ 96,845,415</u>		<u>\$ 92,584,415</u>	

Credit quality of loans

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

	<u>2022</u>	<u>2021</u>
Unsecured loans	\$ 501,244	\$ 650,429
Loans secured by cash, member deposits	-	128,775
Loans secured by other property	82,354,146	79,182,196
Residential mortgages insured by government	7,584,057	7,976,520
Other	<u>6,405,968</u>	<u>4,646,495</u>
	<u>\$ 96,845,415</u>	<u>\$ 92,584,415</u>

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

7. Loans (continued)

Fair value

The fair value of member loans at December 31, 2022 was \$94,704,813 (2021 - \$93,372,740).

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

8. Allowance for impaired loans

The Credit Union classifies a loan as impaired when one or more loss events have occurred, such as bankruptcy, default or delinquency. Generally, personal loans are classified as impaired when payment is contractually 30 days past due.

Commercial loans are classified as impaired when the Credit Union determines there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis. Generally, the Credit Union considers commercial loans to be impaired when payments are 45 days past due. Commercial loans are written off following a review on an individual loan basis that confirms all recovery attempts have been exhausted.

A loan will be reclassified to performing status when the Credit Union determines that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

Loans are in default when the borrower is unlikely to pay its credit obligations in full without recourse, such as realizing security, or when the borrower's payments are past due more than 45 days.

Once a loan is identified as impaired, the Credit Union continues to recognize interest income based on the original effective interest rate on the loan amount net of its related allowance. In the periods following the recognition of impairment, adjustments to the allowance for these loans reflecting the time value of money are recognized and presented as interest income.

Total allowance for impaired loans as at December 31, 2022 under IFRS 9:

	Stage 1	Stage 2	Stage 3	2022 Total
Residential mortgages				
Allowance for credit losses	\$ 96,801	\$ 237	\$ -	\$ 97,038
Carrying amount	58,636,593	180,981	-	58,817,574
Commercial loans				
Allowance for credit losses	77,023	5,426	-	82,449
Carrying amount	31,991,592	758,060	-	32,749,652
Personal loans and lines of credit				
Allowance for credit losses	33,162	845	-	34,007
Carrying amount	5,274,465	3,724	-	5,278,189
Total allowance for credit losses	<u>\$ 206,987</u>	<u>\$ 6,507</u>	<u>\$ -</u>	<u>\$ 213,494</u>
Total carrying amount	<u>\$ 95,902,650</u>	<u>\$ 942,765</u>	<u>\$ -</u>	<u>\$ 96,845,415</u>

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

8. Allowance for impaired loans (continued)

Change in allowance for impaired loans due to:

	January 1, 2022 Beginning balance	Write-offs	Provisions (Recoveries) Net of transfers	December 31, 2022 Ending balance
Residential mortgages				
Stage 1	\$ 60,845	\$ -	\$ 35,956	\$ 96,801
Stage 2	193	-	44	237
Stage 3	-	-	-	-
	<u>61,038</u>	<u>-</u>	<u>36,000</u>	<u>97,038</u>
Commercial loans				
Stage 1	24,358	(7,909)	60,574	77,023
Stage 2	-	-	5,426	5,426
Stage 3	43,042	(43,042)	-	-
	<u>67,400</u>	<u>(50,951)</u>	<u>66,000</u>	<u>82,449</u>
Personal loans and lines of credit				
Stage 1	33,077	-	85	33,162
Stage 2	930	-	(85)	845
Stage 3	-	-	-	-
	<u>34,007</u>	<u>-</u>	<u>-</u>	<u>34,007</u>
Total provision	<u>\$ 162,445</u>	<u>\$ (50,951)</u>	<u>\$ 102,000</u>	<u>\$ 213,494</u>
Percentage of total loans, accrued interest and deferred loan fees	<u>0.18%</u>			<u>0.22%</u>

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in the expected credit losses include the following:

Probability of default ("PD")

Probability of default is a forward-looking estimate of the realized default rate over either a 12-month or lifetime time horizon. It determines the probability a financial asset will default over the period considered.

- The PD of the portfolio is based on the Credit Union's historical default data.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

8. Allowance for impaired loans (continued)

Key inputs and assumptions (continued)

Exposure of default ("EAD")

EAD is a forward-looking estimate of the realized EAD. It determines the proportion of a loan that will be in default if the account defaults over its expected remaining lifetime. These inputs include:

- The current outstanding balance of the loan at the reporting date;
- The payment amounts, assumed to be constant; and
- The interest rate paid per payment period.

The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

Loss given default ("LGD")

LGD is the proportion of the defaulted balance that is considered an accounting loss following a recovery period. The recovery period used in the model is 24 months. Accounts that are not in default as at an observation point, but subsequently default within a given time horizon, are used to develop LGD estimates for non-defaulted exposures.

12-month LGD only considers losses related to default events that occur in the 12-month time horizon following the observation date. For lifetime, LGD is estimated over the subsequent 12-month time horizons.

Estimating the LGD requires:

- Estimating the exposure at default, which is done as noted above; and
- Estimating the proceeds from the liquidation of the property.

For residential mortgages and real estate secured lines of credit, estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date;
- The type of property – single family, multi-family or condo; and
- The average regional property value.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral; and
- Collateral might be shared among many different loans.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

8. Allowance for impaired loans (continued)

Key inputs and assumptions (continued)

Staging

Changes in staging occur when the following events take place:

- The internal risk rating for loans will be derived from the days the loan is delinquent at a fixed point in time.

<u>Risk Rating</u>	<u>Description</u>
1 – Remote/Low Risk	0 - 30 days delinquent – this is considered to be “current”
2 – Moderate Risk	31 - 90 days delinquent
3 – Higher Risk	>90 days delinquent

- In addition, the portfolio is assessed to determine if there are further concerns about specific loans which are currently not delinquent but are deemed impaired due to individual circumstances with the borrower or underlying security.
- The model takes into account the probability of default and assumed loss given default on consumer, residential and commercial loans based on the historical portfolio to determine the present value of 12-month expected credit loss.

Lifetime

The lifetime of a product is based on the following data:

- Term and non-retail revolving – Contractual term of the product.
- Retail revolving – Based on Credit Union data provided by Equifax.

Forward-looking information

The model takes into consideration forward-looking information as follows:

- Residential mortgage and real estate secured lines of credit LGD – Collateral value adjustments based on local and regional economic factors.
 - Retail and non-retail PD – Relationships with macro drivers derived from bank industry data series and Statistics Canada information.
-

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

9. Property and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Furniture and equipment</u>	<u>Paving</u>	<u>Total</u>
Cost					
Balance at December 31, 2021	\$ 119,652	\$ 1,705,776	\$ 1,424,530	\$ 38,688	\$ 3,288,646
Additions	-	-	60,100	-	60,100
Disposals	-	-	-	-	-
Balance on December 31, 2022	<u>119,652</u>	<u>1,705,776</u>	<u>1,484,630</u>	<u>38,688</u>	<u>3,348,746</u>
Accumulated depreciation					
Balance at December 31, 2021	-	909,297	1,354,820	38,688	2,302,805
Depreciation	-	34,632	34,191	-	68,823
Disposals	-	-	-	-	-
Balance on December 31, 2022	<u>-</u>	<u>943,929</u>	<u>1,389,011</u>	<u>38,688</u>	<u>2,371,628</u>
Net book value December 31, 2022	<u>\$ 119,652</u>	<u>\$ 761,847</u>	<u>\$ 95,619</u>	<u>\$ -</u>	<u>\$ 977,118</u>
Net book value December 31, 2021	<u>\$ 119,652</u>	<u>\$ 796,479</u>	<u>\$ 69,710</u>	<u>\$ -</u>	<u>\$ 985,841</u>

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

10. Investment properties

	Land	Building	Total
Cost			
Balance at December 31, 2021	\$ 66,892	\$ 634,168	\$ 701,060
Additions	-	-	-
Disposals	-	-	-
Balance at December 31, 2022	66,892	634,168	701,060
Accumulated depreciation			
Balance at December 31, 2021	-	344,839	344,839
Depreciation	-	9,554	9,554
Disposals	-	-	-
Balance at December 31, 2022	-	354,393	354,393
Net book value December 31, 2022	\$ 66,892	\$ 279,775	\$ 346,667
Net book value December 31, 2021	\$ 66,892	\$ 289,329	\$ 356,221

11. Investments in and advances to associates

The Credit Union holds 50.0% (2021 – 50.0%) of the equity shares of Growth Financial Corporation (“Growth”). The financial year end date of Growth is December 31, 2022. For the purposes of applying the equity method of accounting, the financial statements of Growth for the year ended December 31, 2022 have been used. The investment does not have a separately quoted market value.

Summarized financial information for this significantly influenced investment for the year ended December 31, 2022 is as indicated in the following table:

	2022	2021 (restated)
Current assets	\$ 3,785,865	\$ 3,729,366
Property and equipment	989,324	1,158,950
Long-term investments	-	19,330
Intangible assets and goodwill	14,070,642	14,072,809
Total assets	18,845,831	18,980,455
Current liabilities	706,908	676,592
Deferred income taxes	171,983	141,970
Shareholder loan	62,324	68,229
Other long-term liabilities	775,759	886,217
Total liabilities	1,716,974	1,797,271
Net assets	\$ 17,128,857	\$ 17,183,184

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

11. Investments in and advances to associates (continued)

Total net income attributable to majority shareholders for the year	\$ 945,673	\$ 1,144,732
Credit Union's share of income for the year	\$ 472,837	\$ 572,366
Dividends paid	\$ 500,000	\$ 288,199
Investment in Growth Financial Corporation		
Cost of shares	\$ 5,217,281	\$ 5,217,281
Equity	3,350,985	3,378,147
Shareholder loan	104,053	104,053
	\$ 8,672,319	\$ 8,699,481

The Credit Union controls B4D Investments Ltd. and owns 100% of the equity shares. B4D owns 75.5% of the equity shares of Creston Place Holdings.

B4D advances to Creston Place Holdings	\$ 2,748,331	\$ 2,748,331
B4D shares in Creston Place Holdings	8	8
B4D investment in Creston Place Holdings	(1,156,281)	(1,119,615)
	1,592,058	1,628,724
Total	\$ 10,264,377	\$ 10,328,205

12. Deposits

	<u>2022</u>	<u>2021</u>
Term	\$ 17,878,899	\$ 17,382,978
Demand	120,368,590	120,090,258
Registered savings plans	11,113,096	11,008,505
Tax free savings accounts	14,796,704	14,500,400
Accrued interest	203,657	100,585
Class A member shares (Note 15)	131,142	129,939
	\$ 164,492,088	\$ 163,212,665

Terms and conditions

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The historical interest rates offered on term deposits issued at December 31, 2022 range from 0.00% to 4.50% (2021 – 0.00% to 2.70%).

Demand deposits are due on demand. Interest, where applicable, is calculated daily and paid on the account monthly.

The registered retirement savings plans ("RRSP") accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs have terms and rates similar to demand deposits.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

12. Deposits (continued)

Terms and conditions (continued)

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, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

Registered education savings plans ("RESP") consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RESP account in accordance with government regulations.

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 demand deposits is an amount of \$2,427,646 (2021 – \$2,041,089) denominated in United States dollars which has been translated into Canadian dollars as per policy at December 31.

Average yields to maturity

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

	<u>2022</u>		<u>2021</u>	
	<u>Principal</u>	<u>Yield</u>	<u>Principal</u>	<u>Yield</u>
Non-interest sensitive	\$ 120,602,143	0.00%	\$ 119,272,705	0.00%
Variable rate	17,258,251	0.07%	21,430,595	0.04%
Fixed rate due less than one year	23,878,499	2.52%	19,086,662	1.00%
Fixed rate due between one and five years	2,549,538	1.70%	3,322,118	1.28%
	<u>\$ 164,288,431</u>		<u>\$ 163,112,080</u>	

Fair value

The fair value of member deposits at December 31, 2022 was \$161,584,563 (2021 – \$161,554,403).

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

13. Payables and other liabilities

Payables and other liabilities recognized in the consolidated statement of financial position can be analyzed as follows:

	<u>2022</u>	<u>2021</u>
Trade payables	\$ 415,320	\$ 261,885
Accrued payroll liabilities	335,553	195,738
Patronage and dividends	405,462	283,674
Total payables and other liabilities	<u>\$ 1,156,335</u>	<u>\$ 741,297</u>

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

14. Income taxes

The significant components of tax expense included in net earnings are composed of:

	2022	2021
Current tax expense		
Based on current year taxable income	\$ 422,892	\$ 293,877
Origination and reversal of temporary differences	5,000	(2,000)
Income taxes	\$ 427,892	\$ 291,877

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

Current tax

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2021 – 27%) are as follows:

	2022	2021
Earnings before income taxes	\$ 1,898,640	\$ 1,685,358
Expected taxes based on the statutory rate	\$ 512,633	\$ 455,047
Equity in earnings of subsidiaries	(117,778)	(144,994)
Rate differentials	33,783	(16,176)
Other	(5,746)	-
Income taxes	\$ 422,892	\$ 293,877

The movement in 2022 deferred tax liabilities and assets are:

	Opening Balance at January 1, 2022	Recognized in comprehensive income	Closing Balance December 31, 2022
Deferred tax liabilities			
Allowance for loan losses	\$ (54,203)	\$ (3,000)	(57,203)
Property, equipment and intangible asset	78,203	8,000	86,203
Net deferred tax liability	\$ 24,000	\$ 5,000	\$ 29,000

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

15. Members' shares

Membership equity shares

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

- Class A Membership shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. Membership shares are non-transferable, voting and have a par value of \$1.
- Class C Voluntary equity shares pay dividends in the form of additional shares of the same class.

Membership shares issued and outstanding are included in deposit balances.

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

During the year, the Credit Union declared distributions to members of \$408,573 (2021 – \$285,028).

16. Other income

	2022	2021
Account service fees	\$ 536,884	\$ 582,965
Foreign exchange	233,657	174,685
Insurance commissions	26,162	22,431
Other and miscellaneous	26,048	21,259
Rental income	83,956	81,164
	\$ 906,707	\$ 882,504

17. Operating expenses

	2022	2021
Advertising and member relations	\$ 37,473	\$ 35,498
Community involvement	23,124	34,739
Courier service	5,258	5,177
Data processing	224,799	215,288
Depreciation	34,193	38,913
Directors and committees	100,960	91,811
Dues and assessments	153,642	136,272
Human resource development	17,729	14,090
Occupancy	185,245	190,060
Office and telephone	73,562	78,261
Other	180,786	141,785
Professional fees	225,762	160,635
Rental equipment and maintenance	126,008	117,249
Salaries and benefits	1,830,407	1,639,462
Service charges	90,896	92,834
	\$ 3,309,844	\$ 2,992,074

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

18. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with joint ventures and key management personnel, which are defined by IAS 24 *Related Party Disclosures*.

	2022	2021
Key Management		
Compensation to key management personnel		
Salaries and other short-term employee benefits	\$ 300,769	\$ 271,418
Total pension and other post-employment benefits	26,524	25,583
	\$ 327,293	\$ 297,001
	2022	2021
Loans and lines of credit to key management personnel		
Aggregate value of loans and lines of credit advanced	\$ 1,852,063	\$ 1,325,861
Aggregate value of un-advanced loans and lines of credit	\$ 50,000	\$ 50,000

The Credit Union's policy for lending to key management personnel is that all such loans and leases were granted in accordance with normal lending terms.

	2022	2021
Deposits from key management personnel		
Aggregate value of term and savings deposits	\$ 1,219,732	\$ 1,040,009

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to members for each type of deposit.

19. Financial instrument risk management

General objectives, policies, and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives monthly reports from the Credit Union's CEO 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 loss resulting from the failure of a borrower or counter party to honour its financial or
(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

19. Financial instrument risk management (continued)

Credit risk (continued)

contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the consolidated statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being the Boundary Area of British Columbia.

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

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

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; 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 in total (by category), delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and provision for credit losses quarterly.

For 2022 and 2021, there have been no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

19. Financial instrument risk management (continued)

Credit risk (continued)

The following table discloses the breakdown of debt securities and bonds held by credit rating:

	<u>2022</u>	<u>2021</u>
R-1H	\$ -	\$ 2,521,890
AAA	6,534,221	6,219,957
AA (high)	277,326	307,950
AA (low)	8,014,515	4,890,204
A	<u>30,261,184</u>	<u>32,765,445</u>
	<u>\$ 45,087,246</u>	<u>\$ 46,705,446</u>

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes.

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

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- Monitoring the maturity profiles of financial assets and liabilities; 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 at year end.

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

	<u>2022</u>	<u>2021</u>
	Maximum	Maximum
	exposure	exposure
Qualifying liquid assets on hand	\$ 15,586,090	\$ 14,710,195
Total liquidity requirement 8% minimum	<u>(13,148,878)</u>	<u>(13,046,618)</u>
Excess liquidity – actual less requirement	<u>\$ 2,437,212</u>	<u>\$ 1,663,577</u>

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

19. Financial instrument risk management (continued)

Liquidity risk (continued)

	<u>2022</u>	<u>2021</u>
Total cash and cash equivalents	\$ 9,121,525	\$ 18,743,436
Total term deposits and accrued interest	44,658,471	31,574,916
Securities	<u>28,147,707</u>	<u>33,025,742</u>
Total liquid assets on hand	81,927,703	83,344,094
Total liquidity requirement 8%	<u>(13,148,878)</u>	<u>(13,046,618)</u>
Excess liquidity (including non-qualifying assets)	<u>\$ 68,778,825</u>	<u>\$ 70,297,476</u>
	<u>2022</u>	<u>2021</u>
Total liquidity ratio (including non-qualifying assets)	49.8%	51.1%

Provincial legislation requires the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Financial Institutions Act specifies that a minimum liquidity ratio of 8% must be maintained.

The maturities of liabilities are shown below under market risk. 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.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk.

The fair value hierarchy establishes three levels to classify the significance of inputs to valuation techniques used in making fair value measurements.

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are based on unobservable market data.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

19. Financial instrument risk management (continued)

Fair value risk (continued)

The following table presents the financial instruments carried on the statement of financial position by asset class and by level within the valuation hierarchy:

In (\$'000)

	Level 1	Level 2	Level 3	Total Fair Value
2022				
Financial assets				
Central 1 shares	\$ -	\$ 55	\$ -	\$ 55
Investment, other shares	-	1	-	1
Government bonds	1,197	-	-	1,197
Corporate bonds	2,610	-	-	2,610
Provincial bonds	5,984	-	-	5,984
Mortgage-backed securities	5,039	-	-	5,039
2021				
Financial assets				
Central 1 and CUPP Services Ltd. shares	\$ -	\$ 95	\$ -	\$ 95
Investment, other shares	-	1	-	1
Government bonds	2,522	-	-	2,522
Corporate bonds	882	-	-	882
Provincial bonds	4,635	-	-	4,635
Mortgage-backed securities	5,910	-	-	5,910

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

Measurement of fair value financial instruments

The Credit Union performs valuations of financial items for financial reporting purposes, including Level 2 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

Level 2 financial instruments consist of investments with Central 1, CUPP Services, and other shares. Typically, the Central 1 shares are not available for trade in an active market but the effects of non-observable inputs are not significant for shares at year end.

Level 2 financial instruments also include derivative instruments, which is determined by using quoted market benchmark rates from an independent source. The Credit Union uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument and valuation models that use observable market data.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. The Credit Union's goal is to manage the interest rate risk of the

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

19. Financial instrument risk management (continued)

Interest rate risk (continued)

statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

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

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date. (continued)
(continued)

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off balance sheet instruments scheduled to re-price on particular dates. The following table details the Credit Union's exposure to interest rate risk.

Maturity dates substantially coincide with interest adjustment dates. Amounts that are not interest sensitive are grouped together, regardless of maturity.

	Interest sensitive balances in \$000's					Total
	Average Rates	Within 3 months	4 months to 1 year	Beyond 1 year	Not interest sensitive	
Assets						
Cash resources	2.86%	\$ 19,688	\$ 19,463	\$ 42,832	\$ -	\$ 81,983
Loans	4.24%	16,796	15,308	64,661	-	96,765
Other	0%	-	-	-	11,919	11,919
		<u>36,484</u>	<u>34,771</u>	<u>107,493</u>	<u>11,919</u>	<u>190,667</u>
Liabilities						
Deposits	0.64%	26,049	15,282	122,013	1,148	164,492
Other	0%	-	-	-	1,280	1,280
		<u>26,049</u>	<u>15,282</u>	<u>122,013</u>	<u>2,428</u>	<u>165,772</u>
Interest sensitivity position 2022		<u>\$ 10,435</u>	<u>\$ 19,489</u>	<u>\$ (14,520)</u>	<u>\$ 9,491</u>	<u>\$ 24,895</u>
Interest sensitivity position 2021		<u>\$ 15,620</u>	<u>\$ 24,003</u>	<u>\$ 92,561</u>	<u>\$ (108,247)</u>	<u>\$ 23,937</u>

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

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net earnings of \$330,075 while a decrease in interest rates of 1% could result in a decrease to net earnings of \$377,950.

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.

(continued)

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

19. Financial instrument risk management (continued)

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 denominated in United States dollars. Foreign currency changes are continually monitored by the Audit Committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

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

As at December 31, 2022, the Credit Union's exposure to foreign exchange risk is within policy.

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.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As at December 31, 2022, the Credit Union is exposed to other price risk through its investments quoted in an active market.

20. Capital requirements and management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union includes retained earnings, accumulated other comprehensive income, and equity shares totalling \$24.9 million (2021 – \$23.9 million).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union's current capital base is equal to 35.56% (2021 – 36.17%) of the total value of risk-weighted assets.

Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2022.

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

Creston & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2022

21. Commitments

Member loans

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

Unadvanced loans	\$	1,401,642
Unused lines of credit	\$	13,075,211
Letters of credit	\$	10,000

Contractual obligations

The Credit Union is committed to acquiring online data processing services until December 31, 2025 at an approximate cost of \$150,000 per year. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

Off balance sheet

Funds under administration

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

	<u>2022</u>	<u>2021</u>
Canada Emergency Business Account loans ("CEBA")	\$ 3,600,000	\$ 4,240,000
Syndicated loans	<u>622,626</u>	<u>644,349</u>
	<u>\$ 4,222,626</u>	<u>\$ 4,884,349</u>

Letters of credit

In the normal course of business, the Credit Union enters into various off-balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet.

Short-term Borrowings

The Credit Union has available to it, through Central 1 Credit Union, a clearing facility of \$5,000,000 (\$CDN 3,000,000 and \$USD 2,000,000). At year-end, the balance outstanding on the demand facility was \$nil (2021 – \$nil).

22. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.
