2023 Management Discussion & Analysis Summary Report

This Management Discussion and Analysis report provides a general overview of the credit union's performance and is intended to be read with the full financial statements.

As we entered 2023, there was an expectation that rates would remain elevated but stable for at least the next 12-18 months while inflation returned to target levels, but there would be a low risk of further rate hikes required. In addition to rate stabilization, the inverted yield curve was expected to flatten as it returned to a more normal shape. As it turned out, neither would be the case. Economic data continued to come in higher/better than expected and the phrase 'good news is bad news' continued to be synonymous with the risk of further hikes.

The first unexpected rate hike came right away in January of 2023, coupled with commentary from the Bank of Canada that further hikes would not likely be required. Unfortunately, this message may have been taken too positively by the Canadian consumer. Inflation numbers and real estate activity remained more elevated than the Bank was comfortable with, which eventually resulted in two more rate hikes in June and July. No further 'words of encouragement' would be found in the Bank of Canada's commentary either.

In March of 2023, a large financial institution in the US sold a portion of their investment portfolio at large losses which resulted in social media storm, a run on their deposits and the ultimate wind up of that bank. Two smaller US banks also failed shortly after. In response to the uneasiness of the consumer and to secure deposits, financial institutions ramped up their deposit gathering efforts through very high rate offerings.

With the inverted yield curve also a factor, short-term deposits rates increased much higher than most banks and credit unions anticipated. It quickly became clear that with these much higher rates in the market, to remain competitive and retain and grow deposits, SCCU's original interest expense targets set previous to these rate and US bank events, would be materially exceeded. In May of 2023, SCCU reassessed its original 2023 targets to deposit growth and financial margin to better reflect the current economic environment.

Budgets for expenses and investments in SCCU strategic goals were left unchanged. The Board and management reviewed forecasting and determined that even as lower net financial margin was inevitable, strong financial results in previous years would allow SCCU to absorb lower net earnings for the short term and remain focused on investing in the future direction of Sunshine Coast Credit Union. However, a close watch would be kept on expenses and investments if further volatility emerged as the year progressed.

It was a challenging year both for our members and for the credit union as the high interest rates had a negative impact all around. There was some good news for our members however – our depositing members finally began to enjoy higher returns on their hard-earned savings, after many years of very low rates.

SCCU achieved a solid level of growth in 2023 despite the challenges of the economic environment. While SCCU's positive, but lower earnings were a direct result of this environment, your credit union has built its foundation to weather these types of situations and is constantly monitoring its environment to ensure that strategies can be adjusted to pivot when required and keep your credit union the strong, stable financial institution our members expect and deserve.

Assets, Loans, & Deposits

As noted above, with the material change in economic environment from original expectations, SCCU Board and management reassessed its targets in the spring of 2023 to ensure the organization goals reflected appropriate operating strategies that would meet member expectations while managing/minimizing the inevitable negative impacts on earnings.

With the cost of deposits remaining high and increasing even further due to both industry events and economic pressures, SCCU cut its deposit target in half from approximately 4% to 2% to reflect more realistic growth potential given the increasingly competitive environment and lower pool of consumer savings and deposits. As the credit union had built up excess liquidity over 2021 and 2022, we were able to leave original lending targets unchanged at a moderate growth target of approximately 5%.

Sunshine Coast Credit Union achieved lending growth of 4.76% or $37.8 million in 2023, just slightly off its annual target. After the Bank of Canada commentary at the January interest rate hike meeting seemed to indicate the hiking cycle was over, the real estate market saw that as a sign to heat up. Lending was robust in Q1 and Q2 of 2023, but the two unanticipated interest rate hikes in June and July coupled with the lack of any material reduction in housing prices, resulted in a substantial slowdown in residential lending activity for the latter half of the year. So much so, that the residential mortgage portfolio ended the year at essentially the same balance as the end of the previous year.

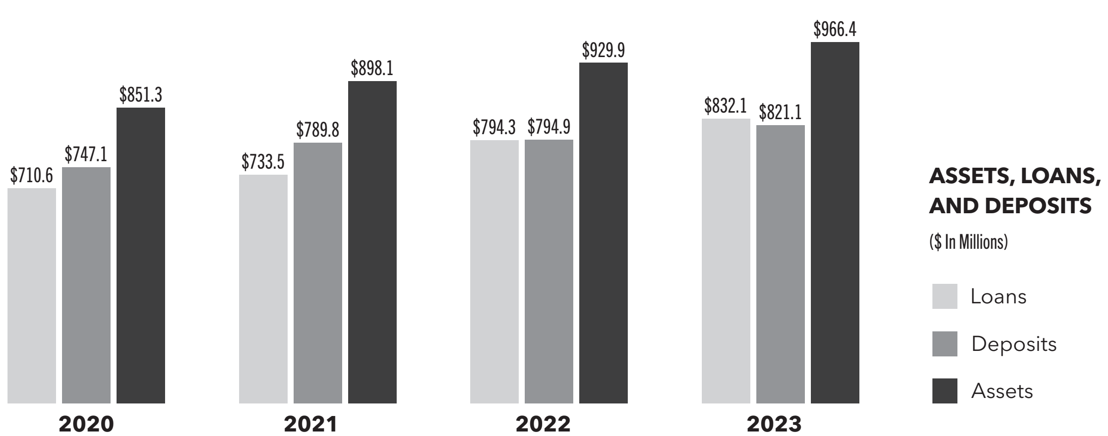
Commercial lending activity slowed a bit after the summer rate hikes, but on average remained steady throughout the year and was the driving factor in achieving the net lending growth for the year. See Note 8 of the Consolidated financial statements for comparative loan balances and data.

Sunshine Coast Credit Union was able to achieve and slightly exceed its revised deposit growth target. Overall deposit growth ended the year at 3.30% or $26.2 million. Members continued to shift their savings to higher yielding term deposits in 2023 and tax-free savings accounts saw more significant growth than retirement savings products. See Note 14 in the SCCU Consolidated statements for more deposit details.

As a result of the mismatch in lending and deposit growth, the events of the banks in the US earlier in the year, and per established liquidity and funding strategies, Sunshine Coast Credit Union felt it was prudent to maintain a higher level of liquidity than originally targeted. In achieving this liquidity level, Sunshine Coast Credit Union continued to use securitized borrowings as an funding option to maintain liquidity levels.

Secured borrowing grew by $10 million over the year to support lending activity and maintain appropriate liquidity levels. However, with no additional types of borrowing at the end of 2023, net overall borrowing increased only $5 million over 2022.

Sunshine Coast Credit Union's cash and investment levels remained relatively flat year over year as the growth in lending, deposits and borrowings netted out any increase or decrease in cash or investment balances. As a result, SCCU's liquidity ratio remained strong and essentially unchanged at 15.26% compared to 15.75% at the end of 2022.



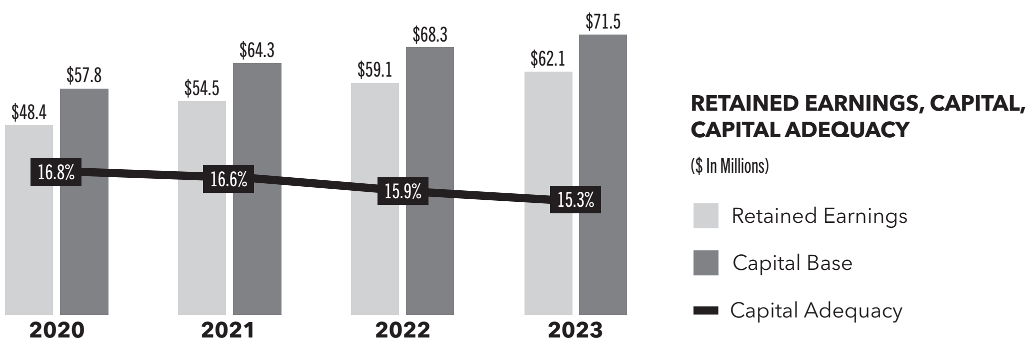
Retained Earnings, Capital, Capital Adequacy

Rapidly rising rates, a prolonged inverted yield curve, members choosing shorter term deposits that reprice much faster and the shift to term deposits all converged to result in an increase in financial expense of $13.7 million over the previous year. The retail mortgage portfolio is made up of a majority of fixed rate products that renew evenly over a five year timeframe as compared to the deposit portfolio where the majority has already renewed at the current rates. While the growth in lending and some repricing of both investments and loans did result in an increase in financial income of $11.6 million, it did not out weigh the increase in financial expense and as a result, SCCU's operating margin declined to $21.4 million compared to $23.8 million in 2022.

Included in the operating margin results, Sunshine Coast Credit Union's provision for losses increased by $350 thousand over 2022. While there are currently no material concerns regarding losses on loans, the environment of higher interest rates and a slow down in the economy makes it reasonable to increase loan loss provisioning to offset these risk factors. Other income which includes transactional account, loan and other fees increased slightly over 2022.

Operating expenses decreased $0.6 million in 2023 to $17.5 million. As SCCU entered a period of lower operating margin, the Board and management focused its attention on ensuring expense management was top of mind. There was no one specific area that significantly contributed to the decrease, but rather efficiencies and reduced spending and investment across the board.

Overall as a result of the reduction in operating margin, earnings from operations decreased to $3.9 million in 2023 compared to $5.6 million in 2022.



Profit Allocations

In December 2023, as a result of higher interest rates and in recognition of the continued support from our membership, the Board of Directors approved a dividend return of 5.75% on member equity shares, 5.30% on transactional equity shares and 6.25% on voluntary investment equity shares, resulting in a total distribution of almost $150 thousand in dividends to our members. For information related to the calculation of dividends, please refer to the Credit Union's Rules.

As a co-operative, our mission goes beyond achieving a financial return. SCCU is committed to being the Sunshine Coast's best community partner through community investments, volunteerism, sharing our knowledge on committees and boards, building community financial literacy, and providing funding to non-profit organizations in support of their important work. SCCU distributed just over $80 thousand community enrichment funding in 2023.

Other Comprehensive Income

SCCU's total comprehensive income of $5.1 million includes net unrealized gains of almost $2.0 million. Including unrealized gains (or in some years – losses) is an accounting treatment that requires entities reporting under International Financial Reporting Standards to apply a fair value to certain categories of financial assets.

Fair value is defined as an amount that an existing asset could be exchanged or traded for at current prices as at the financial statement date.

The unrealized gain on debt securities found under other comprehensive income on SCCU's Statement of Earnings and Comprehensive Income is attributable to the credit union's statutory liquidity reserve which is held in a HQLA (High Quality Liquid Asset) security portfolio. This portfolio consists of approximately $83 million of fixed and floating rate securities.

Since the last valuation on December 31 2022, the book value of this portfolio compared to its fair value has increased significantly resulting in other comprehensive income of $1.3 million. This gain on fair value is a result of the investments within the portfolio having renewed over 2023 at rates more consistent with current market rates, therefore improving the whole portfolio's current book value. The rebound in value of this portfolio has essentially brought its fair value and book value as at December 31 2023 to parity.

The unrealized gain on hedges found in the same section is the gain related to the fair value calculation of the credit union's hedging transactions which were transacted to manage interest rate risk (fluctuations) and to ensure earnings remain steady and stable. These hedges ($60 million – no change from 2022) were purchased at a time when interest rates were low and therefore at the last valuation date of December 31 2022, the book value had been well below its fair value.

However, with interest rates stabilizing and the market pricing in the potential to see decreases in 2024, the value of this portfolio has improved compared to its fair value at the end of 2022, resulting in other comprehensive income of $0.68 million. While the value has improved, overall the portfolio's value remains below its fair market value at December 31, 2023 (see Accumulated other comprehensive income within the Member Equity section of the balance sheet).

The hedging transactions SCCU entered into over the years have been and continue to be useful in managing interest rate risk; they are long term instruments to manage interest rate risk and have been very effective on average over their life; the rapid drop in rates in 2020 was a perfect example of how these types of transactions can help to protect earnings from unexpected swings in interest rates. Also, with a rapid rise in rates we have seen over the past while, there is now the potential for rates to fall again which is the scenario the current portfolio is hedging against.

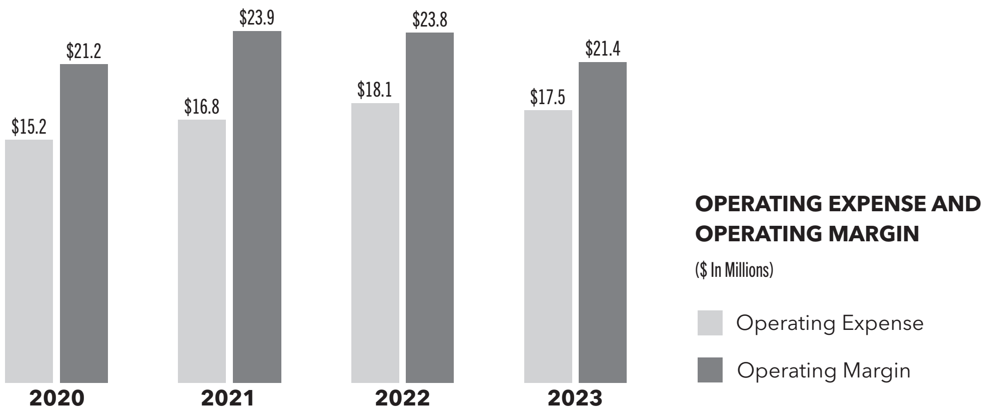
These hedges will continue to be held to ensure interest rate risk exposure remains within its risk tolerance levels and protects the credit union from the uncertainty and volatility of interest rate movement.

The reader should keep in context that these entries whether gains or losses are unrealized – they are an accounting entry only. The purpose of these entries is to show the readers of its financial statements the potential implication of 'cashing in' or 'selling' certain assets and liabilities prior to maturity. It is the intent of SCCU management at this time to hold the SCCU assets subject to this accounting treatment to maturity, thereby never realizing any gains or losses.

SCCU transferred $3.1 million in net earnings to retained earnings (as the other comprehensive income is an unrealized accounting transaction only and is not transferred to retained earnings). Total capital, the majority of which includes retained earnings, shares, and a portion of system retained earnings grew to $71.5 million from $68.3 million in 2022. With solid lending growth but lower overall earnings, SCCU's capital ratio dropped to 15.33% (2022 15.90%); this decrease was expected given the current environment and remains well above the statutory requirement of 8%.

Operating Expenses

SCCU strategically manages internal expenses while leveraging our extensive partnerships throughout the credit union system to ensure our members benefit from best-in-class products and services at an accessible cost. In addition to investing in collaborative innovations and initiatives, our commitment to building an experience that our members expect today and tomorrow requires continued investment in our people, technology, processes and channels even when the external environment is putting pressure on earnings. Regulatory and compliance requirements continue to increase and more so when the operating environment is challenging. In 2023, as noted above, the credit union Board and management made a concerted effort to manage these expenses as efficiently as possible to offset lower net margin without impacting or compromising member needs. Total operating expenses ended 2023 at $17.5 million.



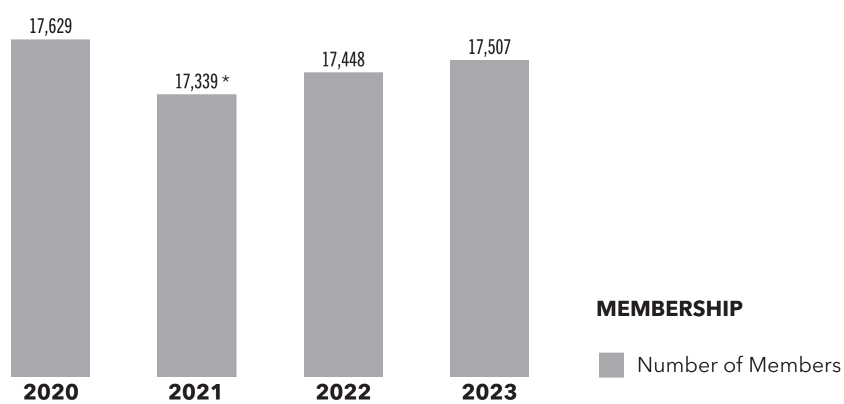
Risks & Compliance

The Risk & Compliance Department is accountable for risk oversight including the areas of credit, market, operational, strategic, regulatory, capital, earnings, liquidity, cybersecurity, and anti money laundering. This information is provided to the Board and senior management through regular reporting. SCCU works closely with our internal and external auditors, system vendors, and other network contacts to ensure we monitor and address current and emerging risks relevant to financial institutions.

Membership

Our members are why we exist, and we are privileged to be their choice as a financial partner. Growing and retaining our membership is an important part of delivering on our vision of enriching lives and community. It also serves as a key measure of SCCU's member engagement strategy.

SCCU ended the year with 17,507 members, a net increase of 59 members.



** Perceived decrease in 2021 membership is the result of proactive cleanup and removal of dormant accounts.*

Regulatory

Financial institutions are built on trust: our members rely on us to keep their investments and their information safe and sound. As such, we adhere to many legislative requirements including the Financial Institutions Act, Credit Union Incorporation Act, Anti-Money Laundering, and the Foreign Account Tax Compliant Act. A significant amount of resources are dedicated to compliance each year including internal and external audits related to information technology, lending and anti-money laundering.

Looking Forward

Navigating the complexities of the current financial landscape requires adaptability in the face of uncertainty. As the future unfolds, SCCU is equipped with the strength of its member-built foundation, ready to embark on a new year with a vigor fueled by our commitment to the well-being of our members.

In the midst of economic pressures, social unrest, and climate change, the co-operative model emerges as an unwavering force in our ever-changing global environment.

With assets nearing one billion dollars, SCCU's robust foundation is the result of over 80 years of prudent financial management, a team of impassioned employees, vigilant directors, authentic community engagement, and the bedrock of trust forged with our members.

This strength emanates from a business model that not only champions a long-term perspective in defining success but also recognizes the external environment as a vital stakeholder in our sustained prosperity.

This compels us to take an active role in elevating the world around us, promoting the financial wellness of our members, fostering community health, and championing climate change awareness and action.

In the face of the persistent economic and interest rate landscape, we foresee a financial trajectory similar to the results experienced in 2023. Should the anticipated economic and interest rate forecasts materialize, we anticipate a resurgence into a phase of moderate growth and earnings in the subsequent years.

Our success is directly tied to the trust of more than 17,000 members, and for that, we express our sincere gratitude. Your ongoing patronage propels us forward, and we remain steadfast in our commitment to meeting your needs today, while also building for a bright future.

Grant Thornton

Consolidated Financial Statements

Sunshine Coast Credit Union

December 31, 2023

Contents

Independent Auditor's Report

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To the Members of
Sunshine Coast Credit Union

Opinion

We have audited the consolidated financial statements of Sunshine Coast Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2023 and the consolidated statements of earnings and comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sunshine Coast Credit Union as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union 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.

Grant Thornton LLP

Vancouver, Canada
February 29, 2024

Chartered Professional Accountants

Sunshine Coast Credit Union
Consolidated Statement of Financial Position

December 31		**2023**		2022
Assets				
Cash and cash equivalents (Note 5)	**$**	**42,225,914**	$	44,356,963
Investments (Note 6)		**84,101,799**		81,891,938
Investments in associates (Note 7)		**857,990**		857,990
Loans (Note 8)		**832,059,647**		794,266,324
Property and equipment (Note 10)		**3,786,312**		3,739,320
Intangible assets (Note 10)		**61,133**		120,203
Right-of-use asset		**54,807**		126,800
Asset held for sale		**-**		15,215
Other assets (Note 11)		**2,352,990**		3,867,173
Deferred income tax asset (Note 17)		**879,100**		633,000
Total assets	**$**	**966,379,692**	$	929,874,926
Liabilities				
Borrowings (Note 12)	**$**	**-**	$	5,000,000
Secured borrowings (Note 13)		**77,244,373**		67,185,070
Deposits (Note 14)		**821,133,800**		794,944,196
Lease liability		**57,619**		128,407
Payables and other liabilities (Note 15)		**6,129,601**		5,617,066
Total liabilities		**904,565,393**		872,874,739
Members' equity				
Patronage and investment shares		**1,861,655**		2,075,664
Retained earnings		**62,118,520**		59,066,409
Accumulated other comprehensive loss		**(2,165,876)**		(4,141,886)
Total members' equity		**61,814,299**		57,000,187
Total liabilities and members' equity	**$**	**966,379,692**	$	929,874,926

Commitments (Note 25)

Signed on behalf of the board of directors by:

Director

Director

Sunshine Coast Credit Union
Consolidated Statements of Earnings and Comprehensive Income

Year ended December 31	2023	2022
Financial income		
Interest on loans	$ 37,190,751	$ 28,642,746
Other interest revenue	4,490,346	1,460,495
Total financial income	41,681,097	30,103,241
Financial expense		
Interest on deposits and borrowings	23,962,139	10,287,815
Financial margin	17,718,958	19,815,426
Provision for credit losses (Note 9)	696,445	346,483
Other income (Note 19)	4,405,980	4,319,533
Operating margin	21,428,493	23,788,476
Operating expenses		
Deposit insurance	410,238	786,225
Depreciation and amortization	462,239	506,518
Director and committee expense	36,694	62,781
Employee salaries and benefits	9,958,568	9,717,830
Lease costs	38,889	37,376
Occupancy	816,641	701,285
Other operating and administrative (Note 20)	5,820,951	6,337,677
Total operating expenses	17,544,220	18,149,692
Earnings from operations	3,884,273	5,638,784
Distributions to members (Note 18)	30,943	16,349
Earnings before income taxes	3,853,330	5,622,435
Provision for income taxes (Note 17)		
Current income tax	955,187	1,097,863
Deferred income tax recovery	(246,100)	(109,300)
Total provision for income taxes	709,087	988,563
Net earnings for the year	3,144,243	4,633,872
Other comprehensive gain (loss)		
Items that will be reclassified subsequently to profit or loss		
Change in unrealized gains (losses) on debt securities, net of tax (Note 6)	1,293,538	(939,285)
Change in unrealized gains (losses) on hedges, net of tax (Note 23)	682,472	(2,625,019)
Total comprehensive income for the year	$ 5,120,253	$ 1,069,568

See accompanying notes to the consolidated financial statements.

Sunshine Coast Credit Union
Consolidated Statement of Changes in Members' Equity
Year ended December 31, 2023

	Patronage and investment shares	Retained earnings	Accumulated other comprehensive loss	Total
Balance on January 1, 2022	$ 2,217,272	$ 54,506,351	$ (577,582)	$ 56,146,041
Net earnings	-	4,633,872	-	4,633,872
Distributions to members (Note 18)	-	(73,814)	-	(73,814)
Redemption of members' shares	(141,608)	-	-	(141,608)
Change on unrealized losses on hedges, net of tax (Note 23)	-	-	(2,625,019)	(2,625,019)
Change on unrealized losses on debt securities, net of tax (Note 6)	-	-	(939,285)	(939,285)
Balance on December 31, 2022	2,075,664	59,066,409	(4,141,886)	57,000,187
Net earnings	-	3,144,243	-	3,144,243
Distributions to members (Note 18)	-	(92,132)	-	(92,132)
Redemption of members' shares	(214,009)	-	-	(214,009)
Change in unrealized gains on hedges, net of tax (Note 23)	-	-	682,472	682,472
Change in unrealized gains on debt securities, net of tax (Note 6)	-	-	1,293,538	1,293,538
Balance on December 31, 2023	**$ 1,861,655**	**$ 62,118,520**	**$ (2,165,876)**	**$ 61,814,299**

See accompanying notes to the consolidated financial statements.

Sunshine Coast Credit Union
Consolidated Statement of Cash Flows

Year ended December 31	2023	2022
Cash inflows (outflows)		
Operating		
Net earnings for the year	**$ 3,144,243**	$ 4,633,872
Adjustments for:		
Depreciation and amortization	**462,239**	506,518
Provision on loans	**696,445**	346,483
Interest income, net	**(17,718,958)**	(19,815,426)
Provision for current income tax	**955,187**	1,097,863
Net changes in non-cash working capital items (Note 26)	**3,379,314**	(1,718,872)
	(9,081,530)	(14,949,562)
Change in member activities, net		
Increase in loans	**(38,145,572)**	(60,889,480)
Increase in deposits	**21,113,918**	3,989,297
	(26,113,184)	(71,849,745)
Cash flows related to interest and income taxes		
Interest received	**41,075,012**	29,783,854
Interest paid	**(18,891,869)**	(9,095,730)
Income taxes paid	**(300,769)**	(1,511,637)
Total cash outflows from operating	**(4,230,810)**	(52,673,258)
Investing		
(Purchase) sale of investments, net	**(2,209,861)**	11,103,532
Purchase of property and equipment and intangible assets	**(378,168)**	(74,641)
Total cash (outflows) inflows from investing	**(2,588,029)**	11,028,891
Financing		
Increase in secured borrowings	**10,059,303**	18,237,514
Lease payments	**(65,372)**	(59,205)
Redemption of members' shares	**(214,009)**	(141,608)
(Decrease) increase in borrowings	**(5,000,000)**	5,000,000
Dividends paid	**(92,132)**	(73,814)
Total cash inflows from financing	**4,687,790**	22,962,887
Net decrease in cash and cash equivalents	**(2,131,049)**	(18,681,480)
Cash and cash equivalents, beginning of year	**44,356,963**	63,038,443
Cash and cash equivalents, end of year	**$ 42,225,914**	$ 44,356,963

1. Governing legislation and nature of operations

Sunshine Coast 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 British Columbia. Products and services offered to its members include mortgages, personal and commercial loans, chequing and savings accounts, term deposits, registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), automated banking machines ("ABMs"), debit and credit cards and internet banking. The Credit Union's head office is located at 985 Gibsons Way, Gibsons, BC, V0N 1V0.

These consolidated financial statements have been approved and authorized for issue by the board of directors on February 29, 2024.

2. Basis of presentation and statement of compliance

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

The Credit Union's 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 material accounting policies

Basis of consolidation

The consolidated financial statements consolidate those of the Credit Union and its subsidiary, SunCu Financial Services Inc. The subsidiary is an entity over which the Credit Union has the power to control the financial and operating policies. All transactions and balances between the Credit Union and the subsidiary are eliminated on consolidation and amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Credit Union. The subsidiary has a reporting date of December 31.

Adoption and future changes in accounting policies

Some accounting standards which have become effective January 1, 2023 and have therefore been adopted do not have a significant impact on the Credit Union's financial results or position.

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 adopted early by the Credit Union and no Interpretations have been issued that are applicable and need to be taken into consideration by the Credit Union at either reporting date.

3. Summary of material accounting policies (continued)

Adoption and future changes in accounting policies (continued)

Management anticipates that all relevant Standards will be adopted for the first period beginning on or after the effective date of the Standard. 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.

Cash and cash equivalents

Cash and cash equivalents includes 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.

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.

Subsequent measurement of financial assets

<u>Financial assets at amortized cost</u>

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.

3. Summary of material accounting policies (continued)

Financial instruments (continued)

Subsequent measurement of financial assets (continued)

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

Financial assets at 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 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 Credit Union accounts for its equity investment in Central 1, CUPP Services Ltd., Genifi Inc. and Stabilization Central Credit Union at FVTPL and did not make the irrevocable election to account for these investments at 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.

Impairment of financial assets

Impairment of financial assets is determined using forward-looking information to recognize expected credit losses – the 'expected credit loss ("ECL") model'. Instruments using this model to calculate impairment include loans, term deposits, other accounts receivable measured at amortized cost and debt instruments measured at FVOCI.

3. Summary of material accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

The Credit Union considers a broad range of 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.

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 category.

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 borrowings, secured borrowings, deposits, payables and other liabilities and Class B 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).

Hedge accounting

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.

3. Summary of material accounting policies (continued)

Financial instruments (continued)

Hedge accounting (continued)

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

For the reporting periods under review, the Credit Union has designated the interest rate swap contracts as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to 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 hedges are primarily hedges of floating rate commercial and personal loans. The Credit Union has not entered into any fair value hedges at this time.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognized in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

Mortgage securitization

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

3. Summary of material accounting policies (continued)

Investments in associates

The shares of investments which the Credit Union has acquired significant influence are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and adjusted thereafter to recognize the Credit Union's share of the profit or loss and other comprehensive income of the investment. When the Credit Union's share of losses of investment exceeds the Credit Union's interest in that associate, the Credit Union discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Credit Union has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Revenue

Revenue arises mainly from interest earned on loans.

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. Mortgage prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are capitalized and amortized over the average remaining term of the original mortgage.

Property and equipment

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

Buildings and renovations	40 years
Building components	15 - 30 years
Computer hardware	5 years
Furniture and fixtures	10 years
Leasehold improvements	Lease term

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

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings within 'other income' or 'other expenses'.

The carrying amount of property and equipment are reviewed each reporting period to determine whether events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized, to net earnings, for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

3. Summary of material accounting policies (continued)

Intangible assets

Intangible assets include acquired computer software used in administration that qualifies for recognition as an intangible asset. Software is initially accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over its estimated useful life of not more than 5 years. Residual values and useful lives are reviewed at each reporting date.

Amortization has been included within 'depreciation and amortization'. Acquired computer software licences 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.

Impairment of property and equipment and intangible assets

The carrying amount of property and equipment and intangible assets are reviewed each reporting period to determine whether events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized, to net earnings, for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

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 assets and/or 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 profit or loss 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 the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures 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 recognized 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 recognized as a component of tax income or expense in net earnings.

3. Summary of material accounting policies (continued)

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.

Post-employment benefit and short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

The Credit Union participates in a multi-employer defined benefit pension plan; however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Credit Union also participates in a supplemental retirement plan for eligible employees. This is a defined benefit plan, which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

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. 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.

3. Summary of material accounting policies (continued)

Members' shares

Members' shares are classified as liabilities or as member 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, namely patronage and investment shares, the shares are classified as equity.

Patronage distributions

Patronage distributions are accrued as per annual budget and/or when approved by the board of directors.

Lease liability and right-of-use assets

The Credit Union has leases for one of its buildings and some equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

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

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

Each lease generally imposes a restriction that, unless there is a contractual right for the Credit Union to sublet the asset to another party, the right-of-use asset can only be used by the Credit Union. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Credit Union is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings, the Credit Union must keep the property in a good state of repair and return the property in its original condition at the end of the lease. Further, the Credit Union must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

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 remeasurement of monetary items at year end exchange rates are recognized in net earnings.

Assets held for sale

Assets that are expected to be recovered principally through sale rather than through continuing use are classified as held for sale. Assets held for sale include property and land, and property that has been repossessed following foreclosure on loans that are in default.

3. Summary of material accounting policies (continued)

Assets held for sale (continued)

Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated. An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell, but not exceeding any cumulative impairment losses previously recognized.

If the Credit Union has classified an asset as held for sale, but the recognition criteria are no longer met, then the Credit Union ceases to classify the asset as held for sale. The Credit Union measures an asset that ceases to be classified as held for sale at the lower of either: (i) the carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale, or (ii) its recoverable amount at the date of the subsequent decision not to sell. Any required adjustments to the carrying amount of an asset that ceases to be classified as held for sale will be transferred to net income in the period in which the recognition criteria are no longer met.

4. Estimation uncertainty

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.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive 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. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2023, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 10. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

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. Estimation uncertainty (continued)

Allowance for credit losses

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, we 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.

Significant influence investments

The Credit Union has assessed that it exerts significant influence over certain companies and accounts for them as ‘investments in associates’ using the equity method (Note 7). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The assessment of the existence of significant influence was based on the fact that the Credit Union holds more than 20% but less than 50% interest in the investments in associates, and has significant representation on the board of directors.

Income taxes

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

5. Cash and cash equivalents

The Credit Union’s cash and cash equivalents are held with Central 1 Credit Union (“Central 1”). The average yield on the accounts at December 31, 2023 is 4.52% (2022 - 3.93%).

	2023	2022
Cash and cash equivalents	**$ 23,312,260**	$ 19,607,793
Term deposits and accrued interest	**18,913,654**	24,749,170
	$ 42,225,914	$ 44,356,963

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.

		2023		2022
Term deposits and accrued interest, amortized cost	**$**	**926,498**	$	5,610,069
Shares				
Central 1 Credit Union		**255,454**		262,488
CUPP Services Ltd.		**2**		2
Genifi Inc. (formerly known as Prodigy Ventures Inc.)		**32,290**		32,290
Other shares		**24,414**		24,414
Stabilization Central Credit Union		**324**		324
Debt securities (Mandatory Liquidity Pool)				
Government bonds		**33,586,524**		23,425,507
Corporate bonds		**12,692,391**		9,789,566
Provincial bonds		**33,551,206**		34,138,439
Mortgage-backed securities		**2,736,242**		8,270,204
Accrued interest on debt securities		**296,454**		338,635
	$	**84,101,799**	$	81,891,938

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.

Non-callable term deposits are due between three months and one year. The carrying amounts for deposits approximate fair value due to them having similar characteristics as cash and cash equivalents.

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. Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. All such shares are classified as fair value through profit or loss.

The market values are not readily available and the potential variability in the range of fair value estimates based on valuation models is not deemed to be material. The likelihood and timing of any future redemption of the shares cannot be determined.

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. Investments in associates

	2023	2022
Coast Venture Root Three	**$ 500,000**	$ 500,000
Sunshine Coast Venture Partners	**270,000**	270,000
Rhiza Capital Inc.	**50,000**	50,000
Coast Community Investment Corporation	**37,500**	37,500
Sunshine Coast Insurance Services	**490**	490
	$ 857,990	$ 857,990

The Credit Union invested in common shares of Rhiza Capital Inc., a company which creates and manages venture capital funds. The Credit Union also invested in non-voting shares of Coast Venture Root Three, Sunshine Coast Venture Partners Inc. and Sunshine Coast Insurance Services, and preferred shares of Coast Community Investment Corporation, venture capital funds owned and managed by Rhiza Capital Inc. As the Credit Union owns 39% of the shares of the parent company, Rhiza Capital Inc., the Credit Union has significant influence over these investments and accounts for them using the equity method.

The above companies did generate revenue and had profits or losses from operations in fiscal 2023 and 2022, however, the proportionate share attributed to the Credit Union is negligible.

8. Loans

	2023	2022
Residential mortgages	**$ 519,477,474**	$ 519,543,151
Commercial loans	**268,064,900**	226,879,302
Personal loans and lines of credit	**46,912,765**	50,012,765
	834,455,139	796,435,218
Accrued interest receivable	**1,930,522**	1,324,437
Deferred loan fees	**(1,170,330)**	(908,441)
	835,215,331	796,851,214
Allowance for credit losses (Note 9)	**(3,155,684)**	(2,584,890)
Net loans to members	**$ 832,059,647**	$ 794,266,324

8. Loans (continued)

Terms and conditions

Loans to members can have either a variable or fixed rate of interest with a maturity date of up to 7 years.

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 8%. The Credit Union's prime rate at December 31, 2023 was 7.20% (2022 - 6.70%).

The interest rate offered on fixed rate loans being advanced at December 31, 2023 ranges from 5.80% to 14.00% (2022 - 5.25% to 12.50%).

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

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

Commercial loans consist of mortgages, term loans and operating lines of credit 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:

	2023		2022	
	Principal	**Yield**	Principal	Yield
Variable rate	**$ 133,810,959**	**8.92%**	$ 115,388,294	8.16%
Fixed rate due less than one year	**198,045,057**	**5.44%**	173,284,934	4.47%
Fixed rate due between one and seven years	**502,599,123**	**4.57%**	507,761,990	3.78%
	$ 834,455,139	**5.47%**	$ 796,435,218	4.56%

Fair value

The fair value of loans to members at December 31, 2023 was $803,741,366 (2022 - $759,008,083).

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. Loans (continued)

Transfers of mortgage and mortgage loan receivables

The Credit Union enters into arrangements to fund mortgage growth by selling loans to unrelated third parties. The Credit Union reviews these securitization arrangements in order to determine whether they should result in transferred loans being derecognized from the consolidated statement of financial position.

The amount of residential loans, including accrued interest, that were transferred at December 31, 2023 was $2,055,557 (2022 - $2,471,436). The Credit Union has transferred substantially all of the risks and rewards of ownership to the third party and the full balance has been derecognized from the consolidated statement of financial position.

9. Allowance for credit losses

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 90 days past due. For the purpose of measuring the amount to be written off, the determination of the recoverable amount includes an estimate of future recoveries.

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 90 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 90 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 are made to reflect the time value of money. These adjustments are recognized and presented as interest income.

9. Allowance for credit losses (continued)

Total allowance for impaired loans as at December 31, 2023:

	Stage 1	Stage 2	Stage 3	**Total**
Residential mortgages				
Allowance for credit losses	$ 165,511	$ 721,552	$ 64,268	$ **951,331**
Carrying amount	505,627,072	12,526,266	1,324,136	**519,477,474**
Commercial loans				
Allowance for credit losses	51,838	1,381,311	227,657	**1,660,806**
Carrying amount	204,323,821	60,422,419	3,318,660	**268,064,900**
Personal loans and lines of credit				
Allowance for credit losses	243,944	272,862	26,741	**543,547**
Carrying amount	43,735,033	3,126,007	51,725	**46,912,765**
Total allowance for credit losses	**$ 461,293**	**$ 2,375,725**	**$ 318,666**	**$ 3,155,684**
Total carrying amount	**$ 753,685,926**	**$ 76,074,692**	**$ 4,694,521**	**$ 834,455,139**

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

	Stage 1	Stage 2	Stage 3	**Total**
Residential mortgages				
Allowance for credit losses	$ 165,907	$ 729,028	$ 72,851	$ 967,786
Carrying amount	504,792,202	13,907,343	843,606	519,543,151
Commercial loans				
Allowance for credit losses	211,808	807,666	-	1,019,474
Carrying amount	202,365,831	24,513,471	-	226,879,302
Personal loans and lines of credit				
Allowance for credit losses	411,323	158,426	27,881	597,630
Carrying amount	48,382,273	1,598,556	31,936	50,012,765
Total allowance for credit losses	$ 789,038	$ 1,695,120	$ 100,732	$ 2,584,890
Total carrying amount	$ 755,540,306	$ 40,019,370	$ 875,542	$ 796,435,218

9. Allowance for credit losses (continued)

The following table shows the continuity in the loss allowance by each product type as at December 31, 2023:

	Stage 1	Stage 2	Stage 3	**Total**
Residential mortgages				
Balance as at January 1, 2023	$ 165,907	$ 729,028	$ 72,851	**$ 967,786**
Transfer to Stage 1	41,791	(41,791)	-	**-**
Transfer to Stage 2	(3,910)	67,314	(63,404)	**-**
Transfer to Stage 3	(2,348)	-	2,348	**-**
Net remeasurement of allowance	(43,758)	(24,929)	61,921	**(6,766)**
Loan originations	18,666	2,058	-	**20,724**
Derecognition and maturities	(10,837)	(10,128)	(9,448)	**(30,413)**
Total provision for credit losses	(396)	(7,476)	(8,583)	**(16,455)**
Balance as at December 31, 2023	165,511	721,552	64,268	**951,331**
Commercial loans				
Balance as at January 1, 2023	211,808	807,666	-	**1,019,474**
Transfer to Stage 1	260,414	(260,414)	-	**-**
Transfer to Stage 2	(12,407)	12,407	-	**-**
Transfer to Stage 3	(303)	(26,408)	26,711	**-**
Net remeasurement of allowance	(417,632)	847,859	200,946	**631,173**
Loan originations	16,631	72,905	-	**89,536**
Derecognition and maturities	12,186	(66,109)	50,087	**(3,836)**
Total provision for credit losses	(141,111)	580,240	277,744	**716,873**
Write-offs	(18,859)	(6,595)	(50,087)	**(75,541)**
Balance as at December 31, 2023	51,838	1,381,311	227,657	**1,660,806**
Personal loans and lines of credit				
Balance as at January 1, 2023	411,323	158,426	27,881	**597,630**
Transfer to Stage 1	65,207	(65,207)	-	**-**
Transfer to Stage 2	(20,273)	30,681	(10,408)	**-**
Transfer to Stage 3	(142)	(311)	453	**-**
Net remeasurement of allowance	(193,029)	137,650	4,243	**(51,136)**
Loan originations	12,734	4,460	-	**17,194**
Derecognition and maturities	(15,638)	(9,913)	55,520	**29,969**
Total provision for credit losses	(151,141)	97,360	49,808	**(3,973)**
Write-offs	(16,238)	17,076	(50,948)	**(50,110)**
Balance as at December 31, 2023	243,944	272,862	26,741	**543,547**
Total as at December 31, 2023	**$ 461,293**	**$ 2,375,725**	**$ 318,666**	**$ 3,155,684**
Percentage of total carrying amount				**0.38%**

9. Allowance for credit losses (continued)

The following table shows the continuity in the loss allowance by each product type as at December 31, 2022:

	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance as at January 1, 2022	$ 132,535	$ 768,336	$ 102,257	**$** 1,003,128
Transfer to Stage 1	51,221	(51,221)	-	-
Transfer to Stage 2	(1,405)	1,405	-	-
Transfer to Stage 3	-	(13,602)	13,602	-
Net remeasurement of allowance	(52,354)	9,693	50,946	8,285
Loan originations	55,505	16,715	-	72,220
Derecognition and maturities	(19,595)	(2,298)	(93,954)	(115,847)
Total provision for credit losses	33,372	(39,308)	(29,406)	(35,342)
Balance as at December 31, 2022	165,907	729,028	72,851	967,786
Commercial loans				
Balance as at January 1, 2022	84,159	778,478	7,207	869,844
Transfer to Stage 1	72,366	(72,366)	-	-
Transfer to Stage 2	(5,793)	5,793	-	-
Net remeasurement of allowance	41,030	629,545	(15,000)	655,575
Loan originations	24,479	-	-	24,479
Derecognition and maturities	(4,433)	(521,032)	3,497	(521,968)
Total provision for credit losses	127,649	41,940	(11,503)	158,086
Write-offs	-	(12,752)	4,296	(8,456)
Balance as at December 31, 2022	211,808	807,666	-	1,019,474
Personal loans and lines of credit				
Balance as at January 1, 2022	219,177	154,306	101,281	474,764
Transfer to Stage 1	71,912	(71,004)	(908)	-
Transfer to Stage 2	(7,973)	7,973	-	-
Transfer to Stage 3	(298)	(4,142)	4,440	-
Net remeasurement of allowance	89,459	74,521	14,584	178,564
Loan originations	53,833	33,548	-	87,381
Derecognition and maturities	(16,327)	39,639	(65,518)	(42,206)
Total provision for credit losses	190,606	80,535	(47,402)	223,739
Write-offs	1,540	(76,415)	(25,998)	(100,873)
Balance as at December 31, 2022	411,323	158,426	27,881	597,630
Total as at December 31, 2022	$ 789,038	$ 1,695,120	$ 100,732	$ 2,584,890
Percentage of total carrying amount				0.32%

9. Allowance for credit losses (continued)

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. These inputs include:

- Retail – Retail assets are defined as personal loans. The inputs for these assets are based on default data from Credit Unions reported to Equifax.
- Non-Retail – Non-retail assets are defined as commercial loans. The inputs for these assets are based on mapping to external default data (no Credit Union data available).

Exposure at 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, such as construction financing loans, the EAD is assumed to be the outstanding balance at the reporting date.

For retail revolving loans, the assumptions are to be provided by the Credit Union. For non-retail revolving loans, the assumptions are based on data from large banks. Term loans and mortgages use contractual conditions and construction loans use the outstanding balance.

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.

9. Allowance for credit losses (continued)

Key inputs and assumptions (continued)

Loss given default ("LGD") (continued)

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 Home Equity Lines of Credit ("HELOC"), estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date and the corresponding Home Price Index ("HPI") as of the valuation date;
- The HPI at the reporting date and projected values in the future;
- The type of property – single-family, multi-family or condo;
- The average regional property value;
- The borrower's credit score; and
- The recovery rate.

The recovered amount of uncollateralized exposure is assumed to be the regulatory amount of 45% as data is not available to estimate this amount.

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.

The recovered amount of uncollateralized exposure is assumed to be 51.7%, which is an average value obtained in two studies performed by Moody's and JP Morgan Chase.

Staging

Changes in staging occur when the following events take place:

- Retail – Significant changes in beacon score and loans that are greater than 30 days past due.
- Non-Retail – Significant changes in borrower risk rating and loans that are greater than 30 days past due.

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.

9. Allowance for credit losses (continued)

Key inputs and assumptions (continued)

Forward-looking information

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

- Residential mortgage and HELOC LGD – Collateral value adjustments based on property index projections.
- Retail and non-retail PD – Relationships with macro drivers derived from bank industry data series and pay net.

10. Property and equipment and intangible assets

	Property and equipment						Intangible assets
	Land	Buildings	Leasehold improvement	Computer hardware	Furniture and fixtures	Total	Total
Cost							
Balance on December 31, 2022	$ 962,157	$ 5,993,514	$ 244,580	$ 542,399	$ 2,161,394	$ 9,904,044	$ 2,591,894
Additions	-	27,807	-	58,469	256,589	342,865	35,303
Disposals	-	-	-	(12,730)	(299,629)	(312,359)	(1,875)
Balance on December 31, 2023	**962,157**	**6,021,321**	**244,580**	**588,138**	**2,118,354**	**9,934,550**	**2,625,322**
Accumulated depreciation							
Balance on December 31, 2022	-	3,374,929	244,580	449,971	2,095,244	6,164,724	2,471,691
Depreciation and amortization	-	190,094	-	63,177	42,602	295,873	94,373
Disposals	-	-	-	(6,893)	(305,466)	(312,359)	(1,875)
Balance on December 31, 2023	**-**	**3,565,023**	**244,580**	**506,255**	**1,832,380**	**6,148,238**	**2,564,189**
Net book value							
December 31, 2023	**$ 962,157**	**$ 2,456,298**	**$ -**	**$ 81,883**	**$ 285,974**	**$ 3,786,312**	**$ 61,133**

10. Property and equipment and intangible assets (continued)

	Property and equipment						Intangible assets
	Land	Buildings	Leasehold improvement	Computer hardware	Furniture and fixtures	Total	Total
Cost							
Balance on December 31, 2021	$ 962,157	$ 5,993,514	$ 244,580	$ 816,382	$ 2,230,555	$ 10,247,188	$ 2,717,197
Additions	-	-	-	40,987	-	40,987	33,654
Disposals	-	-	-	(314,970)	(69,161)	(384,131)	(158,957)
Balance on December 31, 2022	962,157	5,993,514	244,580	542,399	2,161,394	9,904,044	2,591,894
Accumulated depreciation							
Balance on December 31, 2021	-	3,204,060	244,580	680,405	2,070,695	6,199,740	2,488,621
Depreciation and amortization	-	170,869	-	84,536	93,710	349,115	142,027
Disposals	-	-	-	(314,970)	(69,161)	(384,131)	(158,957)
Balance on December 31, 2022	-	3,374,929	244,580	449,971	2,095,244	6,164,724	2,471,691
Net book value							
December 31, 2022	$ 962,157	$ 2,618,585	$ -	$ 92,428	$ 66,150	$ 3,739,320	$ 120,203

11. Other assets

	2023	2022
Prepaid expenses	**$ 2,306,900**	$ 3,168,836
Other accounts receivable	**46,090**	43,919
Income tax receivable	**-**	654,418
	$ 2,352,990	$ 3,867,173

12. Borrowings

The Credit Union has authorized lines of credit with Central 1 totaling $25,000,000 denominated in Canadian dollars; however, $2,000,000 is held as security for secured letters of credit. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union. As at December 31, 2023, drawings on the operating line were $Nil (2022 - $5,000,000) incurring interest at a rate of 5% (2022 - 5%).

13. Secured borrowings

The Credit Union enters into loan securitization transactions for residential mortgages. In accordance with the Credit Union's accounting policy, the transferred financial assets continue to either be recognized in their entirety or to the extent of the continuing involvement or are derecognized in their entirety.

Transferred financial assets that are not derecognized in their entirety

All loans to members are measured at amortized cost in the statement of financial position.

	2023	2022
Carrying amounts of assets, included in loans to members	**$ 79,139,661**	$ 68,669,746
Carrying amounts of associated liabilities recognized as secured borrowings	**$ 77,244,373**	$ 67,185,070

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.

14. Deposits	2023	2022
Term	**$ 369,526,916**	$ 315,054,347
Chequing	**161,728,732**	174,785,744
Savings	**142,773,349**	172,170,924
Tax free savings account	**68,584,379**	59,745,309
Registered retirement saving plans	**36,204,150**	38,047,454
Registered retirement income funds	**27,091,601**	25,323,445
Accrued interest and dividends	**9,982,580**	4,906,894
Registered education savings plan	**2,963,346**	2,877,124
Registered disability savings plan	**1,679,809**	1,445,486
Members' shares (Note 18)	**598,938**	587,469
	$ 821,133,800	$ 794,944,196

Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.25% at December 31, 2023 (2022 - 0.25%). Interest is calculated daily and paid on the accounts monthly.

Savings deposits are due on demand and bear interest at a variable rate up to 1.60% at December 31, 2023 (2022 - 1.50%). Interest is calculated daily and paid on the accounts monthly.

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 interest rates offered on term deposits issued on December 31, 2023 range from 0.40% to 5.20% (2022 - 0.40% to 4.70%).

The registered retirement savings plans (“RRSPs”) 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 bear interest at rates up to 1.00% at December 31, 2023 (2022 - 1.00%).

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 amounts vary according to individual needs and statutory requirements.

Registered education savings plan (“RESPs”) and registered disability savings plan (“RDSPs”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above.

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

14. Deposits (continued)

Average yields to maturity

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

	2023		2022	
	Principal	**Yield**	Principal	Yield
Non-interest sensitive	**$ 273,716,666**	**0.62%**	$ 314,533,359	0.59%
Variable rate	**48,330,354**	**2.04%**	53,617,736	1.63%
Fixed rate due less than one year	**311,017,746**	**4.57%**	273,292,307	3.44%
Fixed rate due between one and five years	**178,086,454**	**3.98%**	148,593,900	3.01%
	811,151,220	**2.96%**	790,037,302	2.10%
Accrued interest and dividends payable	**9,982,580**	**0.00%**	4,906,894	0.00%
	$ 821,133,800	**2.96%**	$ 794,944,196	2.10%

Fair value

The fair value of member deposits at December 31, 2023 was $813,368,737 (2022 - $785,458,115).

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 term and credit risks.

15. Payables and other liabilities	**2023**	2022
Derivatives	**$ 3,001,820**	$ 3,630,372
Payables and accruals	**2,632,791**	1,986,694
Income taxes payable	**494,990**	-
	$ 6,129,601	$ 5,617,066

16. Pension plan

The Credit Union makes contributions to the BC Credit Union Employees' Pension Plan which is a multi-employer plan, on behalf of members of its staff. Central 1 administers the plan including the payment of the pension benefits on behalf of employers and employees in accordance with the BC Credit Union Employees' Pension Plan Rules. The pension is based on years of service, contributions and average earnings at retirement. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Credit Union is only one of a number of employers that participates in the plan and the financial information provided to the Credit Union on the basis of the contractual agreements is usually insufficient to measure reliably the Credit Union's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The amount contributed to the plan for 2023 was $764,012 (2022 - $976,017). The contributions were made for current service and these have been recognized in net earnings. At least once every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the funding levels. The most recent actuarial valuation of the plan as at December 31, 2021 indicated a going concern surplus of $112.5M and a solvency deficiency of $10.4M, based on market value assets of approximately $1,046M. Employer contributions to the plan are established by the Trustees upon advice from the plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is for the reporting date of December 31, 2024.

In addition to the plan mentioned above, the Credit Union has established a supplemental retirement plan for eligible employees, whereby the Credit Union and the employees are not required to make contributions in respect of the benefits described in this plan. However, the Credit Union, in its sole discretion, has the option to fund or make contributions to the plan. The pension expense, in respect of contributions paid into this plan in 2023 is nominal.

17. Income taxes

Net deferred income tax asset is composed of the following:

	2023	2022
Allowance for credit losses	**$ 613,000**	$ 425,000
Deferred loan fees	**246,000**	155,000
Other	**20,100**	53,000
Net deferred income tax asset	**$ 879,100**	$ 633,000

17. Income taxes (continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.0% (2022 - 27.0%) are as follows:

	2023	2022
Anticipated income tax	**$ 1,040,399**	$ 1,518,057
Tax effect of the following:		
Provincial credit union rate reduction	**(383,613)**	(519,558)
Other	**52,301**	(9,936)
	$ 709,087	$ 988,563

18. Members' shares

Members' shares issued and outstanding are included in deposit balances (see Note 14).

Patronage and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of BC.

Terms and conditions

Membership shares

Membership shares are Class B shares that are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. They are considered voting shares and have minimum deposit requirements based on age of member and a maximum of 1,000 shares.

Patronage shares

Patronage shares were issued as part of patronage refunds and dividends. These shares are non-voting, redeemable at the option of the board of directors of the Credit Union and have a maximum of 1,000 shares.

Investment shares

Investment shares are non-voting, can be issued only to members of the Credit Union, and pay dividends at the discretion of the directors in the form of cash or additional shares. They are subject to a maximum of 5,000 shares and are redeemable only at the option of the board of directors of the Credit Union.

18. Members' shares (continued)

Distributions to members

	2023		2022	
	Net earnings	**Net equity**	Net earnings	Net equity
Dividends on patronage shares	**$ -**	**$ 9,354**	$ -	$ 6,490
Dividends on investment shares	**-**	**107,949**	-	82,442
Dividends on membership shares	**30,943**	**-**	16,349	-
Less related income taxes	**-**	**(25,171)**	-	(15,118)
	$ 30,943	**$ 92,132**	$ 16,349	$ 73,814

19. Other income

	2023	2022
Loan administration fees	**$ 1,311,721**	$ 1,405,730
Commissions	**1,266,163**	1,300,319
Account service fees	**1,186,509**	1,122,578
Foreign exchange and other	**641,587**	490,906
	$ 4,405,980	$ 4,319,533

20. Other operating and administrative expenses

	2023	2022
Professional fees	**$ 1,488,575**	$ 1,690,230
Data processing	**1,379,131**	1,298,791
Office and general	**1,002,941**	1,329,323
Clearing and processing charges	**880,912**	892,919
Advertising and member relations	**461,682**	571,391
Regulatory costs	**357,290**	377,266
MBS administration expenses	**250,420**	177,757
	$ 5,820,951	$ 6,337,677

21. Related party transactions

The Credit Union's related parties include key management personnel. Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, as well as the directors of the Credit Union, and close family members. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

(a) The Credit Union entered into the following transactions with key management personnel:

	2023	2022
Compensation		
Salaries and other short-term employee benefits	**$ 1,510,086**	$ 1,678,002
Total pension and other post-employment benefits	**186,766**	220,098
	$ 1,696,852	$ 1,898,100
Loans to key management personnel		
Aggregate value of loans advanced	**$ 3,869,552**	$ 3,187,605
Interest received on loans advanced	**179,943**	101,386
Aggregate value of lines of credit advanced	**338,646**	546,073
Interest received on lines of credit advanced	**26,845**	38,527
Unused value of lines of credit	**71,354**	138,927

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

	2023	2022
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$ 1,516,046**	$ 911,406
Interest paid on term and savings deposits	**39,367**	12,235

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.

(b) Remuneration to directors was $66,918 (2022 - $84,775).

22. 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 quarterly reports from the Credit Union's executive 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 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 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 Sunshine Coast and surrounding areas.

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 delinquent loans and overdraft utilization. The board of directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

22. Financial instrument risk management general objectives, policies and processes (continued)

Credit risk (continued)

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

	2023	2022
R-1H	**$ 5,692,617**	$ 4,328,283
AAA	**40,116,382**	41,149,973
AA (high)	**1,803,055**	1,768,984
AA (low)	**34,465,894**	27,896,684
A (low)	**488,415**	479,792
	$ 82,566,363	$ 75,623,716

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 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 capital 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 throughout the fiscal year.

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.

22. Financial instrument risk management general objectives, policies and processes (continued)

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. The Credit Union is not significantly exposed to currency risk or other price 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.

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

	($'000)			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
2023				
Financial assets				
Central 1 and CUPP Services Ltd. shares	**$ -**	**$ 255**	**$ -**	**$ 255**
Investment, other shares	**-**	**57**	**-**	**57**
Government bonds	**33,587**	**-**	**-**	**33,587**
Corporate bonds	**12,692**	**-**	**-**	**12,692**
Provincial bonds	**33,551**	**-**	**-**	**33,551**
Mortgage-backed securities	**2,736**	**-**	**-**	**2,736**
2022				
Financial assets				
Central 1 and CUPP Services Ltd. shares	$ -	$ 262	$ -	$ 262
Investment, other shares	-	57	-	57
Government bonds	23,426	-	-	23,426
Corporate bonds	9,790	-	-	9,790
Provincial bonds	34,138	-	-	34,138
Mortgage-backed securities	8,270	-	-	8,270

22. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

Fair value risk (continued)

<u>Measurement of fair value of financial instruments</u>

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 statutory deposits, investments with Central 1 and debt securities. 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.

22. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

Fair value risk (continued)

Measurement of fair value of financial instruments (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

	($'000)			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
2023				
Assets				
Cash and cash equivalents	**$ 18,914**	**$ 23,312**	**$ -**	**$ 42,226**
Term deposits	**926**	**-**	**-**	**926**
Loans	**-**	**803,741**	**-**	**803,741**
Other accounts receivable	**-**	**46**	**-**	**46**
Liabilities				
Borrowings	**-**	**-**	**-**	**-**
Secured borrowings	**-**	**77,244**	**-**	**77,244**
Deposits	**-**	**813,369**	**-**	**813,369**
Payables and other liabilities	**-**	**6,130**	**-**	**6,130**
2022				
Assets				
Cash and cash equivalents	$ 24,749	$ 19,608	$ -	$ 44,357
Term deposits	5,610	-	-	5,610
Loans	-	759,008	-	759,008
Other accounts receivable	-	44	-	44
Liabilities				
Secured borrowings	-	67,185	-	67,185
Deposits	-	785,458	-	785,458
Payables and other liabilities	-	5,617	-	5,617

Where available, the fair value of loans and receivables is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques.

There were no movements between the fair value levels during the year.

22. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

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, deposits and other interest bearing financial instruments.

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

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 reprice on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within three months, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

As at December 31, 2023, the Credit Union had entered into interest rate swap contracts for a total of $60.0 million of notional principal (2022 - $60.0 million) maturing at various times between 2024 and 2027 (2022 - 2024 to 2027). Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a predetermined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. 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.

22. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

Interest rate risk (continued)

The following tables do 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.

2023		($'000)				
		Interest sensitive balances				
	Average rates	Within 3 months	4 months to 1 year	Over 1 to 7 years	Non-interest rate sensitive	Total
Assets						
Cash and investments	4.19%	$ 59,034	$ 15,428	$ 51,081	$ 1,643	$ 127,186
Loans	5.49%	190,214	141,642	503,361	(3,157)	832,060
Other	0.04%	-	-	-	7,134	7,134
		$ 249,248	$ 157,070	$ 554,442	$ 5,620	$ 966,380
Liabilities						
Deposits and shares	2.95%	$ 119,545	$ 239,803	$ 176,944	$ 284,842	$ 821,134
Other	2.29%	3,248	17,929	58,524	65,545	145,246
		$ 122,793	$ 257,732	$ 235,468	$ 350,387	$ 966,380
Balance sheet mismatch		$ 126,455	$ (100,662)	$ 318,974	$ (344,767)	$ -
Derivatives		(60,000)	5,000	55,000	-	-
Interest sensitivity position 2023		$ 66,455	$ (95,662)	$ 373,974	$ (344,767)	$ -

22. Financial instrument risk management general objectives, policies and processes (continued)

Market risk (continued)

Interest rate risk (continued)

2022		($'000)				
		Interest sensitive balances				
	Average rates	Within 3 months	4 months to 1 year	Over 1 to 7 years	Non-interest rate sensitive	Total
Assets						
Cash and investments	3.49%	$ 64,610	$ 29,186	$ 22,574	$ 10,737	$ 127,107
Loans	4.58%	160,175	128,498	506,815	(1,222)	794,266
Other	0.03%	-	-	-	8,502	8,502
		$ 224,785	$ 157,684	$ 529,389	$ 18,017	$ 929,875
Liabilities						
Deposits and shares	2.10%	$ 88,984	$ 237,927	$ 147,209	$ 320,824	$ 794,944
Other	2.18%	7,466	11,351	54,852	61,262	134,931
		$ 96,450	$ 249,278	$ 202,061	$ 382,086	$ 929,875
Balance sheet mismatch		$ 128,335	$ (91,594)	$ 327,328	$ (364,069)	$ -
Derivatives		(60,000)	-	60,000	-	-
Interest sensitivity position 2022		$ 68,335	- $ (91,594)	$ 387,328	$ (364,069)	$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity.

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 $453,000 (2022 - $433,000) and a decrease in interest rates of 1% could result in a decrease to net earnings of $689,000 (2022 - $835,000).

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 US dollar deposits. As at December 31, 2023, the Credit Union has $4,778,000 (2022 - $5,872,431) of US dollars included in cash and cash equivalents and deposits of $5,012,287 (2022 - $5,803,553) denominated in US dollars.

23. Derivative financial instruments

As at December 31, 2023, the Credit Union has entered into interest rate swap contracts for a total of $60.0 million (2022 - $60.0 million) of notional principal where the Credit Union has agreed to pay at floating interest rates based on banker's acceptance rates and receive at fixed interest rates. These swaps contracts have fixed interest rates ranging from 1.358% to 3.650% (2022 - 1.358% to 3.650%) and mature from December 12, 2024 to December 12, 2027 (2022 - December 12, 2024 to December 12, 2027). The agreements are secured by a general security agreement covering all assets of the Credit Union.

24. Capital 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 included retained earnings and members' shares totaling $63.7 million (2022 - $61.1 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 approximately 15% (2022 - 16%) of the total value of risk weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the board of directors. The Capital Appreciation Plan forecasts the Credit Union's capital position over a five-year period.

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives and dividend/patronage rebate policy, and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the board of directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2023.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by the internal target. 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.

25. Commitments

Loans to members

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:

Unadvanced loans	$24,928,341
Unused lines of credit	$80,025,556
Letters of credit	$4,112,646

Contractual obligations

IT outsourcing services

The Credit Union is committed to acquiring outsourced IT and network services until October 1, 2025 at an approximate cost of $660,000 per year. IT and network service charges are a flat fee with annual increases occurring only up to the level of Consumer Price Index increases for the prior year.

Data processing services

The Credit Union is committed to purchasing online data processing services until March 31, 2026 at an approximate cost of $480,611 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

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.

At December 31, 2023, the Credit Union has outstanding letters of credit on behalf of members in the amount of $4,112,646 (2022 - $1,853,520). These letters of credit have various levels of security.

Funds under administration

Off balance sheet funds under administration by the Credit Union are comprised of loans that have been syndicated, sold mortgages to other Credit Unions and are administered in the capacity as an agent. Off balance sheet funds are not included in the statement of financial position and the balance as at year end is $17,266,641 (2022 - $10,219,466). As at December 31, 2023, the Credit Union has unadvanced loans of $1,127,165 (2022 - $Nil) related to these syndicated loans.

Canada Emergency Business Account ("CEBA")

At December 31, 2023, the Credit Union has disbursed loans in the amount of $4,778,000 (2022 - $9,386,425) on behalf of Central 1 related to the CEBA program. This amount has not been included in the loans balance on the statement of financial position.

26. Supplemental cash flow disclosures

Net changes in non-cash working capital items are comprised of the following:

	2023	2022
Change in derivatives	**$ 682,472**	$ (2,625,019)
Change in financial instruments at FVOCI	**1,293,538**	(939,285)
Change in assets held for sale	**15,215**	(15,215)
Change in other assets	**859,765**	(672,582)
Change in deferred income tax	**(246,100)**	(109,300)
Change in deferred loan fees	**261,889**	102,392
Change in payables and other liabilities	**512,535**	2,540,137
	$ 3,379,314	$ (1,718,872)