First Credit Union
Consolidated Financial Statements
December 31, 2021

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Management's Responsibility

To the Members of First Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 15, 2022

e-Signed by Linda Bowyer
2022-03-15 15:50:33:33 PDT

President & CEO

e-Signed by Alan Fougere
2022-03-15 15:52:18:18 PDT

CFO

Independent Auditor's Report

To the Members of First Credit Union:

Opinion

We have audited the consolidated financial statements of First Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of income, other comprehensive income, changes in members equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting 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 International Financial Reporting 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Kelowna, British Columbia

March 15, 2022

MNP LLP

Chartered Professional Accountants

First Credit Union
Consolidated Statement of Financial Position
As at December 31, 2021

	2021	*2020*
Assets		
Cash and cash equivalents *(Note 6)*	**31,651,839**	74,491,582
Investments *(Note 7)*	**62,623,343**	12,119,202
Member loans receivable and accrued interest *(Note 25)*	**554,655,729**	431,026,369
Property, plant and equipment *(Note 8)*	**10,730,371**	5,642,918
Intangible assets *(Note 9)*	**1,124,772**	519,302
Other assets *(Note 10)*	**6,222,689**	7,151,933
Deferred tax assets *(Note 17)*	**-**	309,436
Investment in associate *(Note 11)*	**6,298,646**	6,789,311
	673,307,389	538,050,053
Liabilities		
Member deposits and accrued interest *(Note 12)*	**603,304,092**	463,755,578
Income taxes payable	**56,125**	168,744
Trade payables and accrued liabilities	**1,936,979**	1,594,324
Secured borrowings *(Note 14)*	**21,526,342**	37,884,354
Lease liabilities *(Note 15)*	**969,889**	791,084
Deferred tax liabilities *(Note 17)*	**492,350**	-
Derivative financial instruments held for risk management *(Note 16)*	**34,358**	-
Patronage dividends payable	**419,249**	421,192
	628,739,384	504,615,276

Contingencies *(Note 18)*

Members' equity		
Member shares *(Note 19)*	**2,137,132**	2,126,897
Retained earnings	**31,724,725**	29,724,331
Contributed surplus *(Note 20)*	**11,019,972**	1,583,549
Accumulated other comprehensive loss	**(313,824)**	-
	44,568,005	33,434,777
	673,307,389	538,050,053

Approved on behalf of the Board

e-Signed by Guy Chartier
2022-03-15 15:57:29:29 PDT
Director

e-Signed by Tim Wall
2022-03-16 07:21:06:06 PDT
Director

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Income
For the year ended December 31, 2021

	2021	*2020*
Interest income		
Member loans	**15,581,160**	14,615,957
Investments	**498,019**	719,626
	16,079,179	15,335,583
Interest expense		
Member deposits	**3,275,779**	4,753,749
Borrowings	**551,771**	724,815
	3,827,550	5,478,564
Net interest income	**12,251,629**	9,857,019
Provision for credit losses *(Note 25)*	**203,361**	158,216
	12,048,268	9,698,803
Other income *(Note 21)*	**4,034,889**	2,685,204
Net interest and other income, after provision for credit losses	**16,083,157**	12,384,007
Operating expenses		
Salaries and employee benefits	**7,272,635**	6,399,617
Dues and assessments	**1,001,697**	571,053
Office	**805,665**	686,637
Clearing and processing	**660,650**	474,466
Professional fees	**569,231**	361,980
Advertising and promotion	**536,679**	462,425
Occupancy	**203,812**	175,286
Loan fees	**198,814**	155,554
Insurance	**89,019**	82,661
General and administrative	**57,273**	56,095
Wealth management	**13,657**	11,339
Depreciation	**1,102,486**	666,397
	12,511,618	10,103,510
Operating income	**3,571,539**	2,280,497
Distribution to members *(Note 19)*	**397,686**	376,286
	3,173,853	1,904,211
Other items		
Gain on disposal of asset held for sale	**-**	666,501
Loss on investments	**(34,358)**	(21,409)
Loss from investment in associate	**(548,480)**	(661,290)
	(582,838)	(16,198)
Net income before income taxes	**2,591,015**	1,888,013
Income taxes *(Note 17)*		
Current	**473,596**	494,134
Deferred	**101,500**	(17,706)
	575,096	476,428
Net income	**2,015,919**	1,411,585

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2021

	2021	*2020*
Net income	**2,015,919**	1,411,585
Other comprehensive loss		
Items that will not be reclassified subsequently to profit or loss		
Fair value losses on investments, net of tax	**(313,824)**	-
Total comprehensive income for the year	**1,702,095**	1,411,585

	Member shares	*Contributed surplus*	*Retained earnings*	*Accumulated other comprehensive loss*	*Total equity*
Balance December 31, 2019	**2,164,888**	**1,589,572**	**28,334,029**	**-**	**32,088,489**
Net income	**-**	**-**	**1,411,585**	**-**	**1,411,585**
Redemption of shares	**(208,590)**	**-**	**-**	**-**	**(208,590)**
Issuance of shares	**170,599**	**-**	**-**	**-**	**170,599**
Dividends on member shares *(Note 19)*	**-**	**-**	**(28,540)**	**-**	**(28,540)**
Deferred income tax	**-**	**1,234**	**-**	**-**	**1,234**
Amortization transfer of contributed surplus	**-**	**(7,257)**	**7,257**	**-**	**-**
Balance December 31, 2020	**2,126,897**	**1,583,549**	**29,724,331**	**-**	**33,434,777**
Net income	**-**	**-**	**2,015,919**	**-**	**2,015,919**
Fair value losses arising during the year	**-**	**-**	**-**	**(313,824)**	**(313,824)**
Redemption of shares	**(4,944,609)**	**-**	**-**	**-**	**(4,944,609)**
Issuance of shares	**4,747,819**	**-**	**-**	**-**	**4,747,819**
Dividends on member shares *(Note 19)*	**-**	**-**	**(15,525)**	**-**	**(15,525)**
Amounts upon acquisition with Union Bay Credit Union *(Note 5)*	**207,025**	**9,436,423**	**-**	**-**	**9,643,448**
Balance December 31, 2021	**2,137,132**	**11,019,972**	**31,724,725**	**(313,824)**	**44,568,005**

First Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2021

	2021	*2020*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**16,124,206**	14,532,982
Interest received from investments and derivatives	**849,130**	871,258
Cash received on other income	**3,661,580**	2,273,335
Cash paid to suppliers and employees	**(11,520,183)**	(9,336,429)
Interest paid on member deposits	**(3,781,658)**	(5,089,374)
Interest paid on borrowings	**(503,177)**	(692,515)
Patronage distributions to members	**(399,629)**	(307,263)
Income taxes paid	**(628,274)**	(117,657)
Acquired in business combination *(Note 5)*	**8,429,066**	-
	12,231,061	2,134,337
Financing activities		
Repayment of borrowings	**(14,826,226)**	(2,831,890)
Repayment of lease liabilities	**(106,827)**	(78,629)
Increase in member deposits	**30,841,118**	63,366,585
Reduction of equity shares	**(196,790)**	(37,991)
Advances (to) from associate	**(57,815)**	421,525
Dividends on equity shares	**(15,525)**	(28,540)
	15,637,935	60,811,060
Investing activities		
Increase in member loans	**(26,076,922)**	(21,677,198)
Purchase of property, plant, equipment and intangibles	**(3,926,988)**	(1,467,863)
Proceeds on sale of asset held for sale	**-**	1,298,615
Purchase of investments	**(40,704,829)**	(3,053,903)
	(70,708,739)	(24,900,349)
Increase (decrease) in cash resources	**(42,839,743)**	38,045,048
Cash and cash equivalents, beginning of year	**74,491,582**	36,446,534
Cash and cash equivalents, end of year	**31,651,839**	74,491,582

The accompanying notes are an integral part of these financial statements

1. Reporting entity information

Entity information

First Credit Union (the "Credit Union") is incorporated under the laws of British Columbia, is regulated under the Financial Institutions Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union serves members in the Sunshine Coast region and provides financial services through 8 branches, telephone and on-line banking. The address of the Credit Union's registered office is 4448 A Marine Avenue, Powell River, British Columbia.

The Credit Union acquired Union Bay Credit Union on July 1, 2021 (Note 5).

Basis of presentation

These consolidated financial statements include the accounts of First Wealth Management Ltd. ("FWM") and First Group of Companies Realty Holdings Ltd. ("FCGRH") which are wholly-owned subsidiaries of First Credit Union. All inter-entity balances and transactions are eliminated on consolidation.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2021.

These consolidated financial statements for the year ended December 31, 2021 were approved and authorized for issue by the Board of Directors on March 15, 2022.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2021. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IFRS 3 *Business combinations*
- IFRS 10 *Consolidated financial statements*
- IFRS 13 *Fair value measurement*
- IAS 16 *Property, plant and equipment*
- IAS 38 *Intangible assets*
- IAS 39 *Financial instruments: recognition and measurement*

3. Significant accounting judgments, estimates and assumptions

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discuss below.

Allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates and/or interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios
- Vacancy rates

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

Impact of the COVID-19 pandemic:

As a result of COVID-19, there is a higher degree of uncertainty in determining reasonable and supportable forward-looking information used in assessing significant increase in credit risk and measuring expected credit losses. The impact of the pandemic on the long-term outlook remains fluid and uncertain, and forward looking information has been updated to the best of the Credit Union's knowledge based on external economic data. The Credit Union continued relief programs during the year that allowed borrowers to temporarily defer payments of principal on their loans. Under these retail and non-retail programs and notwithstanding any other changes in credit risk, opting into a payment deferral program does not in and of itself trigger a significant increase in credit risk since initial recognition and does not result in additional days past due.

The current environment is subject to rapid change and to the extent that certain effects of COVID-19 are not fully incorporated into the model calculations, increased temporary quantitative and qualitative adjustments have been considered and applied where necessary. This includes borrower credit scores, industry and geography specific COVID-19 impacts, payment support initiatives introduced by the Credit Union, the governments, and the persistence of the economic shutdown, the effects of which are not yet fully reflected in the quantitative models. The Credit Union has performed certain additional qualitative portfolio and loan level assessment if significant changes in credit risk were identified.

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income tax

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 asset or 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 assets or liabilities.

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union’s financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

4. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiaries.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from inter-Company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union’s interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and on deposit, and cash equivalents with original maturities of one year or less from the date of acquisition, and are subject to an insignificant risk of changes in their fair value.

Member loans receivable and accrued interest

All member loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any allowance for estimated credit losses.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Years
Buildings	5 - 40
Leasehold improvements	Term of lease
Computer Equipment	3 - 5
Equipment	5 - 10
Furniture and fixtures	5 - 20
Automotive	5
Automated teller machines	5 - 10
Right-of-use assets	Term of lease

The useful lives of items of property, plant and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets

Amortization of limited life intangible assets is charged to earnings on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives for intangibles with finite lives are as follows:

Customer list	5 years
Computer software	3 - 10 years

The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. The amortization period and amortization method for an intangible asset with a finite useful life reflects the pattern in which the asset's future economic benefits are expected to be consumed. Where the pattern cannot be reliably determined, the straight-line method is used. The amortization period and method is reviewed at least at each financial year end.

Investment in associate

The Credit Union's investment in its associate, CU Agencies Alliance Ltd. ("CUAAL"), is accounted for using the equity method. An associate is an entity in which the Credit Union has significant influence.

Under the equity method, the investment in associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Credit Union's share of net assets of the associate. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Credit Union recognizes its share of any changes. Unrealized gains and losses resulting from transactions between the Credit Union and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Credit Union determines whether it is necessary to recognize an additional impairment loss on the Credit Union's investment in associate. The Credit Union determines at each reporting date whether there is objective evidence that the investment in associate is impaired. If this is the case, the Credit Union calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in earnings.

Upon loss of significant influence over the associate, the Credit Union measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in earnings.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in earnings.

Trade payables and accrued liabilities

Trade payables and accrued liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Member deposits and accrued interest

Member deposits are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

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 measured at amortized cost, using the effective interest rate method.

The Credit Union's securitization activity primarily involves purchases of National Housing Act Mortgage-Backed Securities (NHA MBS) through the Canada Housing Trust (CHT).

Mortgages transferred to CHT continue to be recognized in the Credit Union's consolidated statement of financial position as, in the opinion of the Credit Union's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in the Credit Union's consolidated statement of financial position as secured borrowings.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Pensions and post retirement benefits

The Credit Union has both defined contribution and defined benefit pension plans, including participation in a multi-employer defined benefit plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the fees are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services. The multi-employer defined benefit pension plan is accounted for using defined contribution accounting as sufficient information is not available to apply defined benefit accounting.

Income taxes

Current tax and deferred tax are recognized in earnings except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable income.

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

Leases

The Credit Union assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Credit Union assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

Where the Credit Union is a lessee in a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Where the Credit Union is a lessor in a contract that contains a lease component and one or more additional lease or non-lease components, the Credit Union allocates the consideration in the contract in accordance with IFRS 15, whereby the consideration is allocated to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Credit Union measures right-of-use assets related to buildings and vehicle by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Credit Union expects that the ownership of the underlying asset will transfer to the Credit Union by the end of the lease term or if the cost of the right-of-use asset reflects that the Credit Union will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Credit Union under a residual value guarantee, the exercise price of a purchase option that the Credit Union is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Credit Union exercising an option to terminate the lease. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest method.

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in earnings if the carrying amount of the right-of-use asset has been reduced to zero.

The Credit Union assesses at lease inception whether a lease should be classified as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset; otherwise it is classified as an operating lease.

At the commencement date of a finance lease, the Credit Union recognizes assets held under a finance lease as a receivable at an amount equal to the net investment in the lease, discounted using the interest rate implicit in the lease. The lease payments included in the measurement of the net investment in the lease comprise of payments for the right to use the underlying asset that are not received at the commencement date, including fixed payments less any lease incentives payable, variable lease payments that depend on an index or a rate, any residual value guarantees provided to the lessor, the exercise price of a purchase option if the lessee is reasonably certain to exercise and payments of penalties for termination of the lease if the lease term reflects the lessee exercising an option to terminate the lease. After the commencement date, the Credit Union recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Credit Union's net investment in the lease.

Lease payments from operating leases are recognized as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of certain cash equivalents, member loans receivable and accrued interest, Central 1 term deposits, and other receivables.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Financial assets measured at fair value through other comprehensive income are comprised of Central 1 mandatory liquidity pool deposits.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash on hand and on deposit.

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Where the Credit Union uses a credit derivative with a matching referenced name and seniority to manage all or part of a credit exposure, it may, at any time, designate that financial instrument to be measured at fair value through profit or loss to the proportional extent that it is so managed. Financial assets designated at fair value through profit or loss are comprised of equity investments.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are shares in Central 1, CUPP Services Ltd. and other equity investments.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, and the significance and frequency of sales in prior period.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments, measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For members' loans receivable and accrued interest the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for other receivables. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and
- Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 25 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

The Credit Union engages in securitization transactions, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

The following financial liabilities are measured at fair value through profit or loss:

- Derivative financial instruments held for risk management

In addition, on initial recognition the Credit Union may irrevocably designate certain financial liabilities to be measured at fair value through profit or loss in the following circumstances:

- The designation eliminates or significantly reduces an accounting mismatch
- A group of financial liabilities or financial liabilities and financial assets is managed and its performance evaluated on a fair value basis
- The financial liability is a host contract containing one or more embedded derivatives.

Changes in the carrying amount of these financial liabilities are recognized in profit or loss.

Most financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits and accrued interest, trade payables and accrued liabilities, securitization debt and patronage payable.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Derivative assets held for risk management

Derivative assets held for risk management are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivative instruments are recognized in profit or loss.

Revenue recognition

The following describes the Credit Union's principal activities from which it generates revenue.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial asset

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Other income

The Credit Union generates revenue from other revenue streams including services charges, loan fees and penalties, and commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

Consideration is typically due when when the service has been rendered to the customer. The amount of revenue recognized on these transactions is based on the price specified in the contract.

Management has not made any judgments in determining the amount of costs incurred to obtain or fulfil a contract with a customer as it does not expect these costs to be recovered. Such costs are expensed in the period in which they are incurred.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in other income.

Assets held for sale

Assets that may be classified as held for sale consists of property, plant and equipment, intangible assets, foreclosed assets, etc. The Credit Union classifies an asset or group of assets and related liabilities (a disposal group) as held for sale when, amongst other things, the Credit Union has committed to a plan of disposition, the asset is available for immediate sale, the plan is not expected to change significantly, and the sale is expected to occur within one year. An asset or disposal group acquired in a business combination that will be sold rather than held and used is classified as held for sale at the date of acquisition when it is probable that the Credit Union will dispose of the assets within one year. The held for sale asset or disposal group is presented separately on the consolidated statement of financial position.

An asset or disposal group classified as held for sale, including those newly acquired in a business combination, is measured at the lower of its carrying amount and its fair value less costs to sell. No assets classified as held for sale are subject to depreciation. Any initial or subsequent write-downs of the assets to fair value less costs to sell are recognized as impairment losses. Subsequent increases in fair value not in excess of the cumulative loss previously recorded are recognized as gains. An impairment loss or any subsequent gain recognized for a disposal group decreases or increases the carrying amount of the assets in the group, respectively.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method.

The consideration for each acquisition is measured at the aggregated of the fair values, at the date of exchange, of assets transferred, liabilities assumed, and equity instruments issued by the Credit Union in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value (the date in which the Credit Union acquired control of the acquiree). Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognized in profit or loss. Changes in the fair value of contingent consideration classified as equity are not recognized.

The Credit Union recognizes any non-controlling interests in its subsidiaries either at fair value or at the non-controlling interest's proportionate share of the subsidiaries assets.

The acquired identifiable assets, and liabilities are recognized at their acquisition date fair values if they meet the definitions of assets and liabilities in the Framework for the preparation and presentation of financial statements at acquisition date and they were exchanged as part of the business combination rather than as the result of separate transactions.

The following are exceptions to this recognition and measurement principle:

- Deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 *Income taxes*;

- Liabilities or assets related to the aquiree's employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee benefits*;
- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with those of the Credit Union are measured in accordance with IFRS 2 *Share-based payments* at the acquisition date;
- Asset and disposal groups that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured at fair value less costs to sell.
- Contingent liabilities are recognised at the acquisition date even if is not probable that an outflow of economic benefits will be required to settle the obligation;
- Indemnification assets are recognised at the same time and measured at the same basis as the indemnified item, subject to a valuation allowance for uncollectable amounts. This may lead to exceptions if the indemnified item is itself an exception; and
- The value of a reacquired right is measured as an intangible asset on the basis of the remaining contractual term regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2021 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

Annual Improvements to IFRSs 2018 - 2020 Cycle

The Annual Improvements to IFRSs 2018 – 2020 Cycle, issued in May 2020, include a series of amendments to IFRSs in response to issues addressed during the 2018-2020 cycle as follows:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*
The amendments simplify the application of IFRS 1 by a subsidiary, that becomes a first-time adopter of IFRS standards later than its parent by allowing the subsidiary to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.

IFRS 9 *Financial Instruments*
The amendments clarify which fees an entity includes when performing the 10 percent test used to determine whether to derecognize a financial liability. An entity shall include only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or lender on the other's behalf.

IFRS 16 *Leases*
The amendments resolve the potential for confusion regarding the treatment of lease incentives by amending Illustrative Example 13 to remove the reimbursement of leasehold improvements by the lessor.

These amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in May 2020, update all old references in IFRS 3 to the old *Conceptual Framework* to the revised *Conceptual Framework for Financial Reporting*. The amendments also add an exception to the IFRS 3 recognition requirements, whereby for liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* if incurred separately, an acquirer would apply IAS 37 or IFRIC 21 to identify the obligations assumed in a business combination, instead of the *Conceptual Framework*. Finally, the amendments make requirements for contingent assets more explicit by adding a statement in IFRS 3 that an acquirer should not recognize contingent assets acquired in a business combination.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IFRS 16 Leases

Amendments to IFRS 16, issued in March 2021, extend the availability of the exemption for COVID-19 related rent concessions by one year to June 30, 2022. The exemption applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided that the other conditions for applying the practical expedient are met.

The amendments are effective for transactions for annual reporting periods beginning on or after April 1, 2021. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in February 2021, introduce a new definition of “accounting estimates” to replace the definition of “change in accounting estimates” and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IAS 12 Income Taxes

Amendments to IAS 12, issued in May 2021, narrow the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Amendments to IAS 37, issued in May 2020, specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union is currently assessing the impact of these amendments on its consolidated financial statements.

5. Business combinations

Business combinations are accounted for using the acquisition method. The results of the acquired businesses are included in the consolidated financial statements as from the respective dates of acquisition.

The Credit Union acquired Union Bay Credit Union on July 1, 2021.

The acquisition had the following effect on the Credit Union's assets and liabilities on acquisition date:

	Pre-acquisition carrying amount	Fair-value adjustment	Fair value at the acquisition date
Acquired assets and assumed liabilities			
Cash and cash equivalents	8,429,066	-	8,429,066
Investments	10,109,306	42,177	10,151,483
Member loans receivable and accrued interest	95,528,218	2,770,627	98,298,845
Property, plant and equipment	1,030,220	1,267,732	2,297,952
Intangible assets	570,470	-	570,470
Other assets	268,671	-	268,671
Deferred tax liabilities	(47,034)	(653,252)	(700,286)
Member deposits and accrued interest	(109,106,447)	(106,830)	(109,213,277)
Trade payables and accrued liabilities	(166,893)	-	(166,893)
Income taxes payable	(42,058)	-	(42,058)
Lease liabilities	(250,525)	-	(250,525)
Net identifiable asset and liabilities	6,322,994	3,320,454	9,643,448
Member shares issued on acquisition			207,025
Contributed surplus on acquisition recognized			9,436,423

Acquisition-related costs totalling $230,189 have been excluded from the consideration transferred and have been recognized as an expense in the period, within the professional fees account line item in the consolidated statement of income.

6. Cash and cash equivalents

	2021	*2020*
Cash on hand and on deposit	**31,651,839**	43,482,558
Deposits held by Central 1	**-**	31,009,024
	31,651,839	74,491,582

7. Investments

The following table provides information on the investments by financial instrument classification, type, and issuer. The maximum exposure to credit risk would be the carrying value disclosed in Note 25.

	2021	2020
Investments		
Measured at amortized cost		
Central 1 term deposits	**1,600,000**	10,054,062
Measured at fair value through other comprehensive income		
Central 1 mandatory liquidity pool deposits	**60,612,404**	-
Equity investments		
Measured at fair value through profit or loss		
Central 1 shares	**200,730**	1,880,954
CUPP Services Ltd. shares	**168,810**	142,787
Other equity investments	**41,399**	41,399
	410,939	2,065,140
	62,623,343	12,119,202

8. Property, plant and equipment

	Land	*Buildings*	*Leasehold improvements*	*Computer equipment*	*Equipment*	*Furniture and fixtures*	*Automotive*	*Automated teller machines*	*Right-of-use assets*	*Total*
Cost										
Balance at December 31, 2019	**799,794**	**4,609,966**	**478,710**	**1,129,417**	**183,122**	**1,042,654**	**104,027**	**157,807**	**864,651**	**9,370,148**
Additions	**-**	**-**	**1,093,125**	**14,321**	**25,051**	**57,267**	**8,871**	**102,068**	**-**	**1,300,703**
Balance at December 31, 2020	**799,794**	**4,609,966**	**1,571,835**	**1,143,738**	**208,173**	**1,099,921**	**112,898**	**259,875**	**864,651**	**10,670,851**
Additions	**-**	**2,361,981**	**956,503**	**135,732**	**-**	**19,367**	**4,630**	**121,505**	**-**	**3,599,718**
Amounts upon acquisition with Union Bay Credit Union	**405,192**	**1,875,304**	**275,433**	**167,888**	**-**	**742,621**	**-**	**73,729**	**315,714**	**3,855,881**
Balance at December 31, 2021	**1,204,986**	**8,847,251**	**2,803,771**	**1,447,358**	**208,173**	**1,861,909**	**117,528**	**455,109**	**1,180,365**	**18,126,450**
Depreciation										
Balance at December 31, 2019	**-**	**2,157,047**	**99,128**	**1,025,973**	**162,216**	**850,626**	**63,007**	**152,521**	**63,429**	**4,573,947**
Depreciation	**-**	**176,035**	**49,923**	**79,733**	**15,779**	**37,964**	**17,988**	**13,135**	**63,429**	**453,986**
Balance at December 31, 2020	**-**	**2,333,082**	**149,051**	**1,105,706**	**177,995**	**888,590**	**80,995**	**165,656**	**126,858**	**5,027,933**
Depreciation	**-**	**357,334**	**186,849**	**57,810**	**11,416**	**49,168**	**12,507**	**49,973**	**85,159**	**810,216**
Amounts upon acquisition with Union Bay Credit Union	**-**	**505,304**	**237,033**	**155,389**	**-**	**566,863**	**-**	**7,477**	**85,864**	**1,557,930**
Balance at December 31, 2021	**-**	**3,195,720**	**572,933**	**1,318,905**	**189,411**	**1,504,621**	**93,502**	**223,106**	**297,881**	**7,396,079**
Net book value										
At December 31, 2020	799,794	2,276,884	1,422,784	38,032	30,178	211,331	31,903	94,219	737,793	5,642,918
At December 31, 2021	**1,204,986**	**5,651,531**	**2,230,838**	**128,453**	**18,762**	**357,288**	**24,026**	**232,003**	**882,484**	**10,730,371**

9. Intangible assets

	Customer list	Computer software	Total
Cost			
Balance at December 31, 2019	**70,101**	**1,900,977**	**1,971,078**
Additions	**-**	**167,160**	**167,160**
Balance at December 31, 2020	**70,101**	**2,068,137**	**2,138,238**
Additions	**-**	**327,270**	**327,270**
Amounts upon acquisition with Union Bay Credit Union	**-**	**1,431,331**	**1,431,331**
Balance at December 31, 2021	**70,101**	**3,826,738**	**3,896,839**
Amortization			
Balance at December 31, 2019	**70,101**	**1,346,276**	**1,416,377**
Amortization	**-**	**202,559**	**202,559**
Balance at December 31, 2020	**70,101**	**1,548,835**	**1,618,936**
Amortization	**-**	**292,270**	**292,270**
Amounts upon acquisition with Union Bay Credit Union	**-**	**860,861**	**860,861**
Balance at December 31, 2021	**70,101**	**2,701,966**	**2,772,067**
Net book value			
At December 31, 2020	-	519,302	519,302
At December 31, 2021	**-**	**1,124,772**	**1,124,772**

10. Other assets

	2021	*2020*
Commission and other receivables	**4,856,497**	6,442,902
Prepaid expenses and deposits	**1,169,648**	599,981
Interest and dividends receivable	**196,544**	109,050
	6,222,689	7,151,933

11. Investment in associate

The Credit Union has an interest in the following associate:

	Ownership interest	
	2021	*2020*
CUAAL	**47.12%**	47.12%

The Credit Union holds an interest representing 47.12% (2020 - 47.12%) in CUAAL, an entity established for the purpose of finding, buying and holding shares in insurance brokerage companies on a wholly owned basis. The end of the reporting period of the entity is December 31.

The entity was established on October 1, 2016, the day after the Credit Union sold its 100% holdings of Westview Agencies Ltd. and First Insurance Agencies Ltd. to another wholly owned subsidiary, CUAAL, followed by a sale of 50% of CUAAL to the Credit Union's co-participant. On May 31, 2017, a new shareholder agreement was signed in which another investor was added upon their contribution of assets, in the form of their 100% investment in 1061350 BC Ltd (operating as Aldergrove Insurance Services). As a result of this addition, the Credit Union's holdings in the entity decreased by 1.24%. Subsequent to this transaction the Credit Union did not have joint control of the entity, but significant influence. In December 2018, the other investors in CUAAL injected $700,000 into the entity through the purchase of common shares. As a result of this cash injection, the Credit Union's holdings in the entity decreased by 1.64%.

These entities' shares are not traded on the stock exchange therefore, they have no official quoted price. The Credit Union earned $82,460 (2020 - $nil) in dividends from this entity.

Summarized financial information for this associate is included in the associate’s ASPE financial statements is as follows:

Balance sheet:

(in thousands)	***CUAAL***	
	2021	*2020*
Current assets	**1,371**	1,440
Non-current assets	**14,969**	17,433
Current liabilities	**(447)**	(923)
Non-current liabilities	**(3,238)**	(4,131)
Total net assets	**12,655**	13,819

Statement of income:

(in thousands)	***CUAAL***	
	2021	*2020*
Revenue	**5,105**	4,565
Depreciation and amortization	**(2,050)**	(2,049)
Operating expenses	**(4,549)**	(4,330)
Future income tax recovery	**505**	411
Net loss	**(989)**	(1,403)

12. Member deposits

	2021	*2020*
Demand deposits	**393,446,195**	266,461,051
Term deposits	**112,565,506**	114,505,791
Member shares	**436,362**	-
Registered plans	**95,420,634**	81,032,437
Accrued interest	**1,435,395**	1,756,299
	603,304,092	463,755,578

13. Credit facility

The Credit Union has authorized lines of credit with Central 1 totaling $13,400,000 plus $100,000 in USD. 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, 2021 this facility was not drawn upon (2021 - $nil).

14. Secured borrowings

The Credit Union periodically enters into asset transfer agreements with third parties which may include securitization of mortgages into Canada Mortgage and Housing Corporation-sponsored programs which issue bonds to third party investors at specified interest rates.

The Credit Union also securitizes insured residential mortgages by participating in the National Housing Act ("NHA") Mortgage-backed Securities ("MBS") program. Through the program, the Credit Union issues securities backed by mortgages that are insured against borrower's default.

The following table summarizes securitization activity included in the consolidated statement of financial position:

	2021	*2020*
Unsold loan pools	**-**	5,131,726
Outstanding balance of securitized loans	**21,526,342**	37,884,354

The following table summarizes securitization activities that are not recorded on the consolidated statement of financial position:

	2021	*2020*
Unsold loan pools	**124,297,160**	210,165,739
Outstanding balance of securitized loans	**571,686,660**	554,830,340

The following table summarizes total securitization activities employed by the Credit Union:

	2021	*2020*
Unsold loan pools	**124,297,160**	215,297,465
Outstanding balance of securitized loans	**593,213,002**	592,714,694

15. Lease liabilities

Leases as lessee

The Credit Union leases land, building's and a vehicle for its branches. These leases generally span a period of 4 - 10 years and include an option to renew the lease for an additional 5 -15 years after the end of the initial contract term.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented within property, plant and equipment in the statement of financial position. Refer to note 8 for information pertaining to right-of-use assets arising from lease arrangements in which the entity is a lessee.

Lease liabilities

The following table sets out a maturity analysis of lease liabilities:

	2021	*2020*
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**132,641**	81,950
One to five years	**509,133**	335,257
More than five years	**879,312**	581,508
Total undiscounted lease liabilities at December 31	**1,521,086**	998,715
Lease liabilities included in the statement of financial position at December 31	**969,889**	791,084
Current	**102,668**	51,631
Non-current	**867,221**	739,453

Amounts recognized in profit or loss

The Credit Union has recognized the following amounts in the statement of income:

	2021	*2020*
Interest expense on borrowings	**35,107**	32,300

16. Derivative financial instruments held for risk management

The Credit Union enters into derivative financial instruments for risk management purposes. Derivative financial instruments used by the Credit Union are interest rate swaps, which are used to hedge the Credit Union's exposure to interest rate risk.

The notional amounts of these derivative financial instruments are not recorded in the financial statements. Derivatives are recorded at fair value on the statement of financial position. The fair value of the derivative financial instrument liability at December 31, 2021 was $34,358 (2020 - $nil).

17. Income tax

The total provision for income taxes in the consolidated statement of income is at a rate below the combined federal and provincial statutory income tax rates for the following reasons:

	Amount	***2021*** **% of Pre-tax income**	*Amount*	*2020* *% of Pre-tax income*
Combined federal and provincial statutory income tax rates	**699,574**	**27.0 %**	381,128	27.0 %
Credit Union and other reductions	**(363,604)**	**(14.0)%**	(168,383)	(11.9)%
Non-deductible and other items	**73,350**	**2.8 %**	281,389	14.9 %
Tax effect of amounts in other comprehensive income	**64,276**	**2.5 %**	-	- %
	473,596	**18.3 %**	494,134	30.0 %

The tax effects of temporary differences which give rise to the deferred tax asset and liability reported on the statement of financial position is from differences between amounts deducted for accounting and income tax purposes.

Net deferred income tax is comprised of the following:

	2021	*2020*
Deferred tax asset		
Equity pickup from associate	**492,773**	421,471
CCA on amalgamation costs	**18,784**	4,992
Accounting reserves not deducted for tax purposes	**121,411**	112,256
Lease liabilities	**14,859**	13,251
Property, plant and equipment	**26,223**	35,574
	674,050	587,544
Deferred tax liability		
Property, plant and equipment	**(183,414)**	(28,070)
Intangible assets	**(175,776)**	(88,281)
Allowance for impaired loans	**(199,236)**	(135,571)
Fair value differentials on contributed surplus	**(607,974)**	(26,186)
	(1,166,400)	(278,108)
Net deferred tax asset (liability)	**(492,350)**	309,436

18. Contingencies

From time to time, various claims and legal proceedings may arise against the Credit Union. The Credit Union vigorously defends itself where appropriate and in instances where it considers it more likely than not to prevail, no provision is recorded in the consolidated financial statements.

19. Member shares

Authorized:

Unlimited number of Member shares, at an issue price of $1
Unlimited number of Investment shares, at an issue price of $1

Member shares issued:

	2021	*2020*
Member shares classified as equity		
678,052 Member shares (2020 - 535,276)	**678,052**	535,276
1,459,080 Investment shares (2020 - 1,591,621)	**1,459,080**	1,591,621
	2,137,132	2,126,897

Membership shares

As a condition of membership, each member is required to own at least $25 of membership equity shares. Members under the age of 18 are only required to have $5 of membership equity shares. These membership shares are redeemable at par only upon withdrawal of membership.

Investment shares

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount is classified as equity

During the year, the Credit Union issued 4,747,819 shares (2020 - 170,599) and redeemed 4,944,609 shares (2020 - 208,590) member shares.

Distributions to members

	2021	*2020*
Patronage distributions	**397,686**	376,286
Dividends on member shares	**15,525**	28,540
	413,211	404,826

20. Contributed surplus

Contributed surplus was created upon the amalgamation of Cumberland & District Credit Union (CDCU) with First Credit Union in September 2012 and represents the retained earnings of CDCU that were assumed $1,423,824 (2020 - $1,423,824) as well as the fair value increments (including deductions for deferred income taxes) on land and buildings held by CDCU $159,725 (2020 - $159,725).

Contributed surplus was also created upon the amalgamation of Union Bay Credit Union (UBCU) with First Credit Union on July 1, 2021, and represents the retained earnings of UBCU that were assumed $6,115,969 as well as the fair value increments (including deductions for deferred income taxes) on investments, loans to members, land, buildings, and member deposits held by UBCU $3,320,454.

21. Other income

	2021	2020
Commissions	**1,575,467**	1,390,002
Loan fees and penalties	**1,338,452**	706,331
Service charges	**819,842**	693,668
Other income	**524,477**	192,027
Rental income	**6,250**	27,596
Credit card discounts and fees	**1,903**	2,105
Securitization fee amortization	**(231,502)**	(326,525)
	4,034,889	2,685,204

22. Pension plan and other employee benefits

The Credit Union principally provides pension benefits to its eligible employees through the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. The Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the Plan. As of September 30, 2021, this Division covered about 3,500 active employees, 1,400 deferred members and approximately 1,330 retired plan members, with reported assets of approximately $1,036 million. At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the plan as at December 31, 2018 indicated a going concern surplus of $31.6 million and a solvency deficiency of $99.5 million, based on market value assets of approximately $735 million. Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is scheduled for December 31, 2021 with results expected to be available in September 2022.

The amount contributed to the plan for 2021 was $192,974 (2020 - $188,259). The contributions were made for current service and have been recognized in earnings.

Defined contribution plan

The Credit Union also makes contributions to the Pension Plan for the Employees of First Credit Union, a plan administered by Mackenzie Financial, on behalf of some members of its staff. The plan is a defined contributions plan, which requires contributions from the Credit Union based on the length of service and rates of pay, with no further liability assumed by the Credit Union for plan performance.

The amount contributed to the plan for 2021 was $292,344 (2020 - $286,794). The contributions were made for current service and have been recognized in earnings.

23. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") are defined by *IAS 24 Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including the Board of Directors, executives and senior management.

	2021	*2020*
Salaries and short-term benefits	**1,366,519**	1,376,577
Post-employment benefits	**89,308**	86,298
Total remuneration	**1,455,827**	1,462,875

Transactions with key management personnel

Loans made to Directors and KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities.

There are no benefits or concessional terms and conditions applicable to the family members of Directors and KMP. There are no loans that are impaired in relation to the loan balances with family members of Directors and KMP.

	2021	*2020*
Aggregate of loans to Directors and KMP	**3,555,864**	2,802,268
Total value of revolving credit facilities to Directors and KMP	**542,720**	1,025,007
	4,098,584	3,827,275

	2021	*2020*
During the year the aggregate value of loans disbursed to Directors and KMP amounted to:		
Loans	**1,109,419**	811,500

	2021	*2020*
Interest and other revenue earned on loans to Directors and KMP	**71,083**	73,410
The total value of member deposits from the Directors and KMP as at the year-end:		
Chequing and demand deposits	**5,578,882**	3,886,410
Term deposits	**2,108,957**	1,462,801
Total value of member deposits due to Directors and KMP	**7,687,839**	5,349,211

Directors' fees and expenses

As approved by the Credit Union membership, aggregate payments paid during the year to Directors in their capacity as Directors, including stipend, amounted to $82,615 (2020 - $61,584). During the year, expense reimbursements related to meeting, training and conference costs amounted to $52,573 (2020 - $42,081).

24. Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is assessed to be significant to that fair value measurement. This assessment requires the use of judgment in considering factors specific to an asset or a liability and may affect the placement of the fair value measurement within the hierarchy.

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses valuation techniques including net present value techniques and discounted cash flow models and comparison with quoted or observable prices for similar instrument. The Credit Union uses assumptions and estimates for risk-free interest rates, interest rate yield curves, and correlations between inputs.

Financial assets and financial liabilities measured at fair value

The Credit Union's financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

			2021
	Fair Value	***Level 1***	***Level 2***
Assets			
Cash on hand and on deposit	**31,651,839**	**31,651,839**	**-**
Investments - equity shares	**410,939**	**-**	**410,939**
Total	**32,062,778**	**31,651,839**	**410,939**
Liabilities			
Derivative financial instruments held for risk management	**34,358**	**-**	**34,358**
Total liabilities	**34,358**	**-**	**34,358**

			2020
	Fair Value	*Level 1*	*Level 2*
Assets			
Cash on hand and on deposit	43,482,558	43,482,558	-
Investments - equity shares	2,065,140	-	2,065,140
Total	45,547,698	43,482,558	2,065,140
Liabilities			
Total liabilities	-	-	-

Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

				2021
	Carrying amount	***Fair Value***	***Level 1***	***Level 2***
Financial assets				
Member loans receivable and accrued interest	**554,655,729**	**536,443,393**	**-**	**536,443,393**
Investments - Central 1 term deposits	**1,600,000**	**1,660,181**	**-**	**1,660,181**
Other assets	**5,053,041**	**5,053,041**	**-**	**5,053,041**
Total financial assets	**561,308,770**	**543,156,615**	**-**	**543,156,615**
Financial liabilities				
Member deposits and accrued interest	**603,304,092**	**600,966,650**	**-**	**600,966,650**
Trade payables and accrued liabilities	**1,936,979**	**1,936,979**	**-**	**1,936,979**
Secured borrowings	**21,526,342**	**22,033,342**	**-**	**22,033,342**
Patronage dividend payable	**419,249**	**419,249**	**-**	**419,249**
Lease liabilities	**969,889**	**969,889**	**-**	**969,889**
Total financial liabilities	**628,156,551**	**626,326,109**	**-**	**626,326,109**

				2020
	Carrying amount	*Fair Value*	*Level 1*	*Level 2*
Financial assets				
Cash equivalents	31,009,024	31,065,730	-	31,065,730
Member loans receivable and accrued interest	431,026,369	441,070,994	-	441,070,994
Investments - Central 1 term deposits	10,054,062	10,058,906	-	10,058,906
Other assets	6,551,953	6,551,953	-	6,551,953
Total financial assets	478,641,408	488,747,583	-	488,747,583
Financial liabilities				
Member deposits and accrued interest	463,755,578	464,186,536	-	464,186,536
Trade payables and accrued liabilities	1,594,324	1,594,324	-	1,594,324
Secured borrowings	37,884,354	38,621,752	-	38,621,752
Patronage dividends payable	421,192	421,192	-	421,192
Lease liabilities	791,084	791,084	-	791,084
Total financial liabilities	504,446,532	505,614,888	-	505,614,888

25. Financial instrument risk management

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union’s financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in the profit or loss may increase or decrease in response to changes in market interest rates.

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

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management, in concert with external consultant Tuff Risk, and reported to the British Columbia Financial Services Authority ("BCFSA") in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with BCFSA as required by credit union regulations. For 2021, the Credit Union was in compliance with this policy.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $278,462 (2020 - $293,266) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rate would decrease net interest income by $406,270 (2020 - $446,534) over the next 12 months.

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristic; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to Board of Directors.

Interest rate sensitivity

Interest rate risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of financial instruments are presented in the periods in which they next re-price to market rates or mature and are summed to show the net interest rate sensitivity gap.

	Variable rate	Within one year	One to five years	Non-Interest Sensitive	2021 Total	2020 Total
Financial assets						
Cash and cash equivalents	18,449,089	10,039,069	-	3,163,681	**31,651,839**	74,491,582
Average yield %	*0.21*	*1.00*	-	-	*0.44*	*0.45*
Investments	12,681,456	14,310,140	35,220,808	410,939	**62,623,343**	12,119,202
Average yield %	*0.27*	*1.00*	*1.00*	-	*0.94*	*0.40*
Members' loans receivable	88,412,149	80,614,567	385,629,013	-	**554,655,729**	431,026,369
Average yield %	*3.56*	*3.27*	*2.87*	-	*3.04*	*3.23*
Other assets	-	-	-	5,053,041	**5,053,041**	6,551,953
	119,542,694	**104,963,776**	**420,849,821**	**8,627,661**	**653,983,952**	524,189,106
Financial liabilities						
Member deposits	354,649,479	129,374,650	27,899,158	91,380,805	**603,304,092**	463,755,578
Average yield %	*0.18*	*1.43*	*1.39*	-	*0.48*	*0.75*
Secured borrowings	-	4,583,549	16,942,793	-	**21,526,342**	37,884,354
Average yield %	-	*1.62*	*2.11*	-	*2.00*	*1.92*
Trade payables and accrued liabilities	-	-	-	1,936,979	**1,936,979**	1,594,324
Lease liabilities	-	102,668	867,221	-	**969,889**	791,084
Average yield %	-	*3.95*	*3.95*	-	*3.95*	*3.95*
Patronage dividends payable	-	-	-	419,249	**419,249**	421,192
Derivative financial instruments held for risk management	34,358	-	-	-	**34,358**	-
	354,683,837	**134,060,867**	**45,709,172**	**93,737,033**	**628,190,909**	504,446,531
On balance sheet mismatch	**(235,141,143)**	**(29,097,091)**	**375,140,649**	**(85,109,372)**	**25,793,043**	19,742,575
Off balance sheet	-	-	-	-	-	-
Net sensitivity	**(235,141,143)**	**(29,097,091)**	**375,140,649**	**(85,109,372)**	**25,793,043**	19,742,575

Liquidity risk

Risk measurement

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

Objectives, policies and procedures

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

Provisions of the Credit Union Incorporation Act of British Columbia require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The regulated minimum liquidity ratio is 8%. The Credit Union has set an internal liquidity target of 9 - 11%. At year-end, the Credit Union’s liquidity exceeded the required regulatory minimum.

The Credit Union manages liquidity risk by:
- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios weekly.

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 Credit Union has a strong liquidity base and has a well-established contingency plan to access if required through the COVID-19 situation.

The Credit Union’s own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset liability maturity management techniques. Management monitors rolling forecasts of the Credit Union’s liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains total borrowing facilities with Central 1 of $13,400,000, plus $100,000 in USD, as an integral part of its liquidity management strategy.

Foreign currency risk

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financed investments for an extended period. Based on current differences between foreign currency financial assets and financial liabilities as at year-end, the Credit Union estimates that a positive/adverse change in the US – Canadian foreign currency exchange rate of 1% would result in a change in the post tax income of $nil (2020 - $nil) principally as a result of the retranslation of foreign currency denominated cash resources.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members’ loans receivable and accrued interest. Overall monitoring and processes will change as deemed necessary in response to the ongoing economic impact of COVID-19. This has and will include changes to the current processes to ensure that the overall portfolio is secured and the Credit Union will continue to support the customers and find their optimal credit solutions. The stages of expected credit loss within the loan portfolio, if affected by COVID-19, will be adjusted as necessary as we progress through the pandemic.

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors is responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

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

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. In addition, the off-balance sheet loans granted through Canada Emergency Business Account are guaranteed by the Government of Canada.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2021	*2020*
Unadvanced lines of credit	**65,750,227**	47,691,608
Guarantees and standby letters of credit	**353,499**	366,636
Commitments to extend credit	**21,939,140**	27,997,623
Off-balance sheet loans granted through Canada Emergency Business Account	**7,213,672**	5,296,275
	95,256,538	81,352,142

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans and advances to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when:

- Contractual payments have exceeded 30 days past due;
- Facts or conditions are present indicating a borrower's inability to meet its debt obligations;
- The probability of default at the reporting date has increased significantly from the time of recognition.

When a financial instrument is considered to have low credit risk and does not fall within the risk management process, it is assumed that there has not been a significant increase in credit risk since initial recognition. Financial instruments considered to have low credit risk include investments and derivative financial instruments. .

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been derecognized, the Credit Union assesses for significant increases in credit risk by the borrower’s payment performance compared to the modified contractual terms and whether such modifications increase the borrower’s ability to meet its contractual obligations.

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower’s initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when the borrower has demonstrated consistently good payment behaviour for 2 – 3 months against the modified contractual terms. Subsequently, management monitors these assets by tracking payment behaviours and relapse rates to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held.

When measuring 12-month and lifetime expected credit losses, the Credit Union consider items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional unemployment rate forecasts, changes to prime rate, changes to the consumer price index, changes in real GDP, average home prices and changes to the home price index.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

Significant increase in credit risk - COVID-19 impact

There are judgments involved in determining whether or not there is a significant increase in credit risk resulting in loans moving between stages of expected credit loss and, therefore, being subject to different expected credit loss models. Due to the ongoing pandemic, the Credit Union has implemented programs to allow for the deferral of payments on mortgages in certain circumstances. With respect to those loans where the customer has taken advantage of the loan payment deferral programs, the Credit Union has assessed whether this is indicative of a significant increase in credit risk, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

		2021		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Insured retail mortgages and accrued interest				
Low risk	**73,337,116**	**-**	**-**	**73,337,116**
Medium risk	**-**	**11,058,443**	**-**	**11,058,443**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**73,337,116**	**11,058,443**	**-**	**84,395,559**
Less: loss allowance	**-**	**-**	**-**	**-**
Carrying amount	**73,337,116**	**11,058,443**	**-**	**84,395,559**
Uninsured retail mortgages and acrued interest				
Low risk	**340,260,500**	**-**	**-**	**340,260,500**
Medium risk	**-**	**47,244,099**	**-**	**47,244,099**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**340,260,500**	**47,244,099**	**-**	**387,504,599**
Less: loss allowance	**475,355**	**2,100**	**-**	**477,455**
Carrying amount	**339,785,145**	**47,241,999**	**-**	**387,027,144**
Unsecured personal lines of credit and accrued interest				
Low risk	**9,258,636**	**-**	**-**	**9,258,636**
Medium risk	**-**	**779,353**	**-**	**779,353**
Default	**-**	**-**	**29,442**	**29,442**
Gross carrying amount	**9,258,636**	**779,353**	**29,442**	**10,067,431**
Less: loss allowance	**102,193**	**22,517**	**29,442**	**154,152**
Carrying amount	**9,156,443**	**756,836**	**-**	**9,913,279**

	12-month ECL	2021 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Secured personal lines of credit and accrued interest				
Low risk	20,448,777	-	-	20,448,777
Medium risk	-	3,425,311	-	3,425,311
Default	-	-	-	-
Gross carrying amount	20,448,777	3,425,311	-	23,874,088
Less: loss allowance	86,319	23,633	-	109,952
Carrying amount	20,362,458	3,401,678	-	23,764,136
Secured commercial mortgages and accrued interest				
Low risk	37,159,734	-	-	37,159,734
Medium risk	-	9,495,359	-	9,495,359
Default	-	-	-	-
Gross carrying amount	37,159,734	9,495,359	-	46,655,093
Less: loss allowance	450,539	-	-	450,539
Carrying amount	36,709,195	9,495,359	-	46,204,554
Unsecured commercial lines of credit and accrued interest				
Low risk	712,522	-	-	712,522
Medium risk	-	30,445	-	30,445
Default	-	-	2,855	2,855
Gross carrying amount	712,522	30,445	2,855	745,822
Less: loss allowance	3,656	1,798	2,855	8,309
Carrying amount	708,866	28,647	-	737,513
Secured commercial lines of credit and accrued interest				
Low risk	2,079,961	-	-	2,079,961
Medium risk	-	534,220	-	534,220
Default	-	-	-	-
Gross carrying amount	2,079,961	534,220	-	2,614,181
Less: loss allowance	62	575	-	637
Carrying amount	2,079,899	533,645	-	2,613,544
Total members' loans receivable and accrued interest				
Total gross carrying amount	483,257,246	72,567,230	32,297	555,856,773
Less: loss allowance	1,118,124	50,623	32,297	1,201,044
Total carrying amount	482,139,122	72,516,607	-	554,655,729

	12-month ECL	2020 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Insured retail mortgages and accrued interest				
Low risk	65,292,453	-	-	65,292,453
Medium risk	-	11,522,198	-	11,522,198
Default	-	-	-	-
Total gross carrying amount	65,292,453	11,522,198	-	76,814,651
Less: loss allowance	-	-	-	-
Total carrying amount	65,292,453	11,522,198	-	76,814,651
Uninsured retail mortgages and acrued interest				
Low risk	237,419,034	-	-	237,419,034
Medium risk	-	41,943,840	-	41,943,840
Default	-	-	459,877	459,877
Total gross carrying amount	237,419,034	41,943,840	459,877	279,822,751
Less: loss allowance	207,046	108,468	-	315,514
Total carrying amount	237,211,988	41,835,372	459,877	279,507,237
Unsecured personal lines of credit and accrued interest				
Low risk	4,769,427	-	-	4,769,427
Medium risk	-	841,664	-	841,664
Default	-	-	8,517	8,517
Total gross carrying amount	4,769,427	841,664	8,517	5,619,608
Less: loss allowance	59,819	19,826	8,517	88,162
Total carrying amount	4,709,608	821,838	-	5,531,446
Secured personal lines of credit and accrued interest				
Low risk	19,561,970	-	-	19,561,970
Medium risk	-	3,452,112	-	3,452,112
Default	-	-	21,552	21,552
Total gross carrying amount	19,561,970	3,452,112	21,552	23,035,634
Less: loss allowance	50,246	18,692	21,552	90,490
Total carrying amount	19,511,724	3,433,420	-	22,945,144
Secured commercial mortgages and accrued interest				
Low risk	36,135,549	-	-	36,135,549
Medium risk	-	6,846,003	-	6,846,003
Default	-	-	-	-
Total gross carrying amount	36,135,549	6,846,003	-	42,981,552
Less: loss allowance	161,243	85,758	-	247,001
Total carrying amount	35,974,306	6,760,245	-	42,734,551

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Unsecured commercial lines of credit and accrued interest				
Low risk	141,908	-	-	141,908
Medium risk	-	31,201	-	31,201
Default	-	-	4,348	4,348
Total gross carrying amount	141,908	31,201	4,348	177,457
Less: loss allowance	68,488	12,872	4,348	85,708
Total carrying amount	73,420	18,329	-	91,749
Secured commercial lines of credit and accrued interest				
Low risk	2,709,424	-	-	2,709,424
Medium risk	-	697,660	-	697,660
Default	-	-	-	-
Total gross carrying amount	2,709,424	697,660	-	3,407,084
Less: loss allowance	3,759	1,734	-	5,493
Total carrying amount	2,705,665	695,926	-	3,401,591
Total members' loans receivable and accrued interest				
Total gross carrying amount	366,029,765	65,334,678	494,294	431,858,737
Less: loss allowance	550,601	247,350	34,417	832,368
Total carrying amount	365,479,164	65,087,328	459,877	431,026,369

As at December 31, 2021, the maximum exposure to credit risk with respect to members' loan receivable without taking into account collateral held or other credit enhancements is $654,701,283 (2020 – $520,780,181). The principal collateral and other credit enhancement held by the Credit Union as security for loans include i) insurance, ii) mortgages over residential lots and properties, iii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iv) recourse to the commercial real estate properties being financed, and v) recourse to liquid assets, guarantees and securities.

Included in the Credit Union's maximum exposure to credit risk noted above, is $6,298,646 (2020 - $6,789,311) for the maximum exposure loss in its interest in CUAAL. This is the total adjusted cost base of the associate, which approximates the Credit Union's maximum credit risk exposure.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Members' loans receivable				
Balance at December 31, 2019	**228,510**	**389,925**	**24,192**	**642,627**
Provision for credit losses	**147,991**	**-**	**10,225**	**158,216**
Write-offs, net of recoveries	**31,525**	**-**	**-**	**31,525**
Transfer to 12-month ECL	**142,575**	**(142,575)**	**-**	**-**
Balance at December 31, 2020	**550,601**	**247,350**	**34,417**	**832,368**
Provision for credit losses	**203,361**	**-**	**-**	**203,361**
Write-offs, net of recoveries	**25,711**	**-**	**(27,110)**	**(1,399)**
Transfer to 12-month ECL	**61,142**	**(61,142)**	**-**	**-**
Amounts upon amalgamation	**141,452**	**272**	**24,990**	**166,714**
Balance at December 31, 2021	**982,267**	**186,480**	**32,297**	**1,201,044**

26. Capital management

The Financial Institutions Act requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk-weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset. Management considers capital to be comprised of the net assets of the Credit Union and all components of members' equity on the same risk weighted basis as is prescribed by the Financial Institutions Act and which amounts to $261,735,506 as at December 31, 2021 (2020 - $206,201,447).

The Financial Institutions Act regulations prescribe that the minimum required capital base ratio is 8%. As at December 31, 2021, the Credit Union has a capital base of 18% (2020 - 15%).

	2021	*2020*
Primary capital		
Member shares	**2,137,132**	2,126,897
Retained earnings - consolidated	**31,822,371**	29,719,826
Contributed surplus	**11,019,972**	1,583,549
Deferred income tax	**584,436**	(240,152)
Patronage dividends	**419,249**	421,192
	45,983,160	33,611,312
Secondary capital		
Share of system retained earnings	**6,451,560**	5,272,153
Deductions from capital	**(6,513,686)**	(7,042,724)
	45,921,034	31,840,741

Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Credit Union makes periodic dividend payments on eligible member shares, within the context of its overall capital management plan.

27. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.