

Vancity



Consolidated Financial Statements.

2022 Annual Report

Consolidated Financial Statements of

**VANCOUVER CITY SAVINGS
CREDIT UNION**

And Independent Auditor's Report thereon

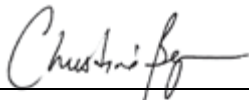
Year ended December 31, 2022

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

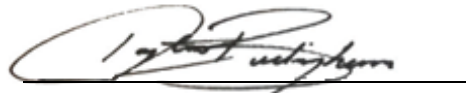
These consolidated financial statements were prepared by the management of Vancouver City Savings Credit Union ("Vancity") who are responsible for their integrity, objectivity and reliability. They have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Systems of internal control and reporting procedures are designed and maintained to provide reasonable assurance that the financial records are complete and accurate and that the assets of Vancity are safeguarded against loss from unauthorized use or disposition. The procedures include establishment and communication of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records are maintained. Internal Audit provides management with the ability to assess the adequacy of these controls.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board, comprising directors who are not officers or employees of Vancity, has reviewed the consolidated financial statements and received regular reports on internal control findings. KPMG LLP, the external auditors appointed by the membership, have examined the consolidated financial statements of Vancity and their report follows. They have had full and free access to the records of Vancity, the internal audit staff, other management staff, and the Audit Committee of the Board.



Christine Bergeron
President and Chief Executive Officer



Clayton Buckingham
Chief Financial Officer

March 7, 2023



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INDEPENDENT AUDITOR'S REPORT

To the members of Vancouver City Savings Credit Union

Opinion

We have audited the consolidated financial statements of Vancouver City Savings Credit Union ("Vancity"), which comprise:

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

We are independent of Vancity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditor's report thereon, included in the Annual Report document.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Annual Report as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing Vancity'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 Vancity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Vancity'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 Vancity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Vancity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Chartered Professional Accountants

Vancouver, Canada
March 7, 2023

VANCOUVER CITY SAVINGS CREDIT UNION

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

As at December 31, 2022, with comparative information for 2021

	Note	2022	2021
Assets			
Cash and cash equivalents		\$ 220,792	\$ 144,404
Interest bearing deposits with financial institutions		43,566	130,959
Financial investments	5	3,626,215	3,273,899
Derivative assets	6	87,818	27,296
Loans and advances to members	7, 29(a)	24,055,778	22,721,051
Current tax assets		6,449	9,042
Premises, equipment and right-of-use assets	9(a), 10(a)	125,936	127,663
Intangible assets	9(b)	57,510	65,436
Deferred tax assets	11(c)	26,872	24,366
Other assets	13	45,861	41,028
Total assets		\$ 28,296,797	\$ 26,565,144
Liabilities and Equity			
Deposits from members	14, 29(a)	\$ 24,512,841	\$ 22,892,266
Derivative liabilities	6	85,724	11,635
Wholesale borrowings	16(b)	598,638	700,125
Secured borrowings	16(a), 16(b)	1,173,425	1,048,256
Accounts payable and accrued liabilities	17	227,040	241,133
Lease liabilities	10(b)	49,488	49,435
Retirement benefit obligation	12(a)	43,369	57,521
Other liabilities		3,448	2,500
Total liabilities		26,693,973	25,002,871
Members' equity:			
Capital and reserves attributable to members:			
Contributed surplus		29,275	29,275
Retained earnings		1,583,731	1,510,215
Accumulated other comprehensive income (loss)		(10,182)	22,783
Total members' equity		1,602,824	1,562,273
Total liabilities and equity		\$ 28,296,797	\$ 26,565,144

Commitments and contingencies (note 28)

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

Approved on behalf of the Board on March 7, 2023


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VANCOUVER CITY SAVINGS CREDIT UNION

Consolidated Statement of Income
(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	Note	2022	2021
Interest income		\$ 838,973	\$ 679,585
Interest expense		360,354	185,393
Net interest income	18	478,619	494,192
Impairment expense (recovery) on financial instruments	8(b)	26,358	(20,276)
Fee and commission income		135,723	129,492
Fee and commission expense		27,627	29,534
Net fee and commission income	19	108,096	99,958
Net gains (losses) on financial instruments	20	(2,838)	1,497
Other income		3,484	8,601
Total operating income		561,003	624,524
Operating expenses:			
Salary and employee benefits	21, 29(b)	291,069	289,568
Occupancy and equipment		56,497	56,287
General and administrative	22	101,393	102,310
		448,959	448,165
Income before distribution and tax		112,044	176,359
Distribution to community and members	23	24,179	33,629
Income before tax		87,865	142,730
Income tax expense	11(a)	14,349	36,370
Net income attributable to members		\$ 73,516	\$ 106,360

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

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Net income attributable to members	\$ 73,516	\$ 106,360
Other comprehensive income (loss) for the year that was or may be reclassified to the consolidated statement of income, net of tax:		
Net gains (losses) on financial assets measured at FVOCI:		
Unrealized losses arising during the year, net of tax recovery of \$8,748 (2021 - \$5,924)	(42,281)	(25,645)
Reclassification of realized (gains) losses to the consolidated statement of income, net of tax expense of \$88 (2021 - tax recovery of \$34)	(426)	146
	(42,707)	(25,499)
Cash flow hedges:		
Effective portion of changes in fair value, net of tax recovery of \$666 (2021 - tax expense of \$3,127)	(3,250)	13,655
Items that will never be reclassified to the consolidated statement of income:		
Actuarial gain on defined benefit pension plans, net of tax expense of \$3,068 (2021 - \$1,560)	12,992	7,717
Other comprehensive loss for the year	(32,965)	(4,127)
Comprehensive income attributable to members	\$ 40,551	\$ 102,233

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

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2022, with comparative information for 2021

	Contributed surplus	AOCI		Employee benefits	Retained earnings	Total equity
		Hedging reserve	Fair value reserve			
Balance as at January 1, 2021	\$ 29,275	\$ (2,318)	\$ 27,014	\$ 2,214	\$ 1,403,855	\$ 1,460,040
Net income	-	-	-	-	106,360	106,360
Other comprehensive income (loss) for the year, net of tax:						
Net losses on financial assets measured at FVOCI	-	-	(25,499)	-	-	(25,499)
Cash flow hedges	-	13,655	-	-	-	13,655
Actuarial gain on defined benefit pension plan	-	-	-	7,717	-	7,717
Other comprehensive income (loss) for the year	-	13,655	(25,499)	7,717	-	(4,127)
Total comprehensive income (loss) for the year	-	13,655	(25,499)	7,717	106,360	102,233
Balance as at December 31, 2021	\$ 29,275	\$ 11,337	\$ 1,515	\$ 9,931	\$ 1,510,215	\$ 1,562,273
Balance as at January 1, 2022	\$ 29,275	\$ 11,337	\$ 1,515	\$ 9,931	\$ 1,510,215	\$ 1,562,273
Net income	-	-	-	-	73,516	73,516
Other comprehensive income (loss) for the year, net of tax:						
Net losses on financial assets measured at FVOCI	-	-	(42,707)	-	-	(42,707)
Cash flow hedges	-	(3,250)	-	-	-	(3,250)
Actuarial gain on defined benefit pension plan	-	-	-	12,992	-	12,992
Other comprehensive income (loss) for the year	-	(3,250)	(42,707)	12,992	-	(32,965)
Total comprehensive income (loss) for the year	-	(3,250)	(42,707)	12,992	73,516	40,551
Balance as at December 31, 2022	\$ 29,275	\$ 8,087	\$ (41,192)	\$ 22,923	\$ 1,583,731	\$ 1,602,824

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

VANCOUVER CITY SAVINGS CREDIT UNION

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

Year ended December 31, 2022, with comparative information for 2021

	Note	2022	2021
Cash flows from operating activities:			
Net income		\$ 73,516	\$ 106,360
Adjustments for:			
Impairment expense (recovery) on financial instruments		26,358	(20,276)
Amortization, depreciation and impairment		33,030	38,004
Gain on sale of premises and equipment		(26)	(4,675)
Net interest income		(478,619)	(494,192)
Net gain on financial instruments		(2,838)	(1,497)
Income tax expense		14,349	36,370
		(334,230)	(339,906)
Changes in non-cash operating working capital:			
Derivative instruments		13,325	(12,253)
Interest bearing deposits with financial institutions		90,067	1,201,669
Loans and advances to members		(1,345,272)	(2,778,081)
Other assets		(4,833)	(389)
Deposits from members		1,575,586	1,184,633
Accounts payable and accrued liabilities		(14,093)	9,829
Retirement benefit obligation		1,908	2,836
Other liabilities		948	(309)
		(16,594)	(731,971)
Interest received		811,887	700,136
Interest paid		(305,283)	(219,993)
Income taxes paid		(7,828)	(17,750)
Net cash generated from (used in) operating activities		482,182	(269,578)
Cash flows from investing activities:			
Change in financial investments		(402,201)	(104,350)
Purchase of premises and equipment		(14,497)	(14,913)
Proceeds from the sale of premises and equipment		5,092	7,117
Net additions in right-of-use assets		(12,312)	(11,310)
Purchase of intangibles		(1,634)	(4,598)
Acquisition of CoPower Finance Inc. by CoPower Inc.		-	(17)
Net cash used in investing activities		(425,552)	(128,071)
Cash flows from financing activities:			
Change in investment shares		(2,470)	(2,454)
Change in secured borrowings		124,964	(111,160)
Change in wholesale borrowings		(102,789)	504,353
Change in lease liabilities		53	(2,593)
Net cash generated from financing activities		19,758	388,146
Net increase (decrease) in cash and cash equivalents		76,388	(9,503)
Cash and cash equivalents at the beginning of the year		144,404	153,907
Cash and cash equivalents at the end of the year		\$ 220,792	\$ 144,404
Cash and cash equivalents are comprised of:			
Cash and deposits held with Central 1 and other banks		\$ 167,995	\$ 102,317
Cheques and other items in transit		6,629	4,259
Restricted cash (note 28(c))		46,168	37,828
		\$ 220,792	\$ 144,404

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

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

Table of Contents

1.	General information.....	7
2.	Basis of presentation	7
3.	Summary of significant accounting policies	8
4.	Use of estimates and judgments.....	29
5.	Financial investments	32
6.	Derivative instruments	32
7.	Loans and advances to members	34
8.	Expected credit losses on financial instruments	37
9.	Premises, equipment, intangibles and goodwill	37
10.	Leases	39
11.	Income taxes	40
12.	Pension and other retirement benefits	42
13.	Other assets	47
14.	Deposits from members.....	47
15.	Shares	47
16.	Borrowings	48
17.	Accounts payable and accrued liabilities	48
17.	Net interest income.....	49
19.	Net fee and commission income.....	50
20.	Net gains (losses) on financial instruments	50
21.	Salary and employee benefits	50
22.	General and administrative expenses	51
23.	Distribution to community and members	51
24.	Financial risk management framework	51
25.	Assets pledged as collateral	59
26.	Regulatory and capital management.....	59
27.	Fair value of financial instruments	61
28.	Commitments and contingencies	64
29.	Related party transactions.....	65
30.	Acquisition of CoPower Finance Inc. by CoPower Inc.	66

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

1. General information:

Vancouver City Savings Credit Union ("VCS") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia ("FIA"). VCS is a member-owned, community-based, full-service financial institution with branches in Metro Vancouver, the Fraser Valley, Greater Victoria, Squamish and Alert Bay. VCS's primary lines of business include retail and business banking (deposit-taking and lending), commercial lending, and investment and advisory services. Vancity Community Investment Bank (the "Bank"), a wholly-owned subsidiary of VCS, is federally incorporated and its operations are regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). The Bank serves customers across Canada with its main operations in British Columbia and Ontario. The Bank's primary lines of business include business banking (deposit-taking and lending), Visa credit card and prepaid card services and foreign exchange services.

The consolidated financial statements as at and for the year ended December 31, 2022 comprise VCS and its subsidiaries (hereinafter together referred to as "Vancity"). Operating on the territories of the Coast Salish and Kwakwaka'wakw people and headquartered on the lands belonging to the Musqueam, Squamish and Tsleil-Waututh Nations in Vancouver, British Columbia (B.C.), Vancity is domiciled in Canada and its registered office is 183 Terminal Avenue, Vancouver, B.C.

The consolidated financial statements were approved for issue by the Board of Directors (the "Board") on March 7, 2023.

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as required by the FIA. The significant accounting policies as set out in note 3 below, comply with the requirements of IFRS and have been applied consistently to all periods presented in the consolidated financial statements, except as otherwise noted.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- financial investments at fair value through profit or loss ("FVTPL") and derivative financial instruments, which are measured at fair value;
- financial investments at fair value through other comprehensive income ("FVOCI") measured at fair value; and
- the retirement benefit obligation, which is measured at the net of the fair value of the plan assets and the present value of the defined benefit obligation, plus or minus unrecognized actuarial gains or losses, less unrecognized past service costs and unrecognized actuarial losses.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

2. Basis of presentation (continued):

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information on significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 4.

3. Summary of significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of Vancity. The active subsidiaries are Vancity Community Investment Bank, Citizens Trust Company, CoPower Inc., CoPower Finance Inc. (see note 30), Vancity Capital Corporation, Vancity Life Insurance Services Ltd., SCU Insurance Services Ltd., and Vancity Investment Management Ltd. ("VCIM"). All inter-entity transactions and balances have been eliminated in preparing the consolidated financial statements.

Subsidiaries are entities controlled by VCS. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies across all subsidiaries for like transactions and other events in similar circumstances.

An entity is consolidated if VCS concludes that it controls the entity. The following circumstances may indicate a relationship in which, in substance, VCS controls and therefore consolidates the entity:

- VCS has power over the entity whereby VCS has the ability to direct the relevant activities (i.e., the activities that affect the entity's returns);
- VCS is exposed, or has rights, to variable returns from its involvement with the entity; and
- VCS has the ability to use its power over the entity to affect the amount of the entity's returns.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(a) Basis of consolidation (continued):

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

Vancity accounts for business combinations using the acquisition method when control is transferred to Vancity. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment.

(b) Foreign currency translation:

Transactions in foreign currencies are translated into Canadian dollars, which is Vancity’s functional currency, at the spot exchange rate on the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies on the reporting date are re-translated into Canadian dollars at the spot exchange rate on that date.

Foreign currency differences arising on translation are recognized in the consolidated statement of income, except for differences arising on the translation of equity instruments measured at fair value through other comprehensive income, qualifying cash flow hedges, or equity instruments measured at FVOCI, which are recognized in other comprehensive income (“OCI”). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate on the date of the transaction.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise balances with less than three months maturity from the original date of acquisition, including cash on hand, restricted cash, cheques and other items in transit. Cash is carried at amortized cost in the consolidated statement of financial position.

(d) Financial instruments:

(i) Recognition, classification and measurement:

All financial assets are initially recorded on the trade date at fair value and subsequently classified as measured at amortized cost, FVOCI, or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(i) Recognition, classification and measurement (continued):

Financial assets measured at amortized cost consist of loans and advances to members, securities issued or guaranteed by the federal and provincial government, other securities, and other financial assets such as accounts receivable.

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

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

On initial recognition of an equity instrument that is not held for trading, Vancity may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Financial assets designated at FVOCI consist of Central 1 shares and other equity, and corporate bonds, as well as securities issued or guaranteed by the federal and provincial government.

All financial assets not measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition VCS may irrevocably elect to measure financial assets that otherwise meet the requirements to be measured at amortized cost or at FVOC as at FVTPL when doing so results in more relevant information.

Financial assets classified as measured at FVTPL consist of investments in private funds and derivative assets.

All financial liabilities are initially recorded on the trade date at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, Vancity may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(i) Recognition, classification and measurement (continued):

Financial liabilities measured at amortized cost consist of deposits, borrowings, lease liabilities and other financial liabilities such as accounts payable. Financial liabilities classified as measured at FVTPL consist of derivative liabilities.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive income. For debt securities measured at FVOCI, gains and losses on disposal and impairment losses (recoveries) are recorded in the consolidated statement of income. For equity securities designated at FVOCI, gains or losses on these instruments will never be recognized in profit or loss.

For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the consolidated statement of income.

Business model assessment

Vancity makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

Contractual cash flow characteristics assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Vancity considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(ii) Reclassification of financial assets:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Vancity changes its business model for managing those assets.

(iii) Impairment:

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

Loss allowances are measured on either of the following bases:

- 12-month ECL (Stage 1): these are expected losses that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECL (Stage 2 and 3): these are expected losses that result from all possible default events over the expected life of a financial instrument.

Stage 2 comprise assets which have shown a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. Stage 3 comprise credit-impaired assets that have shown objective evidence of impairment at the reporting date.

ECL is measured as 12-month ECL unless the credit risk on a financial instrument has increased significantly since initial recognition, the financial instrument is credit-impaired at initial recognition, or constitutes trade and lease receivables, for which Vancity has elected to take the simplified approach by using lifetime ECL to measure the loss allowance.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk ("SICR") considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, management judgment, delinquency, risk ratings and monitoring. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower's credit profile. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

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

A SICR is considered to have occurred when any of three conditions are met. The conditions include a change in the probability of default in excess of predetermined thresholds which would move the loan to Stage 2, the backstop criterion for the portfolio has been met which would move the loan to Stage 2 or 3, or other portfolio specific considerations which would move the loan to Stage 2 or 3.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(iii) Impairment (continued):

Assessment of significant increase in credit risk (continued)

The predetermined thresholds are specific to each portfolio and the initial credit quality of the account. Generally, accounts with higher credit quality would require relatively larger changes in the probability of default to trigger a SICR, while lower credit quality accounts would require relatively smaller changes to trigger a SICR.

For all loans and advances to members, the Stage 2 backstop criterion is met when an account is 30 or more days in arrears and will be transferred to Stage 2.

For all loans and advances, the Stage 3 backstop criterion is met when an account is 90 or more days in arrears.

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

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short- and long-term, including periods of adverse changes in the economic or business environment.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD").

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Impairment (continued)

Probability of default

To calculate the 12-month (Stage 1) PDs (except for the Visa portfolio), the number of performing loans is counted at the beginning of the year and monitored throughout the year. At the end of the reporting period, the number of defaults during the year is divided by the total number of loans within the set. Any loan that originated during the course of the year will be considered in the subsequent year's calculation of 12-month PDs. Lastly, the calculated PDs are refined to consider the cure rate, which is the rate at which members that default correct themselves. Any loan that defaulted during the year but is no longer delinquent at the end of the year is considered cured.

The Visa portfolio uses a roll rate methodology that estimates the percentage of credit card users who are in different stages of delinquency on their accounts. The difference of the roll rate methodology from the 12-month PD calculation is the use of dollar amounts rather than counts.

The Stage 2 PD is a lifetime PD based on the average life of the asset.

Loss given default

The LGD reflects Vancity's estimate of cash shortfalls in the event of default. The LGD input to the ECL calculation for Stage 1 and Stage 2 financial assets is estimated to be equal. The LGD input, expressed as a percentage of EAD, is primarily estimated based on the shortfall in the current collateral values of the financial assets compared to the current book value of the financial asset discounted for the time to obtain and collect on the collateral upon default and the estimated costs to obtain and collect on the collateral.

Forward looking information and macroeconomic factors

The forward-looking information ("FLI") component of the ECL calculation represents management's estimate of the impacts of FLI and forecasts of macroeconomic conditions to Vancity's ECL. In determining the FLI input to the ECL calculation, Vancity identifies macroeconomic factors that are deemed to be applicable to various loan portfolios. Vancity runs a regression analysis against each product type to determine which macroeconomic factors will be applied in determining FLI. Vancity uses forecasts for multiple external sources and management applies a probability-weighted factor for each of the macroeconomic scenarios.

Exposure at default

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

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(iii) Impairment (continued):

Exposure at default

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

Credit-impaired and restructured financial assets

At each reporting date, Vancity assesses whether financial assets measured at amortized cost or FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

In addition to qualitative considerations, Vancity applies quantitative thresholds for identifying loans and advances to members that are credit-impaired. The quantitative threshold for all loans and advances to members is 90 days past due to be considered credit-impaired. Accounts that have exceeded the quantitative threshold will be transferred to Stage 3.

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its derecognition.

Cash and cash equivalents and investments

Vancity is required to recognize a loss allowance for ECLs on cash and cash equivalents and interest bearing deposits with financial institutions measured at amortized cost and financial investments measured at FVOCI at each reporting date. The 12-month ECLs for Stage 1 financial assets and lifetime ECLs for Stage 2 financial assets are primarily based on the instrument's credit rating and historical data of recoveries on similar instruments that have defaulted in the past.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(iii) Impairment (continued):

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For financial assets measured at FVOCI, the loss allowance is recognized in OCI instead of reducing the carrying amount of the asset. For assets that include both a drawn and an undrawn component, and Vancity cannot identify the ECL on the undrawn component separately from the drawn component, the combined loss allowance for both components is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Definition of default and write-off policy

Vancity considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated.

This includes events such as material breaches of covenants, significant financial difficulty of the borrower, or the deterioration of the instrument's security. Vancity considers that default has occurred and classifies the instrument as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

Vancity writes off an impaired financial asset and the related impairment allowance, either partially or in full, when there is no realistic prospect of recovery.

(iv) Derecognition of financial instruments:

Vancity derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which Vancity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Vancity derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. Vancity also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Vancity periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage and Housing Corporation that issue bonds to third party investors.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(d) Financial instruments (continued):

(iv) Derecognition of financial instruments (continued):

Vancity also securitizes insured residential mortgages by participating in the National Housing Act mortgage-backed securities (“MBS”) program. Through the program, Vancity issues securities backed by residential mortgages that are insured against the borrower’s default. Once the mortgages are securitized, Vancity may periodically transfer these MBS to Canada Housing Trust under the Canada Mortgage Bonds (“CMB”) Program or other MBS third party investor programs.

Vancity reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether Vancity’s rights to contractual cash flows have expired or transferred or whether an obligation has been undertaken by Vancity to pay the cash flows collected on the underlying transferred assets over to a third party. An assessment is also made to determine whether substantially all the risks and rewards of ownership have been transferred.

In instances where Vancity’s securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivable to a transferee, Vancity has not derecognized the transferred receivables and has instead recorded a secured borrowing with respect to any consideration received.

(v) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(e) Derivative instruments and hedge accounting:

Derivative instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other variable, provided in the case of a non-financial variable, the variable is not specific to a party to the contract. Derivative contracts usually have no initial net investment or a net investment which would be smaller than a non-derivative contract and are settled at a future date. Derivatives are initially recognized at fair value on the date which a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

Derivatives may also be embedded in other financial instruments and are treated as separate derivatives when (i) their economic characteristics and risks are not closely related to those of the host contract; (ii) a separate instrument with the same terms would meet the definition of a derivative instrument; and (iii) the host contract is not designated as FVTPL or classified as FVTPL. Changes in fair value on derivative instruments not qualifying for hedge accounting are recognized in interest income or expense as appropriate in the consolidated statement of income.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(e) Derivative instruments and hedge accounting (continued):

Vancity has classified certain index-linked deposit contracts that have embedded derivatives as FVTPL.

Vancity designates derivatives as either hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecast transaction (cash flow hedge), or FVTPL derivatives in instances where the derivative does not qualify or has not been designated as a hedge in a hedge accounting relationship. Vancity periodically uses derivatives for economic hedging purposes to mitigate an identified financial instrument risk.

When applicable, Vancity discloses a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur.

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

Vancity mitigates the credit risk of derivatives by entering into master netting agreements and holding collateral in the form of cash and marketable securities. Derivative transactions are transacted on exchanges, with central clearing counterparties or entered into under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under these agreements, in certain circumstances - e.g., when a credit event such as a default occurs - all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of Vancity or the counterparties or following other predetermined events. In addition, Vancity and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(f) Cash flow hedges:

Vancity uses hedge accounting for derivatives designated as cash flow hedges provided certain criteria are met. Vancity documents, at the inception of the relationship, the relationship between hedged items and hedging instruments, as well as identifying the risk being hedged and its risk management objective and strategy for undertaking various hedge transactions. Vancity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the cash flows of the hedged items that are attributable to the risk being hedged.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(f) Cash flow hedges (continued):

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognized in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in other income in the consolidated statement of income. Amounts accumulated in members' equity are reclassified to the consolidated statement of income in the periods when the hedged item affects net income. When a hedging instrument is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and any cumulative gain or loss existing in members' equity at that time remains in members' equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income.

(g) Interest income and expense:

Interest income and expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the consolidated statement of income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount of the financial asset or the amortized cost of the financial liability. When calculating the effective interest rate, Vancity estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all transaction costs and fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Mortgage prepayment fees are recognized in interest income over the expected remaining term of the original mortgage using the effective interest method. Commitment fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the expected term of the loans. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expenses presented in the consolidated statement of income include:

- (i) interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis;
- (ii) investment securities measured at FVOCI under IFRS 9 calculated on an effective interest basis;
- (iii) the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income / expense;
- (iv) the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows when the forecast cash flows of the hedged item are no longer probable (as a release from accumulated other comprehensive income ("AOCI"));

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(g) Interest income and expense (continued):

(v) fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk; and

(vi) gains or losses on economic interest income on lease

(vii) interest on investment securities measured at FVTPL.

(h) Fee and commission income and expense:

The accounting treatment for loan fees varies depending on the transaction. Loan fees that are considered to be an integral part of the effective interest method are capitalized within loans and advances to members and amortized into interest income over the expected life of the loan, as described in note 3(g).

Loan fees that are not an integral part of the effective interest method are recorded in fee and commission income. These fees include loan discharge fees, administration fees and loan syndication fees. Loan discharge and administration fees are recognized when the loan transaction is complete. Loan syndication fees are recognized when the syndication is completed and Vancity has retained no part of the package for itself or, if part has been retained, it bears the same effective interest as other participants.

Credit card and prepaid card fees primarily consist of load fees, interchange fees, maintenance fees and annual membership fees. Vancity recognizes revenues over time for providing access over a contractual period and recognizes revenues at a point in time for transactional services performed.

Account service fees, which may be fixed or variable, relate to fees charged to personal and business members for processing transactions on the member's bank account. Vancity recognizes these revenues at a point in time when the related services are performed.

Trust and investment fees consist primarily of investment management fees, which are variable fees charged to personal and business members for providing wealth management services. Vancity recognizes revenues over time as the performance obligation is satisfied as time passes.

Other fee and commission income, including foreign exchange and insurance broker commissions and fees, is recognized as the related services are performed.

Fee and commission expense primarily relate to transaction and service fees, which are expensed as the service is received.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(i) Premises and equipment:

(i) Recognition and measurement:

All premises and equipment used by Vancity are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

(ii) Subsequent costs:

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Vancity and the cost of the item can be measured reliably.

All other repair and maintenance costs are charged to general and administrative expenses during the financial period in which they are incurred.

(iii) Depreciation:

Land is carried at cost and is not depreciated. Asset classes are further categorized for depreciation where significant differences in the estimated useful life of the various components of individually significant assets are identified. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 to 40 years
Leasehold improvements	5 to 10 years
Computer equipment	3 to 7 years
Furniture and fixtures	5 to 10 years

The residual values and useful lives of premises and equipment are reviewed, and adjusted if appropriate, at each financial reporting date.

(iv) Impairment:

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other income in the consolidated statement of income.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(j) Intangibles:

(i) Computer software:

Computer software costs are capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life. The expected useful life ranges from 3 to 15 years. Amortization expense is recognized in the consolidated statement of income as part of occupancy and equipment expense. Computer software is assessed for impairment when impairment indicators are identified.

(ii) ICBC licence:

The ICBC licence was acquired to issue insurance coverage to members. The licence allows the brokers to sell insurance as well as optional coverage indefinitely; hence the licence has an indefinite life. The license is measured at cost less impairment if any. A review for impairment is conducted on an annual basis by comparing the cost with the market value.

(iii) Goodwill:

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized and it is assessed for impairment annually.

(k) Leases:

At inception of a contract, Vancity assesses whether a 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, Vancity assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- Vancity has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- Vancity has the right to direct the use of the asset. Vancity has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(k) Leases (continued):

At inception or on reassessment of a contract that contains a lease component, Vancity allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(i) Vancity as a lessee:

Vancity recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Vancity's incremental borrowing rate. Generally, Vancity uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that Vancity is reasonably certain to exercise, lease payments in an optional renewal period if Vancity is reasonably certain to exercise an extension option, and penalties for early termination unless Vancity is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Vancity's estimate of the amount expected to be payable under a residual value guarantee or if Vancity changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil. Vancity presents right-of-use assets in 'premises and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(k) Leases (continued):

(ii) Vancity as a lessor:

When Vancity acts as a lessor, it determines at lease commencement whether each lease is a finance or an operating lease. To classify each lease, Vancity makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, Vancity considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When Vancity is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which Vancity applies the exemption described above, then it classifies the sub-lease as an operating lease. Vancity recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

(l) Income taxes:

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in members' equity or in OCI.

(i) Current tax:

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

(ii) Deferred tax:

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can 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.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(m) Employee benefits:

Vancity operates various post-retirement benefit plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. Vancity has both defined benefit and defined contribution plans.

(i) Defined benefit plans:

A defined benefit plan is a post-retirement benefit plan that defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. Vancity has one defined benefit pension plan that is registered with OSFI and regulated under the Federal Pension Benefit Standards Act, 1985. Vancity's other defined benefit plans are unregistered arrangements.

The retirement benefit obligation recognized in Vancity's consolidated statement of financial position in respect of its defined benefit plans is the present value of the defined benefit obligation at the financial reporting date less the fair value of plan assets and the effect of the asset ceiling (if any).

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plans assets and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognized in the consolidated statement of income.

(ii) Defined contribution plans:

For defined contribution plans, Vancity pays a specified flat rate for employer contributions. Vancity has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(iii) Participation in multi-employer plans (the "Plan")

Vancity provides retirement benefits to certain employees through a multi-employer plan administered by Credit Union Pension & Benefits Trust. Each member credit union is exposed to the actuarial risks of the other employers. Vancity's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(n) Provisions:

A provision is recognized if, as a result of a past event, Vancity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by Vancity from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Vancity recognizes any impairment loss on the assets associated with the contract.

(o) Distribution to members:

Patronage rebates and dividends are expensed when declared and classified as distribution to community and members in the consolidated statement of income.

(p) Interest rate benchmark reform:

Interest rate benchmarks are referenced in financial instruments globally, including derivatives (hedges), investments, loan products, and variable rate notes, among others. Over the past few years, the IASB has issued amendments to financial reporting standards on interest rate benchmark reform, with requirements to commence transition from the prominent Interbank Offer Rates ("IBOR") to Alternative Benchmark Rates ("ABR").

The Canadian Dollar Offer Rates ("CDOR") has been the primary benchmark used by Canadian financial institutions. On December 16, 2021, the Canadian Alternative Reference Rate working group ("CARR") recommended the administrator, Refinitiv Benchmark Services UK Limited ("RBSL"), to cease publication of CDOR immediately after June 28, 2024, using a two-stage transition approach. By the end of the first stage on June 30, 2023, CARR expects that all new derivative contracts and securities will use the Canadian Overnight Repo Rate Average ("CORRA"), with the exception of derivatives that hedge or reduce CDOR exposures from derivatives or securities transacted before June 30, 2023, or loan agreements entered into before June 28, 2024. All remaining CDOR exposures should be transitioned to CORRA by June 28, 2024, marking the end of the second stage.

On May 16, 2022, following public consultation, RBSL announced that all remaining CDOR settings will cease publication immediately after June 28, 2024, in line with CARR recommendations. As a result of this, organizations are required to transition existing contracts to ABR with the recommended rate being CORRA.

As a result of the transition, Vancity is exposed to interest rate risk. The intent of management is to ensure the newly applied ABRs and interest calculation methodologies have minimal impact on the economics of the financial instruments. Transition activities underway with contracted third parties include an evaluation of our derivatives that reference CDOR, with the aim of determining whether contracts need to be amended or whether they already include a fallback clause.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(p) Interest rate benchmark reform (continued):

Vancity has applied the IASB's Phase 1 Amendments to IFRS 9 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, which modified certain hedge accounting requirements to provide relief from the uncertainty arising from IBOR reform during the period prior to replacement of IBORs. Vancity expects the selection of an economically equivalent benchmark rate from the industry, thus does not expect a material impact on cashflows, and will apply judgment with respect to the need for new or revised hedging relationships, ensuring that such contracts will have appropriate fallback clauses.

Vancity has also applied the IASB's IBOR Phase 2 amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures. These amendments address issues that arise from implementation of IBOR reform. The amendments provide a practical expedient for modification of a financial contract and allow relief from discontinuing hedging relationships, in combination with new disclosures on the nature and extent of risks arising from the reform and how these risks are managed. The assessment of the impact on Vancity's hedging relationships and its mitigation plans are still in progress.

Vancity monitors the progress of transition from IBOR to the new benchmark rate by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. A contract that is not yet transitioned is referred to as an "unreformed contract" when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR.

The table below shows the total amount of unreformed financial instruments as at December 31, 2022 for which contracts are indexed to CDOR and will mature after June 28, 2024.

Exposures to interest rate benchmarks subject to IBOR reform:

	Notional Amount
Derivative assets	\$ 2,650,000

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

3. Summary of significant accounting policies (continued):

(q) Standards issued but not yet effective:

At December 31, 2022, a number of standards and amendments to standards had been issued by the IASB but are not yet effective for these consolidated financial statements. Those which are relevant to Vancity's consolidated financial statements are set out below:

(i) Deferred tax related to assets and liabilities arising from a single transaction:

In May 2021, the IASB published Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12, Income Tax) that clarify how deferred tax on transactions such as leases and decommissioning obligations is accounted for. The main change in these amendments is an exemption from the initial recognition exemption provided in IAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The amendments are effective for Vancity's fiscal year beginning January 1, 2023 with early adoption permitted. Vancity does not expect any impact on the consolidated financial statements on adoption of the amendments.

(ii) Definition of accounting estimates:

In February 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors) to help entities to distinguish between accounting policies and accounting estimates. The amendments introduce a new definition for accounting estimates by clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for Vancity's fiscal year beginning January 1, 2023 with early adoption permitted and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the start of that period. Vancity is in the process of assessing the impact of these amendments.

(iii) Disclosure of accounting policies:

In February 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures. The amendments to IAS 1 require companies to disclose their material accounting policies rather than their significant accounting policies. The amendments are effective for Vancity's fiscal year beginning January 1, 2023 with early adoption permitted. Vancity is in the process of assessing the impact of these amendments.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

4. Use of estimates and judgments:

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying Vancity's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

While there is a higher level of uncertainty due to the changing macroeconomic and interest rate environments, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities, and most critical judgments in applying accounting policies.

(a) The principal areas where critical estimates and assumptions have been applied, are described below:

(i) Expected credit loss allowance:

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Credit impaired assets requires lifetime losses (Stage 3). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

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

The calculation of ECL includes explicit incorporation of forecasted economic conditions. Vancity has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario. Management overlays to loss allowance for ECL are adjustments which are used in circumstances where management determines that existing inputs, assumptions and model techniques do not capture all relevant risk factors. Examples of such circumstances are the emergence of new macroeconomic factors, along with expected changes to data that are not incorporated in current inputs or forward-looking information. Details of Vancity's ECL is provided in note 8.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

4. Use of estimates and judgments (continued):

(a) (continued):

(ii) Pension and other retirement benefits:

The determination of expense and obligations associated with pension and other retirement benefit plans require the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with pension and other retirement benefit plans require the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

Vancity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, Vancity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension and other retirement benefit obligations are based in part on current market conditions. Details of Vancity's pension and other retirement benefits are provided in note 12.

(iii) Income taxes:

Vancity computes an income tax provision which includes an evaluation of the small business rate eligible to credit unions under the Income Tax Act. This small business rate applies until, in general, retained earnings reach five percent of amounts owing to members, including deposits and shares. The small business rate available to credit unions will be reduced progressively until it is completely eliminated. An estimate of deposit, share and income growth based on the modeling of the Vancity business plan inclusive of economic indicators provides the basis in determining the small business tax rate for Vancity.

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The assessment is based on enacted tax acts and estimates of future taxable income.

The actual expense does not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, net earnings would be affected in the subsequent year. Details of Vancity's income taxes are provided in note 11.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

4. Use of estimates and judgments (continued):

(a) (continued):

(iv) Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuation techniques with observable data of similar financial instruments. Where market observable data is not available, in areas such as credit risk and correlations, Vancity uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of Vancity's financial investments are provided in note 5.

(b) The principal areas where critical judgments in applying accounting policies, are described below:

(i) Determining if control exists over an investee:

Under IFRS 10 an entity must assess whether or not it controls other entities based on assessment of its ability to influence the returns of an investee and the level to which it participates in those returns. This requires an investor to use judgment to assess the nature of the operations of the investee, the degree to which it is able to direct those operations and the level of exposure that the investor has to the variable returns of those entities.

(ii) Securitizations:

In applying its policies on securitized financial assets, Vancity has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by Vancity over the other entity. Details of Vancity's securitization activities are provided in note 16(a).

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

5. Financial investments:

An analysis of the fair value of financial investments is as follows:

	2022		2021	
	Effective yield	Total fair value	Effective yield	Total fair value
Financial investments classified as FVOCI:				
Securities issued or guaranteed by the Canadian federal and provincial government	2.43%	\$ 1,510,793	1.14%	\$ 1,392,570
Financial investments designated as FVOCI:				
Central 1 shares	n/a	7,835	n/a	7,670
Other equity	n/a	445	n/a	-
Other securities	3.34%	324,761	0.69%	281,942
Financial investments measured at FVTPL:				
Other securities	n/a	39,561	n/a	29,358
Financial investments measured at amortized cost:				
Securities issued or guaranteed by the Canadian federal or provincial government	2.39%	1,710,194	0.78%	1,552,879
Non-government securities	4.57%	16,000	n/a	-
Accrued interest		16,626		9,480
Total financial investments		\$ 3,626,215		\$ 3,273,899

Included in the above investments are reinvestment assets relating to the CMB program of \$100.0 million (2021 - \$101.3 million). These assets have been pledged as collateral for the secured borrowings as described in note 16(a).

6. Derivative instruments:

The following table summarizes the notional amounts and fair values of derivative assets and liabilities:

December 31, 2022	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate swap contracts	\$ 1,150,000	\$ 3,600,000	\$ 4,750,000	\$ 84,067	\$ 85,351
Interest rate bond forwards	100,000	-	100,000	789	-
Foreign exchange forward contracts	88,758	-	88,758	169	373
Equity index-linked option	6,054	23,392	29,446	2,793	-
Total derivative contracts	1,344,812	3,623,392	4,968,204	87,818	85,724
Amounts subject to master netting agreements				(78,792)	(78,792)
Net exposure on derivatives				\$ 9,026	\$ 6,932

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

6. Derivative instruments (continued):

December 31, 2021	Notional amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate swap contracts	\$ 150,000	\$ 3,375,000	\$ 3,525,000	\$ 21,876	\$ 11,300
Interest rate bond forwards	-	200,000	200,000	738	-
Foreign exchange forward contracts	-	40,093	40,093	561	335
Equity index-linked option	10,635	24,620	35,255	4,121	-
Total derivative contracts	160,635	3,639,713	3,800,348	27,296	11,635
Amounts subject to master netting agreements				(11,398)	(11,398)
Net exposure on derivatives				\$ 15,898	\$ 237

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure.

Vancity is subject to master netting agreements in the form of International Swaps and Derivatives Association agreements with derivative counterparties.

Vancity uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically utilized include interest rate swaps, bond forwards, and equity options.

Hedge Accounting

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Economic Hedges

From time to time, VCS uses interest rate swaps not designated in a qualifying hedging relationship to manage its exposure to interest rate. During the year ended December 31, 2022, VCS recognized \$2.7 million in unrealized losses from changes in the fair value of economic swaps (2021 - nil). For more information about how VCS manages its market risks, see note 24(c).

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

7. Loans and advances to members:

Loan balances measured at amortized cost:

	2022	2021
Retail:		
Residential mortgages	\$ 15,654,979	\$ 14,686,195
Personal loans	635,454	595,756
Business:		
Commercial mortgages and loans	7,822,578	7,495,472
	<u>24,113,011</u>	<u>22,777,423</u>
Loans and advances to members classified as:		
Stage 1	20,572,967	16,386,147
Stage 2	3,502,721	6,382,437
Stage 3	37,323	8,839
	<u>24,113,011</u>	<u>22,777,423</u>
Accrued interest receivable	43,640	27,827
Less: Allowance for expected credit losses on loans and advances to members (note 8(a))	(100,873)	(84,199)
	<u>\$ 24,055,778</u>	<u>\$ 22,721,051</u>

At December 31, 2022, Vancity had \$1,250.0 million (2021 - \$1,124.8 million) of loans which had been securitized in the CMB and MBS programs and included in the consolidated statement of financial position as the securitization transactions did not meet the requirements for derecognition.

Loans that have been securitized through the CMB program and pledged as collateral for secured borrowings are disclosed in note 16(a).

Canada Emergency Business Account ("CEBA") program:

During the year, the Credit Union continued to serve as a credit facility administrator of the CEBA program that was implemented by the Government of Canada ("GoC") in 2020. Loans advanced under CEBA program are not recognized on the consolidated statement of financial position of the Credit Union as the program is underwritten by the GoC and all of the resulting cash flows and associated risks and rewards, including any exposure to payment defaults and principal forgiveness, are assumed by the GoC. The Credit Union collects a servicing fee which is intended to reimburse the Credit Union for the costs incurred in the administration of the loans. The servicing fee is recognized in on the consolidated statement of income.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

8. Expected credit losses on financial instruments:

(a) Reconciliation of allowance for expected credit losses:

2022	Stage 1	Stage 2	Stage 3	Total
ECL on loans and advances				
to members - Retail				
Balance at January 1, 2022	\$ 6,355	\$ 39,873	\$ 3,832	\$ 50,060
Net remeasurement	(12,803)	25,188	1,472	13,857
Originations	9,526	-	-	9,526
Derecognitions and maturities	(433)	(3,624)	(1,726)	(5,783)
Transfers to Stage 1	16,894	(16,865)	(29)	-
Transfers to Stage 2	(8,300)	8,345	(45)	-
Transfers to Stage 3	(182)	(74)	74	-
Balance at December 31, 2022	11,057	52,843	3,760	67,660
ECL on loans and advances				
to members - Business				
Balance at January 1, 2022	10,457	18,813	4,869	34,139
Net remeasurement	(5,538)	3,455	1,972	(111)
Originations	5,214	-	-	5,214
Derecognitions and maturities	(1,286)	(3,332)	(1,411)	(6,029)
Transfers to Stage 1	12,314	(12,312)	(2)	-
Transfers to Stage 2	(1,729)	2,369	(640)	-
Transfers to Stage 3	(6)	(177)	183	-
Balance at December 31, 2022	19,426	8,816	4,971	33,213
Total ECL on loans and advances				
to members (note 7)				
Balance at December 31, 2022	30,483	61,659	8,731	100,873
ECL on other financial instruments				
Balance at January 1, 2022	312	-	4	316
Net remeasurement	14	-	-	14
Originations	203	-	-	203
Derecognitions and maturities	(55)	-	-	(55)
Balance at December 31, 2022	474	-	4	478
Total ECL				
Balance at January 1, 2022	17,124	58,686	8,705	84,515
Net remeasurement	(18,327)	28,643	3,444	13,760
Originations	14,943	-	-	14,943
Derecognitions and maturities	(1,774)	(6,956)	(3,137)	(11,867)
Transfers to Stage 1	29,208	(29,177)	(31)	-
Transfers to Stage 2	(10,029)	10,714	(685)	-
Transfers to Stage 3	(188)	(251)	439	-
Balance at December 31, 2022	\$ 30,957	\$ 61,659	\$ 8,735	\$ 101,351

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

8. Expected credit losses on financial instruments (continued):

(a) Reconciliation of allowance for expected credit losses (continued):

2021	Stage 1	Stage 2	Stage 3	Total
ECL on loans and advances				
to members - Retail				
Balance at January 1, 2021	\$ 12,840	\$ 38,984	\$ 5,406	\$ 57,230
Net remeasurement	(13,427)	1,787	1,793	(9,847)
Originations	1,229	11,848	502	13,579
Derecognitions and maturities	(1,593)	(5,434)	(3,875)	(10,902)
Transfers to Stage 1	8,246	(8,088)	(158)	-
Transfers to Stage 2	(745)	946	(201)	-
Transfers to Stage 3	(195)	(170)	365	-
Balance at December 31, 2021	6,355	39,873	3,832	50,060
ECL on loans and advances				
to members - Business				
Balance at January 1, 2021	6,128	41,028	15,011	62,167
Net remeasurement	(15,334)	2,276	(4,467)	(17,525)
Originations	4,053	394	424	4,871
Derecognitions and maturities	(1,258)	(8,364)	(5,752)	(15,374)
Transfers to Stage 1	17,836	(17,834)	(2)	-
Transfers to Stage 2	(966)	1,327	(361)	-
Transfers to Stage 3	(2)	(14)	16	-
Balance at December 31, 2021	10,457	18,813	4,869	34,139
Total ECL on loans and advances				
to members (note 7)				
Balance at December 31, 2021	16,812	58,686	8,701	84,199
ECL on other financial instruments				
Balance at January 1, 2021	433	-	4	437
Net remeasurement	(21)	-	-	(21)
Originations	130	-	-	130
Derecognitions and maturities	(230)	-	-	(230)
Balance at December 31, 2021	312	-	4	316
Total ECL				
Balance at January 1, 2021	19,401	80,012	20,421	119,834
Net remeasurement	(28,782)	4,063	(2,674)	(27,393)
Originations	5,412	12,242	926	18,580
Derecognitions and maturities	(3,081)	(13,798)	(9,627)	(26,506)
Transfers to Stage 1	26,082	(25,922)	(160)	-
Transfers to Stage 2	(1,711)	2,273	(562)	-
Transfers to Stage 3	(197)	(184)	381	-
Balance at December 31, 2021	\$ 17,124	\$ 58,686	\$ 8,705	\$ 84,515

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

8. Expected credit losses on financial instruments (continued)

(b) Impairment expense (recovery) on financial instruments:

	2022	2021
Total change in allowance for ECL recognized in impairment expense on financial instruments	\$ 16,836	\$ (35,319)
Write-offs	12,745	19,211
Recoveries	(3,223)	(4,004)
Adjustment for ECL assumed in acquisition of CoPower Finance Inc. (note 30)	-	(164)
Total impairment expense (recovery) on financial instruments	\$ 26,358	\$ (20,276)

9. Premises, equipment, intangibles and goodwill:

(a) Premises and equipment:

Premises and equipment comprise owned and leased assets that do not meet the definition of investment property.

	2022	2021
Premises and equipment owned	\$ 78,405	\$ 79,211
Right-of-use assets (note 10(a))	47,531	48,452
	\$ 125,936	\$ 127,663

The movement of premises and equipment during the years ended December 31, 2022 and 2021 is as follows:

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2022	\$ 7,720	\$ 71,517	\$ 85,098	\$ 38,911	\$ 42,562	\$ 245,808
Acquisitions	-	1,678	5,432	5,349	2,038	14,497
Transfers	(196)	-	-	-	-	(196)
Disposals	-	(55)	(1,108)	(8,804)	(10,230)	(20,197)
Balance at December 31, 2022	\$ 7,524	\$ 73,140	\$ 89,422	\$ 35,456	\$ 34,370	\$ 239,912
Accumulated depreciation and impairment losses:						
Balance at January 1, 2022	\$ -	\$ 46,709	\$ 59,496	\$ 28,841	\$ 31,551	\$ 166,597
Depreciation	-	3,058	4,316	260	2,345	9,979
Impairment	-	-	258	-	-	258
Disposals	-	(55)	(251)	(5,125)	(9,896)	(15,327)
Balance at December 31, 2022	\$ -	\$ 49,712	\$ 63,819	\$ 23,976	\$ 24,000	\$ 161,507
Carrying amounts:						
Balance at December 31, 2022	\$ 7,524	\$ 23,428	\$ 25,603	\$ 11,480	\$ 10,370	\$ 78,405

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

9. Premises, equipment, intangibles and goodwill (continued):

(a) Premises and equipment (continued):

	Land	Buildings	Leasehold improvements	Computer equipment	Furniture and fixtures	Total
Cost:						
Balance at January 1, 2021	\$ 9,962	\$ 67,693	\$ 83,184	\$ 46,442	\$ 40,714	\$ 247,995
Acquisitions	-	4,272	3,452	3,942	3,247	14,913
Disposals	(2,242)	(448)	(1,538)	(11,473)	(1,399)	(17,100)
Balance at December 31, 2021	\$ 7,720	\$ 71,517	\$ 85,098	\$ 38,911	\$ 42,562	\$ 245,808
Accumulated depreciation and impairment losses:						
Balance at January 1, 2021	\$ -	\$ 44,098	\$ 55,304	\$ 35,835	\$ 30,479	\$ 165,716
Depreciation	-	2,922	5,428	4,479	2,364	15,193
Impairment	-	-	302	-	44	346
Disposals	-	(311)	(1,538)	(11,473)	(1,336)	(14,658)
Balance at December 31, 2021	\$ -	\$ 46,709	\$ 59,496	\$ 28,841	\$ 31,551	\$ 166,597
Carrying amounts:						
Balance at December 31, 2021	\$ 7,720	\$ 24,808	\$ 25,602	\$ 10,070	\$ 11,011	\$ 79,211

(b) Intangibles and goodwill:

The movement of intangibles and goodwill during the years ended December 31, 2022 and 2021 is as follows:

	Software	Goodwill	Other	Total
Cost:				
Balance at January 1, 2022	\$ 117,750	\$ 3,089	\$ 28	\$ 120,867
Acquisitions	1,634	-	-	1,634
Disposals	(1,499)	(3,089)	-	(4,588)
Balance at December 31, 2022	\$ 117,885	\$ -	\$ 28	\$ 117,913
Accumulated amortization and impairment losses:				
Balance at January 1, 2022	\$ 52,342	\$ 3,089	\$ -	\$ 55,431
Amortization	9,557	-	-	9,557
Impairment	-	-	3	3
Disposals	(1,499)	(3,089)	-	(4,588)
Balance at December 31, 2022	\$ 60,400	\$ -	\$ 3	\$ 60,403
Carrying amounts:				
Balance at December 31, 2022	\$ 57,485	\$ -	\$ 25	\$ 57,510

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

9. Premises, equipment, intangibles and goodwill (continued):

(b) Intangibles and goodwill (continued):

	Software	Goodwill	Other	Total
Cost:				
Balance at January 1, 2021	\$ 113,208	\$ 3,089	\$ 28	\$ 116,325
Acquisitions	4,598	-	-	4,598
Disposals	(56)	-	-	(56)
Balance at December 31, 2021	\$ 117,750	\$ 3,089	\$ 28	\$ 120,867
Accumulated amortization and impairment losses:				
Balance at January 1, 2021	\$ 43,206	\$ 3,089	\$ -	\$ 46,295
Amortization	9,192	-	-	9,192
Impairment	-	-	-	-
Disposals	(56)	-	-	(56)
Balance at December 31, 2021	\$ 52,342	\$ 3,089	\$ -	\$ 55,431
Carrying amounts:				
Balance at December 31, 2021	\$ 65,408	\$ -	\$ 28	\$ 65,436

10. Leases:

(a) Vancity as a lessee - right-of-use assets:

Vancity leases a number of branch and office premises. These leases typically run for a period of 10 years, with an option to renew the lease after that date. The movement of right-of-use assets during the year ended December 31, 2022 and 2021 is as follows:

	2022	2021
Opening balance	\$ 48,452	\$ 50,415
Additions to right-of-use assets	12,382	12,139
Depreciation	(13,233)	(13,273)
Terminations and derecognitions	(70)	(829)
Ending balance	\$ 47,531	\$ 48,452

Vancity received income of \$177 thousand (2021 - \$239 thousand) from the sublease of right-of-use assets for year ended December 31, 2022.

(b) Vancity as a lessee - lease liabilities:

The expense relating to interest on lease liabilities was \$1.3 million (2021 - \$1.2 million) and there was no expense (2021 - nil) related to short term leases for the year ended December 31, 2022.

The following table sets out a maturity analysis of lease payments, showing the contractual undiscounted lease payments:

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

10. Leases (continued):

(b) Vancity as a lessee - lease liabilities (continued):

	2022	2021
Maturity analysis - contractual undiscounted cash flows		
Less than one year	\$ 12,391	\$ 12,346
One to five years	33,275	32,716
More than five years	8,022	7,536
Total undiscounted lease liabilities at December 31	\$ 53,688	\$ 52,598
Current portion of lease liabilities	\$ 11,153	\$ 11,344
Non-current portion of lease liabilities	38,335	38,091
Total lease liabilities included in other liabilities at December 31	\$ 49,488	\$ 49,435

(c) Vancity as a lessor - future minimum lease payments:

Vancity acts as a head lessor and an intermediate lessor of certain branch and office premises. These leases have an average life of five years with an option to renew the lease after that date. Total lease payments of \$408 thousand (2021 - \$318 thousand) were received during the year ended December 31, 2022. The future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	2022	2021
No later than one year	\$ 352	\$ 313
Later than one year and no later than five years	503	543
More than five years	-	-
	\$ 855	\$ 856

11. Income taxes:

(a) Income tax expense (recovery):

	2022	2021
Current tax expense	\$ 19,923	\$ 18,428
Deferred tax expense:		
Origination and reversal of temporary differences	(4,852)	4,875
Change in tax rate	(722)	14,341
Recognition of previously unrecognized tax losses	-	(1,274)
	(5,574)	17,942
	\$ 14,349	\$ 36,370

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

11. Income taxes (continued):

(b) Reconciliation of effective tax rate:

The effective tax rate of 16.3% (2021 - 25.5%) differed from the combined federal and provincial tax rate for the following reasons:

	2022	2021
Combined federal and provincial statutory tax rate	27.0%	27.0%
Credit union preferred rate reduction	(9.3)	(10.0)
Change in predicted future tax rates	(0.9)	10.4
Other	(0.5)	(1.1)
Derecognition of tax asset relating to CoPower Inc.'s prior year losses	-	(0.8)
	16.3%	25.5%

(c) Deferred tax assets and liabilities:

	Balance at January 1, 2022	Recognized in net income	Recognized in OCI	Balance at December 31, 2022
Deferred tax assets:				
Pensions and post-retirement benefits	\$ 11,082	\$ 660	\$ (3,068)	\$ 8,674
Deferred revenue	3,786	38	-	3,824
Lease liabilities	8,836	284	-	9,120
Allowance for expected credit losses	13,786	3,338	-	17,124
Other provisions	11,372	73	-	11,445
Accrued expenses	481	658	-	1,139
Tax loss carried forward	1,854	(498)	-	1,356
	51,197	4,553	(3,068)	52,682
Deferred tax liabilities:				
Premises and equipment	(8,830)	1,467	-	(7,363)
Right-of-use asset	(8,695)	(43)	-	(8,738)
Deferred expenses	(9,224)	(415)	-	(9,639)
Other tax liabilities	(82)	12	-	(70)
	(26,831)	1,021	-	(25,810)
Total	\$ 24,366	\$ 5,574	\$ (3,068)	\$ 26,872

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

11. Income taxes (continued):

(c) Deferred tax assets and liabilities (continued):

	Balance at January 1, 2021	Recognized in net income	Recognized in OCI	Acquired during the year	Balance at December 31, 2021
Deferred tax assets:					
Pensions and post-retirement benefits	\$ 18,095	\$ (5,453)	\$ (1,560)	\$ -	\$ 11,082
Deferred revenue	5,468	(1,682)	-	-	3,786
Lease liabilities	13,915	(5,079)	-	-	8,836
Allowance for expected credit losses	26,941	(13,199)	-	44	13,786
Other provisions	12,173	(806)	-	5	11,372
Accrued expenses	1,914	(1,433)	-	-	481
Tax loss carried forward	700	1,101	-	53	1,854
	79,206	(26,551)	(1,560)	102	51,197
Deferred tax liabilities:					
Premises and equipment	(13,192)	4,362	-	-	(8,830)
Right-of-use asset	(13,618)	4,923	-	-	(8,695)
Deferred expenses	(8,545)	(679)	-	-	(9,224)
Other tax liabilities	-	3	-	(85)	(82)
	(35,355)	8,609	-	(85)	(26,831)
Total	\$ 43,851	\$ (17,942)	\$ (1,560)	\$ 17	\$ 24,366

(d) Unrecognized deferred tax liabilities:

At December 31, 2022, deferred tax liabilities for temporary differences of \$25.2 million (2021 - \$18.4 million) related to investments in subsidiaries were not recognized because Vancity controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

12. Pension and other retirement benefits:

Vancity provides pension benefits to employees through defined contribution, defined benefit, and supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including life insurance, health care, dental benefits or cash alternatives are provided to eligible Vancity employees upon or after retirement.

Vancity funds the defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefits are paid directly by Vancity at the time of entitlement. Retirement benefits for multi-employer defined benefit and defined contributions plan are paid by Vancity on an annual basis.

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of December 31, 2022. The effective date of the last actuarial valuation report for funding purposes was December 31, 2020. The next actuarial valuation report will be prepared no later than as at December 31, 2023 and is expected to be available in 2024.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

12. Pension and other retirement benefits (continued):

(a) Retirement benefit obligation:

	Pension plans		Other benefit plans		Total	
	2022	2021	2022	2021	2022	2021
Defined benefit obligation - funded	\$ (32,444)	\$ (40,724)	\$ -	\$ -	\$ (32,444)	\$ (40,724)
Defined benefit obligation - unfunded	(19,516)	(24,798)	(26,940)	(32,933)	(46,456)	(57,731)
Fair value of plan assets	35,531	40,934	-	-	35,531	40,934
Net retirement benefit obligation	\$ (16,429)	\$ (24,588)	\$ (26,940)	\$ (32,933)	\$ (43,369)	\$ (57,521)

(b) The movement in the defined benefit obligation is as follows:

	Pension plans		Other benefit plans		Total	
	2022	2021	2022	2021	2022	2021
Defined benefit obligation at January 1	\$ (65,522)	\$ (67,994)	\$ (32,933)	\$ (34,557)	\$ (98,455)	\$ (102,551)
Current service cost (net of employee contributions)	(2,823)	(2,826)	(1,629)	(1,729)	(4,452)	(4,555)
Past service cost (incl. curtailment)	-	-	1,266	-	1,266	-
Interest cost	(2,109)	(1,779)	(1,041)	(892)	(3,150)	(2,671)
Employee contributions	(80)	(67)	-	-	(80)	(67)
Actuarial gains (losses) arising from:						
Experience adjustments	(1,147)	(1,685)	75	2,034	(1,072)	349
Financial assumptions	17,592	6,719	4,888	-	22,480	6,719
Benefit payments	2,129	2,110	2,434	2,211	4,563	4,321
Defined benefit obligation at December 31	\$ (51,960)	\$ (65,522)	\$ (26,940)	\$ (32,933)	\$ (78,900)	\$ (98,455)

(c) Fair value of plan assets:

(i) Movement in the fair value of plan assets is as follows:

	2022	2021
Fair value of plan assets at January 1	\$ 40,934	\$ 38,589
Interest income on plan assets	1,289	992
Return (decrease) on plan assets, excluding interest income	(5,347)	2,209
Employer contributions	3,183	3,398
Employee contributions	80	67
Benefit payments	(4,563)	(4,321)
Fair value of plan assets at December 31	\$ 35,531	\$ 40,934

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

12. Pension and other retirement benefits (continued):

(c) Fair value of plan assets (continued):

(ii) Plan assets comprise the following:

	2022	2021
Pooled funds	\$ 35,069	\$ 40,238
Other assets	462	696
Fair value of plan assets	\$ 35,531	\$ 40,934

(d) The amounts recognized in the consolidated statement of income were as follows:

	Pension plans		Other benefit plans		Total	
	2022	2021	2022	2021	2022	2021
Current service cost	\$ (2,823)	\$ (2,826)	\$ (1,629)	\$ (1,729)	\$ (4,452)	\$ (4,555)
Interest cost	(2,109)	(1,779)	(1,041)	(892)	(3,150)	(2,671)
Interest income on plan assets	1,289	992	-	-	1,289	992
Past service cost (incl. curtailment)	-	-	1,266	-	1,266	-
Total included in employee benefits expense (note 21)	\$ (3,643)	\$ (3,613)	\$ (1,404)	\$ (2,621)	\$ (5,047)	\$ (6,234)

(e) The amounts recognized in OCI were as follows:

	Pension plans		Other benefit plans		Total	
	2022	2021	2022	2021	2022	2021
Cumulative actuarial gains (losses) at January 1	\$ (366)	\$ (7,609)	\$ 12,320	\$ 10,286	\$ 11,954	\$ 2,677
Remeasurements:						
Actuarial gain (loss) in the year	16,445	5,034	4,963	2,034	21,408	7,068
Return on plan assets, excluding interest income	(5,347)	2,209	-	-	(5,347)	2,209
Cumulative actuarial gains (losses) at December 31	\$ 10,732	\$ (366)	\$ 17,283	\$ 12,320	\$ 28,015	\$ 11,954

(f) The significant actuarial assumptions used were as follows:

	Pension plans		Other benefit plans	
	2022	2021	2022	2021
Discount rate	5.2%	3.2%	5.2%	3.2%
Inflation rate	2.0%	2.0%	2.0%	2.0%
Future salary increases	3.0%	3.0%	n/a	n/a
Future pension increases	3.0%	3.0%	n/a	n/a
Health care cost trend	n/a	n/a	5.0% ¹	5.0% ¹

¹ Reflects trend assumptions for extended health care, dental and MSP. 5.0% from 2023 to 2029, grading down to 4.0% from 2040 and thereafter.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

12. Pension and other retirement benefits (continued):

(f) (continued):

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions are based on the CPM 2014 Combined Table with generational projection using Improvement Scale CPM-B and pension size adjustment factors of 0.83 for both male and female (2021 - 0.83).

These tables translate into an average life expectancy in years of a pensioner retiring at age 65.

Retiring at the year-end date:

	Pension plans	Other benefit plans
Male	24 years	22 years
Female	26 years	24 years

Retiring 20 years after the year-end date:

	Pension plans	Other benefit plans
Male	25 years	23 years
Female	27 years	25 years

The interest rate sensitivity of the defined benefit obligation can be measured using duration. The duration also provides information on the maturity profile of the obligation. At December 31, 2022, the weighted average duration of the defined benefit obligation was 11 years (2021 - 14 years).

The sensitivity of the overall pension and other benefit plans liability to changes in the significant principal assumptions is:

	Retirement benefit obligation			
	Pension plans		Other benefit plans	
	2022	2021	2022	2021
Discount rate	5.2%	3.2%	5.2%	3.2%
Impact of: 1% increase	\$ (6,289)	\$ (9,262)	(1,743)	\$ (2,749)
1% decrease	7,798	11,788	1,990	3,234
Salary growth rate	3.0%	3.0%	n/a	n/a
Impact of: 0.25% increase	101	130	n/a	n/a
0.25% decrease	(17)	(21)	n/a	n/a
Assumed overall health care trend rate	n/a	n/a	5.0%	5.0%
Impact of: 1% increase	n/a	n/a	101	113
1% decrease	n/a	n/a	(116)	(136)

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

12. Pension and other retirement benefits (continued):

(f) (continued):

The results shown in the sensitivity tables were determined by recalculating the defined benefit obligation but only changing the assumption for which the sensitivity is required and then calculating the difference between the recalculated obligation and the actual obligation. There have been no changes from the previous period to the methods or assumptions used in preparing the sensitivity analysis.

(g) Future contributions:

The expected contributions for the year ending December 31, 2023 are as follows:

	Pension plans	Other benefit plans	Total
Company contributions	\$ 748	\$ 2,434	\$ 3,182
Employee contributions	88	-	88
	\$ 836	\$ 2,434	\$ 3,270

(h) Participation in multi-employer plan:

Vancity participates in a defined benefit plan for certain eligible employees which is administered by Credit Union Pension & Benefits Trust.

Under IFRS, an employer is required to account for its participation in a multi-employer plan in respect of its proportionate share of assets, liabilities and costs in the same fashion as for any other defined benefit plan except in the circumstances where the information is not available to the employer, as follows:

- (i) The entity does not have sufficient information to enable the employer to use defined benefit accounting.
- (ii) The Plan exposes the participating employers to actuarial risks associated with the current and former employees of other entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual entities participating in the Plan.

It has been determined that insufficient information is available to enable defined benefit accounting for the Plan. In particular, the investments made from contributions are not tracked on an individual employer basis to enable an apportionment of Plan assets to the respective member employers. Furthermore, the Plan exposes each of the employers to common actuarial risks of all of the members with the consequence that, in management's opinion, there is no reasonable and consistent basis of allocation of the actuarial assets (liabilities). Accordingly, Vancity accounts for its participation in the multi-employer plan on a defined contribution basis.

An actuarial valuation of the overall Plan was carried out as at December 31, 2021. It was determined that the overall Plan had an actuarial going concern surplus of \$112.5 million and a solvency deficiency of \$10.4 million, based on market value assets of approximately \$1,056 million. Employer contributions to the Plan are established by the trustees of the Plan upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time.

The next actuarial valuation is scheduled for December 31, 2024 with results expected to be available in 2025.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

13. Other assets:

	2022	2021
Prepaid and deferred expenses	\$ 32,454	\$ 18,044
Trade and other receivables	8,968	18,728
Investment property	3,182	2,999
Security deposits	1,257	1,257
	\$ 45,861	\$ 41,028

14. Deposits from members:

	2022	2021
Demand deposits	\$ 10,787,441	\$ 11,886,218
Term deposits	13,446,170	10,772,665
Shares (note 15)	137,729	139,504
Accrued interest and dividend payable	141,501	93,879
	\$ 24,512,841	\$ 22,892,266

15. Shares:

	2022	2021
Membership shares	\$ 77,383	\$ 76,705
Class C investment shares	26,915	28,524
Class E investment shares	31,619	32,480
Savings shares	1,812	1,795
	\$ 137,729	\$ 139,504

Members are required to purchase \$5 of membership shares and are from time to time allowed to purchase investment shares. Retraction and redemption of these shares are subject to certain restrictions. Current outstanding Class C investment shares, subject to approval by the Board, earn dividends at a quarterly adjusted rate set at the higher of 1.6% or 1% above the three- to five-year Government of Canada bond yields. Current outstanding Class E investment shares, subject to approval by the Board, earned dividends quarterly at 3.75% until December 31, 2022. After December 31, 2022, Class E investment shares are intended to earn dividends at a quarterly adjusted rate set at 2% above the five-year Government of Canada bond yields.

Savings shares can no longer be purchased by members and additional deposits are not permitted to these accounts. These shares have endowment insurance as a product feature and are paid an annual dividend. Deposits held in membership and investment shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC"). Savings shares are guaranteed by CUDIC.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

16. Borrowings:

(a) Secured borrowings:

During the year, Vancity participated in new CMB and MBS third party investor programs by transferring \$288.6 million (2021 - \$539.7 million) in MBS into the program and had maturities and principal repayments of \$154.6 million (2021 - \$643.6 million). At December 31, 2022, the carrying amount of secured borrowings was \$1,173.4 million (2021 - \$1,048.3 million), which includes accrued interest amounting to \$1.0 million (2021 - \$0.8 million) and the carrying amount of the assets held as security was \$1,223.8 million (2021 - \$1,079.1 million). The security comprises \$1,088.0 million of mortgages and accrued interest (2021 - \$945.6 million), \$100.0 million of reinvestment assets (2021 - \$101.3 million) and \$35.8 million in cash (2021 - \$32.2 million). Vancity receives the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in note 24(c)(i).

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Lease liabilities	Investment shares	Secured borrowings	Wholesale borrowings	Total
Balance at January 1, 2022	\$ 49,435	\$ 61,004	\$1,048,256	\$ 700,125	\$ 1,858,820
Increase (decrease) in borrowings	-	-	124,964	(102,789)	22,175
Investment share dividends	-	2,123	-	-	2,123
Investment share redemptions	-	(4,593)	-	-	(4,593)
Decrease in lease liabilities	53	-	-	-	53
Total changes from financing cash flows	53	(2,470)	124,964	(102,789)	19,758
Interest expense	1,363	-	18,378	14,629	34,370
Interest paid	(1,363)	-	(18,173)	(13,327)	(32,863)
Total liability-related other changes	-	-	205	1,302	1,507
Balance at December 31, 2022	\$ 49,488	\$ 58,534	\$1,173,425	\$ 598,638	\$ 1,880,085

	Lease liabilities	Investment shares	Secured borrowings	Wholesale borrowings	Total
Balance at January 1, 2021	\$ 52,028	\$ 63,458	\$1,159,207	\$ 195,465	\$ 1,470,158
Increase (decrease) in borrowings	-	-	(111,160)	504,353	393,193
Investment share dividends	-	1,722	-	-	1,722
Investment share redemptions	-	(4,176)	-	-	(4,176)
Decrease in lease liabilities	(2,593)	-	-	-	(2,593)
Total changes from financing cash flows	(2,593)	(2,454)	(111,160)	504,353	388,146
Interest expense	1,188	-	13,941	1,163	16,292
Interest paid	(1,188)	-	(13,732)	(856)	(15,776)
Total liability-related other changes	-	-	209	307	516
Balance at December 31, 2021	\$ 49,435	\$ 61,004	\$1,048,256	\$ 700,125	\$ 1,858,820

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

17. Accounts payable and accrued liabilities:

	2022	2021
Accruals	\$ 66,773	\$ 71,980
Accounts payable	48,711	17,299
Visa reward points liability	45,664	47,447
Outstanding certified cheques	39,967	66,233
Visa prepaid liability	21,664	30,853
Miscellaneous	2,328	3,429
Outstanding drafts	1,933	3,892
	\$ 227,040	\$ 241,133

18. Net interest income:

	2022	2021
Interest income		
Cash and cash equivalents	\$ 218	\$ 33
Interest bearing deposits with financial institutions	1,468	1,773
Financial instruments:		
Amortized cost	21,501	4,994
FVTPL	2,127	852
FVOCI	25,177	23,483
Loans and advances to members	779,704	646,310
Other assets	8,778	2,140
	838,973	679,585
Interest expense		
Deposits from members	294,913	143,917
Secured borrowings	18,378	13,941
Wholesale borrowings	14,629	1,163
Lease liabilities	1,363	1,188
Other liabilities	31,071	25,184
	360,354	185,393
	\$ 478,619	\$ 494,192

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

19. Net fee and commission income:

	2022	2021
Fee and commission income:		
Account service fees	\$ 25,057	\$ 23,376
Prepaid card and credit card fees	35,465	36,083
Foreign exchange	10,574	7,922
Insurance broker commissions and fees	2,570	2,511
Loan fees	3,153	2,687
Loan insurance fees	4,181	4,233
Trust and investment fees	54,723	52,680
	135,723	129,492
Fee and commission expense:		
Prepaid card and credit card fees	18,807	22,479
Other fees	8,820	7,055
	27,627	29,534
	\$ 108,096	\$ 99,958

20. Net gains (losses) on financial instruments:

	2022	2021
Realized gains (losses) on disposal of financial instruments:		
Instruments held at amortized cost	\$ (982)	\$ 209
Instruments designated as FVTPL	(995)	333
Debt investment securities measured at FVOCI	(753)	180
Bond forward	1,731	285
Unrealized change in fair value of financial instruments:		
Instruments designated as FVTPL	(1,839)	490
	\$ (2,838)	\$ 1,497

21. Salary and employee benefits:

	2022	2021
Salaries	\$ 222,615	\$ 226,385
Benefits	46,159	40,403
Pension costs:		
Defined contribution plans	17,248	16,546
Defined benefit plans (note 12(d))	3,643	3,613
Post-employment benefits (note 12(d))	1,404	2,621
	\$ 291,069	\$ 289,568

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

22. General and administrative expenses:

	2022	2021
Professional and consulting	\$ 21,230	\$ 18,486
Data processing	20,606	24,521
Dues and assessments	16,860	17,219
Member service and lending	11,682	12,356
Marketing and advertising	11,216	10,887
Telecommunication, stationery and postage	9,324	8,634
Miscellaneous	4,993	5,315
Insurance	3,427	3,195
Travel, meetings and entertainment	2,055	1,697
	\$ 101,393	\$ 102,310

23. Distribution to community and members:

	2022	2021
Donations to community	\$ 18,187	\$ 15,954
Membership distribution - dividends	3,869	3,831
Membership distribution - patronage	-	12,123
Total shared success	22,056	31,908
Investment share dividends	2,123	1,721
Total distributions to community and members	\$ 24,179	\$ 33,629

Patronage rebates paid to members were calculated based on deposit interest paid by Vancity; loan interest received by Vancity; and eligible member funds under administration with Credential Asset Management, Credential Qtrade Securities Inc. and VCIM.

24. Financial risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of Vancity's risk management framework. The Risk Committee, which is established by the Board, is responsible for reviewing and recommending risk management policies.

Risk management policies are established to identify and analyze the risks faced by Vancity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and Vancity's activities. Vancity, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

24. Financial risk management framework (continued):

The Audit Committee oversees how management monitors compliance with the established risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by Vancity. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Vancity accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally mortgages. Vancity's principal business activities result in a consolidated statement of financial position that consists primarily of financial instruments. The primary types of financial risk which arise from these activities are credit risk, liquidity risk, and market risk.

(a) Credit risk:

Credit risk is the risk of financial loss to Vancity if a member or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from Vancity's loans and advances to members. Vancity is also exposed to credit risks arising from investments in debt securities and other credit exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

(i) Credit risk management:

Vancity manages, limits and controls concentrations of credit risk, where identified, to individual counterparties and industries. The Board, through the Risk Committee, places limits on the amount of credit risk accepted in relation to one member and/or sector.

(ii) Credit risk exposure:

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the consolidated statement of financial position, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

	2022	2021
On-balance sheet exposures	\$ 28,034,169	\$ 26,297,609
Off-balance sheet exposures (note 28(a))	7,401,145	7,329,890
	\$ 35,435,314	\$ 33,627,499

The table below provides a distribution of Vancity's retail loan portfolio by FICO score; however, it does not take into consideration other factors that may mitigate exposure to credit risk. FICO scores are credit scores that are considered in assessing the credit risk of the retail portfolio.

Risk category	FICO score range	Stage 1	Stage 2	Stage 3	2022	2021
Low	more than 720	\$ 11,251,636	\$ 1,441,940	\$ 1,788	\$ 12,695,364	\$ 11,929,193
Medium	620 - 720	2,219,171	1,035,863	3,951	3,258,985	3,084,318
High	less than 620	51,687	279,617	4,780	336,084	268,440
		\$ 13,522,494	\$ 2,757,420	\$ 10,519	\$ 16,290,433	\$ 15,281,951

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

24. Financial risk management framework (continued):

(a) Credit risk (continued):

(ii) Credit risk exposure (continued):

The business portfolio utilizes an assessment process that measures credit risk, taking into consideration a number of factors such as the borrower's management, current and projected financial results, industry statistics, and economic trends that cumulates into a risk rating. This risk rating categorizes risk according to the degree of financial loss faced and forces management to focus on these risks and helps determine where impairment provisions may be required. The current risk rating framework consists of internal grades reflecting varying degrees of risk of default, staff oversight, and the availability of collateral or other credit enhancements. The credit quality of Vancity's business portfolio, expressed in terms of the internal risk ratings is shown in the table below:

Internal risk ratings	Stage 1	Stage 2	Stage 3	2022	2021
Minimal to normal	\$ 5,569,925	\$ 613,555	\$ -	\$ 6,183,480	\$ 5,809,855
Acceptable	1,474,625	107,023	-	1,581,648	1,601,360
High	5,923	24,723	26,804	57,450	84,257
	\$ 7,050,473	\$ 745,301	\$ 26,804	\$ 7,822,578	\$ 7,495,472

(iii) Forward-looking information and macroeconomic factors:

The FLI component represents management's estimate of the impacts on the ECL of forward-looking information and forecasts of macroeconomic conditions to the credit union's ECL. These macroeconomic factors are based on the credit risk management assessments and are consistent with industry guidelines on typical factors that are relevant to different types of lending products. Management makes forecasts of multiple forward looking and macroeconomic scenarios (base, upside and downside) and their estimated impacts to the ECL. Multiple scenarios are forecasted to ensure that estimates of ECL are unbiased.

The key forward-looking and macroeconomic factors considered in determining the FLI inputs to the ECL calculation at December 31, 2022 and December 31, 2021 were unemployment rate, gross domestic product (GDP) growth rate, consumer insolvency rate, number of business insolvencies and change in the TSX Composite Index.

The primary macroeconomic variables used to estimate ECL are as follows:

Forecast	Next 12 months	Remaining forecast period
Forward looking indicator:		
Change in unemployment rate	0.40% to 4.30%	-1.61% to 2.30%
GDP growth rate	0.70% to -0.30%	1.60% to 0.30%
Change in consumer insolvency rate	-1.20% to 0.53%	-1.26% to 2.32%
Change in business insolvency (number of businesses)	-81 to 124	-81 to 130
Change in TSX Composite Index (points)	1,914 to -1,853	1,938 to -1,951

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

24. Financial risk management framework (continued):

(b) Liquidity risk:

Liquidity risk is the risk that Vancity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset as well as not being able to meet unexpected cash needs. Vancity must maintain a statutory level of liquidity cash reserves at Central 1 and an additional amount of liquidity reserves to fund member and community lending.

Accordingly, Vancity has policies and procedures in place to manage its liquidity position, both to comply with regulatory requirements and sound business practices.

(i) Liquidity risk management:

Vancity's liquidity risk is subject to extensive risk management controls and is managed within the framework, policies and limits approved by the Board. On an annual basis, the Board, through the Risk Committee reviews and approves the liquidity policy presented by management to ensure adherence to regulatory requirements. The Asset Liability Committee ("ALCO") oversees the operational adherence to the liquidity policy. ALCO approves liquidity management processes and strategies presented by treasury and finance management in addition to overseeing adherence to minimum liquidity limits, eligibility requirements for liquid assets, investments with counterparties, funding diversification, deposit concentration and diversification limits.

The key measure used by Vancity for managing liquidity risk is the ratio of liquid assets to deposits and debt liabilities. In accordance with OSFI regulatory requirements, the Bank measures liquidity risk by monitoring its liquid assets to total assets. Because of this difference in calculation, Vancity's consolidated liquidity ratio does not include the Bank. The Bank's liquidity ratio has been disclosed separately below.

For the purpose of measuring liquidity risk, liquid assets comprise the total market value of cash, Government of Canada or provincial treasury bills, debt securities with a government guarantee and a minimum DBRS Limited ("DBRS") investment rating of A, government guaranteed mortgage backed securities, banker's acceptances and bearer deposit notes from Schedule I and II banks with a DBRS rating of R-1 low or higher, and corporate commercial paper with a DBRS rating of R - 1 low or higher.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

24. Financial risk management framework (continued):

(b) Liquidity risk (continued):

(ii) Liquidity risk exposure:

VCS

VCS's ratio of liquid assets to deposits and debt liabilities at the reporting date and during the reporting period was as follows:

	2022	2021
At December 31	14.13%	13.58%
Average for the year	12.84%	13.66%
Maximum for the year	14.13%	16.02%
Minimum for the year	12.38%	12.97%
Total liquid assets	\$ 3,680,417	\$ 3,311,727

The Bank

The Bank's ratio of liquid assets to total assets at the reporting date and during the reporting period was as follows:

	2022	2021
At December 31	23.42%	20.73%
Average for the year	25.76%	39.00%
Maximum for the year	30.09%	50.23%
Minimum for the year	23.42%	20.73%
Total liquid assets	71,773	59,053
Total assets	\$ 306,401	\$ 284,926

Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Less than 1 year	1 - 3 years	3 to 5 years	Over 5 years	Total
Deposits from members	\$ 21,771,903	\$ 2,463,385	\$ 139,772	\$ 137,781	\$ 24,512,841
Wholesale borrowings	598,638	-	-	-	598,638
Secured borrowings	128,240	330,667	614,476	100,042	1,173,425
Other financial liabilities	323,346	-	-	-	323,346
Derivative liabilities	41,511	49,323	903	-	91,737
December 31, 2022	\$ 22,863,638	\$ 2,843,375	\$ 755,151	\$ 237,823	\$ 26,699,987
December 31, 2021	\$ 21,240,044	\$ 2,748,724	\$ 759,399	\$ 254,704	\$ 25,001,871

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

24. Financial risk management framework (continued):

(c) Market risk:

In the normal course of its operations, Vancity engages in transactions that give rise to market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return for a given level of risk.

The Board, through the Risk Committee, sets risk tolerance levels for Vancity. Within these boundaries, ALCO measures, monitors and manages Vancity's market risk profile. The policies for market risk management are reviewed annually by the Risk Management Committee and approved by the Risk Committee and the Board.

Vancity has various policy and procedure statements that specify roles and responsibilities for senior management, treasury, trading management, traders, finance, and compliance. Many of these policies fall under the responsibility of the Risk Committee. The Risk Committee's role is to provide effective oversight, on behalf of the Board, of Vancity's risk management activities. In addition, Vancity has developed and maintains a practice of performing independent valuations of positions, mark to market methodologies, and asset liability modeling.

(i) Interest rate risk:

Interest rate risk, inclusive of credit spread risk, is the risk of loss to Vancity due to the following: changes in the level, slope and curvature of the interest rate yield curve; the volatility of interest rates; the maturity profile of assets and liabilities; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. For Vancity, mismatches in the balance of assets, liabilities and off-balance sheet financial instruments that mature and re-price in varying reporting periods generate interest rate risk. These mismatches will arise through the ordinary course of business as Vancity manages its portfolio of loans and deposits with changing term preferences and through the strategic positioning of the portfolio to enhance profitability. To manage interest rate risk, Vancity may also use financial instruments such as swaps and other derivative instruments.

Duration analysis is a measure of interest rate exposure and provides an indication of when on average the present value of any financial instrument will be received. Vancity uses duration analysis to measure the sensitivity of asset and liability market values to a change in interest rates and provides an indication of long-term interest rate exposure.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

24. Financial risk management framework (continued):

(c) Market risk (continued):

(i) Interest rate risk (continued):

Based on Vancity's interest rate positions as at December 31, the following table shows the potential before tax impact of an immediate and sustained 1.0% increase and decrease in interest rates over a 12-month period on Vancity's market value of net assets and net interest income.

Interest rate sensitivity	2022		2021	
	Market value impact	Net interest income	Market value impact	Net interest income
Before tax impact of:				
1.0% decrease in rates	\$ 69,594	\$ (9,193)	\$ 111,207	\$ (5,597)
1.0% increase in rates	(67,889)	6,231	(106,939)	3,342

Gap analysis is a technique used by Vancity in asset liability management to assess interest rate risk. It comprises aggregating cash flows into repricing periods and then assessing whether the cash flows in each of the periods net to zero. The repricing periods are time horizons, based on either repricing dates or maturity dates of the assets and liabilities. An interest rate gap is a positive or negative net cash flow for one of the periods. Gap analysis does not take into consideration the credit risk of assets and liabilities. The determination of interest rate sensitivity or gap position encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets, liabilities and derivative instruments used to manage interest rate risk.

The gap position presented is as at December 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on member behavior and the application of Vancity's asset and liability management policies.

The assumptions for the years ended December 31, 2022 and 2021 were as follows:

Assets

Fixed term assets, such as residential mortgage loans and personal loans, are reported based on scheduled repayments and estimated prepayments that reflect expected borrower behavior.

Variable rate assets that are related to the Vancity's prime rate or other short-term market rates are reported in the within three months category.

Fixed rate and non-interest bearing assets with defined maturity are reported based on expected account balance behavior.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

24. Financial risk management framework (continued):

(c) Market risk (continued):

(i) Interest rate risk (continued):

Liabilities

Fixed rate liabilities, such as term deposits, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behavior.

Interest bearing deposits on which the member interest rate changes with prime or other short-term market rates are reported within the three months category.

Fixed rate and non-interest bearing liabilities with no defined maturity are reported based upon expected account balance behavior.

Yields

Yields are based on the effective interest rates for the assets and liabilities on December 31.

December 31, 2022	Yield	Within 3 months	3 months to 1 year	1 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets:							
Cash and cash equivalents	0.00%	\$ -	\$ -	\$ -	\$ -	\$ 220,792	\$ 220,792
Interest bearing deposits with financial institutions	3.03%	13,688	10,000	19,878	-	-	43,566
Financial investments	2.74%	693,823	1,400,405	1,023,271	469,155	39,561	3,626,215
Loans and advances to members	3.96%	8,659,165	2,882,225	11,011,431	1,574,690	(71,733)	24,055,778
Other	0.00%	1,526	63,315	43,322	789	243,208	352,160
		\$ 9,368,202	\$ 4,355,945	\$ 12,097,902	\$ 2,044,634	\$ 431,828	\$ 28,298,511
Liabilities and Equity:							
Deposits from members	2.46%	\$ 8,398,835	\$ 8,822,719	\$ 4,940,951	\$ 2,267,680	\$ 82,656	\$ 24,512,841
Wholesale borrowings	2.08%	598,638	-	-	-	-	598,638
Secured borrowings	1.05%	1,648	126,211	878,298	164,355	2,913	1,173,425
Other	0.00%	5,292	34,248	47,097	966	1,926,004	2,013,607
		\$ 9,004,413	\$ 8,983,178	\$ 5,866,346	\$ 2,433,001	\$ 2,011,573	\$ 28,298,511
Balance sheet mismatch		\$ 363,789	\$ (4,627,233)	\$ 6,231,556	\$ (388,367)	\$ (1,579,745)	\$ -
Net notional amount of derivatives		550,000	(950,000)	600,000	(200,000)	-	-
Net mismatch 2022		\$ 913,789	\$ (5,577,233)	\$ 6,831,556	\$ (588,367)	\$ (1,579,745)	\$ -
Net mismatch 2021		(685,221)	(1,976,748)	3,531,606	825,095	(1,694,732)	-

(ii) Foreign currency risk:

Foreign currency risk is the risk that movement in foreign exchange rates will have an adverse effect on the financial performance of Vancity. Foreign currency risk arises in the ordinary course of business as Vancity meets the member demands for foreign currency banking activities.

Vancity is exposed to foreign currency risk each time it buys and sells foreign currency products to a member or to another financial institution. Vancity holds a foreign currency position that is exposed to the risk of exchange rates movements in either the spot or forward market. Vancity's exposure to this risk is managed through economic hedging, either naturally or synthetically. The impact of foreign currency risk will be influenced by the volatility of exchange rate changes, the mix of foreign currency assets and liabilities, and the exposure to each currency market.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

25. Assets pledged as collateral:

In the normal course of business, Vancity pledges mortgage assets and readily marketable securities to secure credit and clearing facilities. Asset pledging transactions are conducted under terms that are common and customary to standard derivative and other financing activities. Standard risk management controls are applied with respect to asset pledging.

Assets which are pledged as collateral are related to derivative transactions, proceeds from securitizations and other borrowings. The nature and carrying amounts of the assets pledged as collateral are as follows:

	2022	2021
Cash	\$ 32,512	\$ 33,512
Securities	103,008	104,346
Mortgages	1,200,275	1,112,378
General charge	760,000	1,060,000
	<hr/>	<hr/>
	\$ 2,095,795	\$ 2,310,236
Assets pledged in relation to the following available facilities:		
Clearing facilities	\$ 3,000	\$ 3,000
Secured borrowings	1,173,425	1,048,256
Standby credit facilities	910,000	1,210,000
Derivative contracts	2,799	3,089
	<hr/>	<hr/>
	\$ 2,089,224	\$ 2,264,345

26. Regulatory and capital management:

VCS

Capital is managed in accordance with policies established by the Board and appropriate management committees. An integral part of VCS's strategy is to maintain a strong capital base. All of the elements of capital are monitored throughout the year. An Internal Capital Adequacy Assessment Process (ICAAP) is performed on an annual basis to ensure an appropriate level of capital is maintained to sustain current and future operations and is approved by the Board of Directors. VCS makes annual dividend payments on eligible shares, within the context of its overall capital management plan.

FIA requires VCS to maintain a capital base that is adequate for its business. Capital levels for credit unions in British Columbia are regulated pursuant to guidelines issued by the BC Financial Services Authority ("BCFSA"). Minimum capital standards are based on a total capital to risk weighted assets ("RWA") ratio of 8%.

Regulatory capital is allocated to two tiers: Primary and Secondary. Primary capital is comprised of the more permanent components of capital and consists primarily of retained earnings adjusted for deferred taxes, shares, and contributed surplus. Secondary capital consists of 50% of a credit union's portion of retained earnings in CUDIC, Central 1, and Stabilization Central Credit Union, as well as equity shares that do not meet the criteria for Primary capital. Total regulatory capital is defined as the lesser of total of Primary and Secondary capital less deductions as prescribed by BCFSA or VCS's retained earnings and contributed surplus divided by 35%.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

26. Regulatory and capital management (continued):

VCS (continued)

The capital ratio is calculated by dividing total capital by RWA, which are the assets weighted according to relative risk (0% to 150%) as determined by BCSFA for on-balance sheet and off-balance sheet exposures.

As at December 31, 2022 and 2021, VCS's capital ratios were in compliance with the regulatory requirements.

	2022	2021
Primary capital	\$ 1,714,874	\$ 1,649,506
Secondary capital	249,262	252,852
Deductions from capital	(89,683)	(91,209)
Total regulatory capital	\$ 1,874,453	\$ 1,811,149

The Bank

Capital levels for Canadian Banks are regulated pursuant to Capital Adequacy Requirements guideline issued by OSFI in accordance with the Basel II and Basel III capital adequacy frameworks. The Basel III framework revised the definition of regulatory capital to strengthen the capital base with a greater focus on common equity. Regulatory capital consists of: Tier 1 (the sum of Common Equity Tier 1 and Additional Tier 1) and Tier 2 as defined by the guideline. Intangibles and deferred tax assets as specified in the guideline are deducted from Common Equity Tier 1 capital as regulatory adjustments.

Regulatory ratios are calculated by dividing the Common Equity Tier 1, Tier 1, and Total Capital by the risk-weighted assets ("RWA"). The calculation of RWA is determined by OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximization of the return on risk adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities are also considered as well as the availability of management and other resources and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

26. Regulatory and capital management (continued):

The Bank (continued)

As at December 31, 2022 and 2021, the Bank's capital ratios were in compliance with the regulatory requirements.

	2022	2021
Tier 1 capital	\$ 72,853	\$ 69,196
Tier 2 capital	931	862
Deductions from capital	(2,657)	(2,885)
Regulatory capital	\$ 71,127	\$ 67,173

27. Fair value of financial instruments:

Certain financial instruments are recognized in the consolidated statement of financial position at fair value. These include derivative instruments and financial assets classified either as FVTPL or FVOCI. The fair value of a financial instrument is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date. The fair value of a liability reflects its non-performing risk. The best evidence of fair value is a quoted bid price for financial assets held or an offer price for financial liabilities from an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where independent quoted market prices are not available, Vancity uses the quoted market prices for similar instruments, other third-party evidence or valuation techniques.

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received to obtain the instrument. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above.

Financial instruments whose carrying values approximate fair value

Fair values of cash and cash equivalents, interest receivable, non-maturity loans and other financial assets and liabilities are assumed to approximate their carrying values, principally due to their short-term nature.

Financial instruments for which fair value is determined using valuation techniques

The fair value of financial instruments determined using these techniques include the use of recent arm's length transactions and discounted cash flow analysis for investments in unquoted securities, discounted cash flow analysis for derivatives, third-party option pricing models for index-linked option contracts, other valuation techniques commonly used by market participants and utilize independent observable market inputs to the maximum extent possible.

The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows and discount rates and incorporate Vancity's estimate of assumptions that a market participant would make when valuing the instruments.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

27. Fair value of financial instruments (continued):

The fair values below reflect conditions that existed only at the respective financial reporting dates and do not necessarily reflect a future value or the amounts Vancity might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

Vancity measures fair value using the following hierarchy that reflects the significance of inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table illustrates the classification of Vancity's financial instruments within the fair value hierarchy:

December 31, 2022	Level 1	Level 2	Level 3	Total fair value	Amortized cost	Carrying value
Assets:						
Cash and cash equivalents	\$ 220,792	\$ -	\$ -	\$ 220,792	\$ 220,792	\$ 220,792
Financial investments	3,442,171	65,830	39,910	3,547,911	3,661,818	3,626,215
Derivative assets	-	87,818	-	87,818	-	87,818
Loans and advances to members	-	22,858,305	-	22,858,305	24,055,778	24,055,778
Interest bearing deposits with financial institutions	-	43,566	-	43,566	43,566	43,566
Other financial assets	-	69,551	-	69,551	69,551	69,551
	\$3,662,963	\$ 23,125,070	\$ 39,910	\$ 26,827,943	\$ 28,051,505	\$ 28,103,721
Liabilities:						
Derivative liabilities	\$ -	\$ 85,724	\$ -	\$ 85,724	\$ -	\$ 85,724
Deposits from members	-	23,509,353	-	23,509,353	24,512,841	24,512,841
Wholesale borrowings	-	598,428	-	598,428	598,638	598,638
Secured borrowings	-	1,069,962	-	1,069,962	1,173,425	1,173,425
Other financial liabilities	-	323,345	-	323,345	323,345	323,345
	\$ -	\$ 25,586,812	\$ -	\$ 25,586,812	\$ 26,608,249	\$ 26,693,973

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

27. Fair value of financial instruments (continued):

December 31, 2021	Level 1	Level 2	Level 3	Total fair value	Amortized cost	Carrying value
Assets:						
Cash and cash equivalents	\$ 144,404	\$ -	\$ -	\$ 144,404	\$ 144,404	\$ 144,404
Financial investments	3,160,829	82,779	30,290	3,273,898	3,259,805	3,273,899
Derivative assets	-	27,296	-	27,296	-	27,296
Loans and advances to members	-	22,258,017	-	22,258,017	22,721,051	22,721,051
Interest bearing deposits with financial institutions	-	130,959	-	130,959	130,959	130,959
Other financial assets	-	71,438	-	71,438	71,438	71,438
	\$ 3,305,233	\$ 22,570,489	\$ 30,290	\$ 25,906,012	\$ 26,327,657	\$ 26,369,047
Liabilities:						
Derivative liabilities	\$ -	\$ 11,635	\$ -	\$ 11,635	\$ -	\$ 11,635
Deposits from members	-	22,766,775	-	22,766,775	22,892,266	22,892,266
Wholesale borrowings	-	699,808	-	699,808	700,125	700,125
Secured borrowings	-	1,021,641	-	1,021,641	1,048,256	1,048,256
Other financial liabilities	-	350,589	-	350,589	350,589	350,589
	\$ -	\$ 24,850,448	\$ -	\$ 24,850,448	\$ 24,991,236	\$ 25,002,871

During the year ended December 31, 2022, certain investment securities were transferred out of Level 3 of the fair value hierarchy when significant inputs used in their fair value measurements that were previously unobservable became observable. During the year ended December 31, 2021, there were no transfers between Level 1, Level 2 and Level 3. Vancity recognizes transfers between levels in the fair value hierarchy at the end of the year during which the change occurred.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	2022	2021
Balance at January 1	\$ 30,290	\$ 19,890
Gains included in net income attributable to members	(1,343)	484
Purchases	11,546	10,067
Settlements	-	(151)
Transfers out of Level 3	(583)	-
Balance at December 31	\$ 39,910	\$ 30,290

Level 3 financial investments consist of private equity funds that are valued using Net Asset Values (NAV). Private equity fund NAVs are based on information provided by the fund managers, and as a result, there are no other reasonably possible alternative assumptions for these investments.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

28. Commitments and contingencies:

(a) Credit commitments:

The following amounts represent the maximum amount of additional credit that Vancity could be obligated to extend. The amounts of these arrangements may expire or terminate without being utilized and may not be representative of the funding likely to be required for these commitments.

	2022	2021
Undrawn lines of credit	\$ 5,516,973	\$ 5,296,667
Commitments to extend credit	956,756	1,091,683
Undrawn credit on credit cards issued	878,253	899,562
Documentary letters of credit	49,163	41,978
	<u>\$ 7,401,145</u>	<u>\$ 7,329,890</u>

(b) Statutory liquidity requirement:

For liquidity purposes, BCFSA requires all credit unions to hold 8% of aggregate deposit and other debt liabilities in HQLA, placed in a bare trust. Vancity's intention is to hold these financial assets to maturity and collect contractual cash flows that represent solely payments of principal and interest. At December 31, 2022, Vancity's minimum required HQLA held in the bare trust is \$2.1 billion (2021 - \$2.0 billion).

(c) Restricted cash:

Included in cash and cash equivalents are restricted funds from third parties totaling \$1.2 million (2021 - \$1.8 million) being held in respect of specific lending programs and if unused, are repayable at the termination of the lending program.

Included in the cash and cash equivalents balance is \$2.8 million (2021 - \$3.1 million) of restricted cash pledged as collateral for derivative contracts.

Included in the cash and cash equivalents balance is cash of \$41.3 million (2021 - \$32.2 million) relating to CMB and other MBS third party investor programs. This cash forms part of the security for the secured borrowings of \$1,173.4 million (2021 - \$1,048.3 million).

Included in the cash and cash equivalents balance is cash of \$0.9 million (2021 - \$0.8 million) held in trust for investors.

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements

(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

28. Commitments and contingencies (continued):

(d) Contingencies:

In the ordinary course of business, Vancity is party to a number of legal proceedings, in which the likelihood of a loss and amount of loss, if any, is not readily determinable.

In accordance with accounting standards, provisions have been included in liabilities where appropriate if, in the opinion of management, it is more likely than not that a future event will confirm that a liability existed at the date of the financial statements and the amount of the loss can be reasonably estimated.

At times, however, it is either not possible to determine whether a liability has been incurred or to reasonably estimate the amount of loss until proceedings are closer to a resolution, in which case no amounts will be accrued until that time.

The outcome of any such matters, individually or in aggregate, may be material to the consolidated financial position or operating results of Vancity for a particular year.

(e) Contractual commitment:

(i) Vancity has \$75.6 million (2021 - \$18.1 million) in contractual commitments for hardware, software and software maintenance.

(ii) Vancity has \$45.0 million (2021 - \$38.4 million) in contractual commitments to acquire units in several private investment funds.

(f) Contingent tax liabilities:

As at December 31, 2022 and 2021, Vancity has considered contingent tax liabilities and uncertain tax treatments, as well as interest and penalties, and determined that no amount need be accrued in respect of such amounts.

29. Related party transactions:

Related parties of Vancity include subsidiaries, associates, post-employment benefit plans, key management personnel and close family members of key management personnel. Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of Vancity, directly or indirectly, including any director (whether executive or otherwise) of Vancity. These key management personnel are comprised of the Board of Directors, Executive Leadership Team, and signing officers of Vancity.

Please refer to note 12 for transactions and balances with Vancity's post-retirement benefit plans.

A number of transactions were entered into with key management personnel in the normal course of business:

(a) Loans and deposits:

Vancity provides banking services to key management personnel and persons connected to them. Balances outstanding at December 31, 2022 were loans of \$9.1 million (2021 - \$6.7 million) and deposits of \$5.3 million (2021 - \$5.3 million).

VANCOUVER CITY SAVINGS CREDIT UNION

Notes to the Consolidated Financial Statements
(Amounts expressed in thousands of dollars unless otherwise stated)

Year ended December 31, 2022

29. Related party transactions (continued):

(b) Key management compensation:

	2022	2021
Salaries and other short-term employee benefits	\$ 7,146	\$ 7,197
Post-employment benefits	1,861	727
Termination and other long-term benefits	1,384	1,003
	\$ 10,391	\$ 8,927

In addition to their salaries, Vancity also provides non-cash benefits to director-level employees and executive officers, and contributes to either a group RRSP or a post-employment defined benefit plan on their behalf.

30. Acquisition of CoPower Finance Inc. by CoPower Inc.:

On October 4, 2021, the Bank's wholly owned subsidiary CoPower Inc. obtained control of CoPower Finance Inc., which is a company that earns interest income on investments in green energy projects. Control was obtained without any change in CoPower Inc.'s equity investment or any consideration being transferred. CoPower Inc.'s holding of CoPower Finance Inc. before and after the acquisition includes 4,000 Class A preferred shares at \$40 representing 40% of the outstanding shares and voting power, and 40,000 Class B common shares at \$40 thousand representing 100% of the outstanding shares but are non-voting. For the period between October 4, 2021 and December 31, 2021, CoPower Finance Inc. contributed net income of \$177 thousand to the Bank's results.

The following table summarizes the total identifiable assets acquired and liabilities assumed at the date of acquisition:

	October 4, 2021
Total assets, consisting of cash, receivables, and investments	\$ 21,534
Total liabilities, consisting of payables, deferred gains, and credit facilities	(21,567)
Total net liabilities	\$ (33)