ADVANCE SAVINGS CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2022

INDEX

Baker Tilly GMA LLP
Chartered Professional Accountants
548 Pinewood Road
Riverview, NB
Canada E1B 5J9

D: +1 506.387.4044
F: +1 506.387.7270

gma-info@bakertilly.ca
www.bakertilly.ca

INDEPENDENT AUDITORS' REPORT

To the members of Advance Savings Credit Union Limited:

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of **Advance Savings Credit Union Limited** which comprise the statement of financial position as at December 31, 2022 and the statements of changes in equity, comprehensive income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Advance Savings Credit Union Limited as at December 31, 2022 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of 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 report. We are independent of the Credit Union 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.

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

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

Auditors' 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 these 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 Credit Union's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 the Credit Union to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

Baker Tilly GMA LLP

Riverview, NB
May 29, 2023

CHARTERED PROFESSIONAL ACCOUNTANTS

ADVANCE SAVINGS CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION **Statement 1**

DECEMBER 31, 2022

	2022	**2021**
Assets:		
Cash resources	$ 11,475,375	$ 12,652,729
Investments (Note 4)	28,861,013	33,235,068
Deferred income taxes (Note 13)	160,000	125,000
Loans to members (Note 5)	198,010,046	182,713,739
Other assets (Note 6)	1,333,227	553,848
Property and equipment (Note 7)	2,256,124	1,869,432
	$242,095,785	**$231,149,816**
Liabilities:		
Accounts payable and accrued liabilities (Note 8)	$ 3,229,491	$ 1,747,614
Income taxes payable	65,121	146,536
Members' accounts (Note 9)	224,251,181	215,688,145
	227,545,793	217,582,295
Liabilities Qualifying as Regulatory Equity: (Note 10)		
Membership shares (Note 11)	4,756,573	5,088,313
Surplus shares (Note 12)	389,970	409,095
	5,146,543	5,497,408
Members' Equity:		
Retained earnings - Statement 2	8,871,598	7,538,262
Credit Union Central of New Brunswick dissolution surplus - Statement 2 (Note 10)	531,851	531,851
	9,403,449	8,070,113
	$242,095,785	**$231,149,816**

APPROVED ON BEHALF OF THE BOARD:

Chair of the Board

Chair of the Audit Commitee

ADVANCE SAVINGS CREDIT UNION LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022

Statement 2

	2022	2021
Retained earnings		
Retained earnings, beginning of year	$ 7,538,262	$ 6,436,686
Comprehensive income for the year - Statement 3	1,333,336	1,101,576
Retained earnings, end of year - Statement 1	**$ 8,871,598**	**$ 7,538,262**
Credit Union Central of New Brunswick dissolution surplus (Note 10)		
Balance beginning of year	$ 531,851	$ 531,851
Balance end of year	**$ 531,851**	**$ 531,851**

ADVANCE SAVINGS CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022

Statement 3

	2022	2021
Revenue:		
Interest on loans	$ 7,524,151	$ 6,612,236
Interest on investments	559,705	249,871
	8,083,856	6,862,107
Financial Expense:		
Interest	1,800,081	1,615,728
Net interest income	6,283,775	5,246,379
Provision for (recovery of) impaired loans (Note 16)	186,603	(9,043)
Financial Margin	6,097,172	5,255,422
Other Revenue:		
Service charges	902,990	867,753
Property and equipment rentals	22,394	22,450
Commissions	191,918	113,615
Other	935,754	898,825
	8,150,228	7,158,065
Other Expenses:		
Amortization (Note 7)	267,618	267,557
General business	1,980,028	1,722,253
Member security	250,000	215,268
Occupancy costs	323,688	305,196
Organization	260,677	196,409
Salaries and employee benefits	3,354,958	3,012,004
	6,436,969	5,718,687
Income before income taxes	1,713,259	1,439,378
Provision for income tax (Note 13):		
Current	(414,923)	(349,802)
Deferred	35,000	12,000
Provision for income tax	(379,923)	(337,802)
Comprehensive income for the year - Statement 2	**$ 1,333,336**	**$ 1,101,576**

ADVANCE SAVINGS CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

Statement 4

FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
Cash flows from operating activities:		
Comprehensive income for the year - Statement 3	$ 1,333,336	$ 1,101,576
Items not requiring an outlay of cash:		
Amortization	267,618	267,557
Deferred income taxes	(35,000)	(12,000)
Loss on sale of assets	-	1,755
	1,565,954	1,358,888
Changes in non-cash working capital items:		
Other assets	(779,379)	(57,231)
Income taxes payable	(81,415)	193,981
Accounts payable and accrued liabilities	1,186,198	(265,992)
Cash flows from operating activities	1,891,358	1,229,646
Cash flows from financing activities:		
Members' accounts	8,563,036	22,670,694
Redemption of membership shares	(331,740)	(247,789)
Redemption of surplus shares	(19,125)	(16,173)
Repayment of lease liability	(74,380)	(83,576)
Cash flows from financing activities	8,137,791	22,323,156
Cash flows from investing activities:		
Investments	4,374,055	6,489,699
Loans to members	(15,296,307)	(27,244,737)
Purchases of property and equipment (Note 7)	(284,251)	(297,889)
Cash flows used in investing activities	(11,206,503)	(21,052,927)
Increase (decrease) in cash resources	(1,177,354)	2,499,875
Cash resources, beginning of year	12,652,729	10,152,854
Cash resources, end of year	**$ 11,475,375**	**$ 12,652,729**
Supplementary cash flow information:		
Income taxes paid	**$ 496,338**	**$ 203,266**
Income taxes received	**$ -**	**$ 47,445**
Interest paid	**$ 1,529,778**	**$ 1,770,632**
Interest received	**$ 8,025,964**	**$ 6,859,826**

General Information and Statement of Compliance with International Financial Reporting Standards

Advance Savings Credit Union Limited (Advance) is incorporated under the Credit Unions Act of New Brunswick and its principal activity is providing financial services to its members locate in southeastern New Brunswick. The Credit Union operates branches located in Moncton (Head Office), Riverview, Rexton and Petitcodiac. For financial reporting and regulatory matters, the Credit Union is under the authority of the Financial and Consumer Services Commission of New Brunswick (FCNB).

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

The financial statements and the accompanying notes were authorized for issue by the Board of Directors on May 16, 2023.

1. Adoption of New and Revised Standards and Interpretations

At the date of authorization of these financial statements, the IASB and IFRS Interpretations committee (IFRIC) has not issued any new and revised standards, amendments and interpretations which are not yet effective during period covered by these financial statements, which may affect the Credit Union.

2. Significant Accounting Policies:

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards and in accordance with the regulations of the Superintendent of Credit Unions of New Brunswick.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and deemed cost of land and building. The significant accounting policies adopted by the Credit Union are set out below.

(a) Credit Unions Act

Regulations to the Act specify that certain items are required to be presented to members at the annual meetings of members. This information has been integrated with the basic financial statements and notes and it is management's opinion that the disclosures in these financial statements comply in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

(b) Interest

Effective Interest Rate

Interest income and expenses are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

the gross carrying amount of the financial asset; or

the amortized cost of the financial liability

When calculating the effective interest rate for financial instruments other than credit impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

2. Significant Accounting Policies (Continued):

(b) Interest (Continued)

Effective Interest Rate (Continued)

The calculation of effective interest rate includes transaction costs and fees. Transaction costs include incremental costs directly attributable to the acquisition or issue of a financial asset or liability.

Amortized cost and gross carrying amount

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any differences between that initial amount and maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of the financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expenses

In calculating interest income and expenses, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to the gross basis, even if the credit risk of the asset improves.

Presentation

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

Interest on financial assets and financial liabilities measured at amortized cost calculated on the effective interest basis.

(c) Fees and Commission

Fee and commission income and expenses that are integral to the effective interest rate on the financial asset or financial liability are included in the effective interest rate. Loan fees are recognized using the effective interest method and included with loan balances in the statement of financial position.

Other fee and commission income, including account service fees, loan discharge and administration fees and syndication fees, is recognized as the related services are performed. If a loan commitment is not expected to result in a draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

Other fee and commission expenses related mainly to transaction and service fees are expensed as the services are received.

2. Significant Accounting Policies (Continued):

(d) Financial Assets and Financial Liabilities

Recognition and initial measurement

The Credit Union initially recognizes loans and advances, deposits and mortgage securitization/syndication liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A financial assets is measured at amortized cost if it meets both of the following conditions:

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 on the principal amount outstanding.

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

The assets 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 investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as FVTPL.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because it best reflects the way the business is managed and information is provided to management. The Credit Union considers whether the financial assets were originated or acquired for the purpose of securitization/syndication or for the purpose of collecting principal and interest payments in the subsequent periods. Classification of financial assets which were originated or acquired for the purpose of collecting principal and interest are classified on an amortized cost basis.

2. Significant Accounting Policies (Continued):

(d) Financial Assets and Financial Liabilities (Continued)

Financial liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

Impairment

The Credit Union recognizes allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

Financial assets that are debt instruments (loans and advances and certain investment securities)

No impairment loss is recognized on equity investments.

The Credit Union measures loss allowances at the amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition (loans with no changes in credit risk), which are measured as 12 month ECL.

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

Financial assets that are not credit-impaired at the reporting date, as the present value of the difference of the contractual cash flows and expected cash flows from the financial asset;

Financial assets that are credit impaired at the reporting date, as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

Evidence that a financial asset is credit-impaired includes the following observable data:

Significant financial difficulty of the borrower;

A breach of contract such as a default or past due event;

The restructure of a loan or advance by the credit union on terms that the credit union would not consider otherwise;

It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Loss allowances for ECL are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

2. Significant Accounting Policies (Continued):

(d) Financial Assets and Financial Liabilities (Continued)

Impairment (Continued)

Loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the credit union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off are still subject to enforcement activities in order to comply with the credit union's procedures for recovery of amounts due.

Deposits, mortgage securitization/syndication liabilities and membership/surplus shares

Deposits, mortgage securitization liabilities and membership/surplus shares are the Credit Union's sources of funding.

Deposits and membership/surplus shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

The Credit Union periodically buys loans from special purpose entities. These transactions are accounted for as purchases and the related loans are added to the statement of financial position at time of acquisition.

Generally a premium is paid for the loans purchased calculated by reference to the interest rate inherent in the loans and the rate of interest in effect at the time of purchase. The premium paid is amortized over the life of the loan purchase plan.

The Credit Union also periodically sells loans to special purpose entities. These transactions are accounted for as sales and related loans are removed from the statement of financial position at the time of sale. The Credit Union receives a fee for the administration of these loans.

Foreclosed Assets

Foreclosed assets are valued at the estimated realizable value of the foreclosed assets. Changes in the carrying amount of the foreclosed assets are recognized in the period in which they arise by charges or credits to the statement of comprehensive income.

(e) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand, balances with Atlantic Central and other credit unions and highly liquid temporary investments which are readily convertible into cash and which are subject to insignificant risk of changes in value.

(f) Property and Equipment

Property and equipment are recorded at cost or deemed cost less accumulated amortization and any recognized impairment loss. Amortization is provided annually on a straight-line basis at rates calculated to write-off the cost or valuation of the property and equipment over their estimated useful lives using the following rates:

Buildings	2.5% - 10%
Furniture and equipment	5% - 10%
Computer equipment	20% - 33%
Paving	3% - 5%
Leasehold improvements	Terms of Leases

2. Significant Accounting Policies (Continued):

(g) Leases

The Credit Union 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, the Credit Union's average term deposit interest rate to members in the year of origination of the lease.

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

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 the Credit Union is reasonably certain to exercise, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Credit Union 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 the Credit Union's estimate of the amount expected to be payable under a residual value guarantee, or if the Credit Union 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 comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Credit Union presents right-of-use assets that do not meet the definition of investment property in property and equipment (Note 7) and lease liabilities in other liabilities (Note 8) in the statement of financial position.

2. Significant Accounting Policies (Continued):

(g) Leases (Continued)

Short-term leases and leases of low-value assets

The Credit Union has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets. The Credit Union recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(h) Impairment of Tangible Assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the credit union estimates the recoverable amount of the asset's useful life.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

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

(i) Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing on the statement of financial position date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and (losses) arising on the translation of monetary items amount to $70,928 (2021 - $46,955).

(j) Comprehensive Income (loss)

Comprehensive income includes the change in the credit union's net assets that result from transactions, events and circumstances from sources other than the Credit Union's equity and includes items that would not normally be included in net income (loss), such as unrealized gains and losses on FVOCI financial instruments.

2. Significant Accounting Policies (Continued):

(k) Revenue Recognition

Investment revenue is recognized as revenue on an accrual basis.

Service charge revenue is recognized when the members' accounts are charged.

Property rental revenue is recognized in the month the rent is earned.

Commissions revenue is recognized when the event creating the commissions takes place.

(l) Income Taxes

The tax expense represents the sum of current income tax payable and deferred income tax.

The income tax currently payable is based on taxable income for the year. Taxable income differs from net income (loss) as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Credit Union's liability for current income tax is calculated using income tax rates effective at the statement of financial position date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statement and the corresponding income tax bases used in the computation of taxable income. Deferred tax is accounted for as an asset or liability on the statement of financial position. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that have been enacted or substantially enacted at the end of the reporting period. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred income tax is charged or credited in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset of current income tax assets and liabilities and when the credit union intends to settle its current income tax assets and liabilities on a net basis.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Credit Union's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if it effects only that period, or in a period of the revision and future periods if the revision affects both current and future periods.

Management has not made any critical judgments apart from those involving estimations (which are dealt with separately below) in the process of applying the Credit Union's accounting policies that have significant effect on the amounts recognized in these financial statements.

(a) Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation Allowance for Impaired Loans

Determining the allowance for impaired loans involves an assessment of the future cash flows expected from an impaired loan. The process takes into account historical information of similar types of loans, information known about the borrower and expected future cash flows. Changes to the estimates could result from future events such as receiving additional borrower information, receiving additional security or realizing different amounts on security than expected.

The estimates are principally based on the Credit Union's historical experience and knowledge of the borrower. Methods of estimation have been used that the credit union believes produce reasonable results given current information. As additional information and other data become available, the estimates could be revised. Any future changes in estimation would be reflected in the comprehensive income (loss) for the year in which the change occurred.

In addition the credit union assess expected credit losses on loans to members using the IFRS 9 model. For detail of expected credit losses, see Note 2(d).

Fair Value of Financial Instruments

For information on the estimation uncertainty of fair value of financial instruments see Note 18.

Securitization and Syndication

The evaluation of derecognition of mortgage securitization and syndication in accordance with IFRS 9 requires judgement by management. Management assesses the criteria of IFRS 9 for each transaction to determine substantially all the risks and rewards have been transferred.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued):

(a) Key Sources of Estimation Uncertainty (Continued)

Income Taxes

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

4. Investments:

	2022	2021
Atlantic Central		
Liquidity reserve deposit	$ 18,012,949	$ 17,189,610
Common shares	2,282,890	2,264,130
NB Provincial shares	412,000	412,000
Term deposits (interest rate of 3.08% to 4.47%, maturing between January 2023 and April 2023)	7,500,000	12,750,000
Other Investments		
Short-term (interest rate of 4.10%)	4,326	4,244
Long-term	100	8,833
Other shares		
League Savings and Mortgage shares	517,464	494,376
League Data shares	106,400	106,400
Concentra shares	24,784	5,375
Central One shares	100	100
	$ 28,861,013	$ 33,235,068

Atlantic Central, Liquidity Reserve Deposit

As a condition of maintaining membership in the Central, the Credit Union is required to maintain on deposit in the Central an amount equal to 8% of liabilities. The deposit bears interest at a variable rate (from 0.55% to 2.59% in the year). Calculations on the liquidity deposit are done by Atlantic Central, and shortfalls are paid in the month following.

Atlantic Central Shares

As a condition of maintaining membership in the Central the credit union is required to maintain an investment in shares of the Central. The Central is required to maintain 8% of its assets as equity. The credit union is required to maintain shares equal to their percentage of the credit union systems assets as a whole multiplied by the Central's share requirement.

No market exists for shares of the Central except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central by-law providing for the redemption of its share capital.

5. Loans to Members:

	2022 Gross	2022 ECL Allowance (Note 16)	2022 Net	2021 Gross	2021 ECL Allowance (Note 16)	2021 Net
Commercial:						
Lines of credit	$ 6,164,722	$ (127,780)	$ 6,036,942	$ 5,833,000	$ (80,557)	$ 5,752,443
Loans	1,881,055	(21,576)	1,859,479	1,780,429	(16,036)	1,764,393
Mortgages	40,827,693	(81,223)	40,746,470	42,698,769	(43,339)	42,655,430
Personal:						
Lines of credit	10,737,803	(328,212)	10,409,591	10,380,135	(283,356)	10,096,779
Loans	8,310,553	(78,581)	8,231,972	8,292,932	(80,468)	8,212,464
Mortgages	130,757,156	(31,564)	130,725,592	114,246,081	(13,851)	114,232,230
Total	$ 198,678,982	$ (668,936)	$ 198,010,046	$ 183,231,346	$ (517,607)	$ 182,713,739

The loan classifications set out above are defined in the Regulations to the Credit Unions Act.

At December 31, 2022 the Credit Union had $2,453,000 loans approved but undisbursed (2021 - $5,636,000) and has potential commitments under guarantees issued to members of $352,800 (2021 - $86,000). In addition the Credit Union has syndicated portions of loans of $562,000 approved but undisbursed (2021 - $6,386,000).

Mortgage loans include both personal and commercial mortgages. Personal mortgages include fixed term mortgages that are repayable in monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of twenty-five years. Mortgages with balances in excess of 80% of the value of the security are insured by a third party mortgage insurance provider. In the year, these insured mortgages totalled $32,755,625 (2021 - $33,214,903). Also included in personal mortgages are Home Equity Lines of Credit (HELOC), which have a required monthly payment of interest only. Commercial mortgages consist of fixed term mortgages that are repayable in monthly blended principal and interest instalments. Personal and Commercial mortgage loans bear interest at an average annual rate of 3.41% (2021 - 3.47%).

Commercial loans and personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest instalments over a maximum amortization period of five years, with some secured loans of longer periods depending on security provided, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments. Loans bear interest at an average annual rate of 4.00% (2021 - 4.00%). Lines of credit bear interest at an average annual rate of 6.13% (2021 - 4.81%).

Loan securitization

The credit union has entered into transactions in the normal course of business by which it transfers recognized financial assets directly to third parties.

Derecognition of these assets occurs when the credit union transfers substantially all the risks and rewards of the loan, and enters an agreement to transfer all of the cash flows relating to the securitized loan.

The following summarizes the credit union's total securitized loans that have been derecognized as of December 31:

	2022	2021
Outstanding balance of securitized residential mortgages	$ 1,076,817	$ 1,165,922

5. Loans to Members (Continued):

Syndicated loans

The credit union enters into syndication agreements with other credit union to limit the exposure to certain commercial loans and mortgages.

The following table summarizes the credit union's total syndicated loans that have been derecognized as of December 31:

	2022	2021
Gross loans under syndication	$110,962,945	$101,364,245
Syndicated portion	(97,286,398)	(85,361,316)
Loan portion retained by the credit union	**$ 13,676,547**	**$ 16,002,929**

The portions of the above loans syndicated are derecognized as the credit union has entered an agreement to transfer all the risks and rewards of syndicated portion of the loans. The credit union earns a fee to administer these loans.

Canada Emergency Business Account

Under the Canada Emergency Business Account (CEBA) program, with funding provided by Her Majesty in Right of Canada (Government of Canada), the credit union provides loans to its eligible commercial members. Under the CEBA program, eligible commercial members received a $40,000 interest-free loan, with the program being expanded in the fall of 2020 to offer an additional $20,000 interest-free loan. The deadline for application for these loans was June 30, 2021. For the original loan of $40,000, $10,000 is forgivable on payment of $30,000 of the loan (75%), and for the $60,000 loans, $20,000 is forgivable on payment of $40,000 (75% of the first $40,000 and 50% of the $20,000). The deadline for payment in order to have these amounts forgiven, is December 31, 2023, which was extended from the original December 31, 2022. If the loan is outstanding subsequent to that date, it will be converted to a two year term loan at an interest rate of 5% per annum. The funding agreement represents an obligation to pay any funds received under this program to the Government of Canada. Loans issued under this program are not recognized in the statement of financial position as the credit union has transferred substantially all risks and rewards in the respect of the loans to the Government of Canada.

The following is the total value of loans administered by the credit union under the CEBA program:

	2022	2021
CEBA loans	**$ 4,127,454**	**$ 5,603,165**

6. Other Assets:

	2022	2021
Accrued interest receivable	$ 275,280	$ 217,389
Receivables and prepaid expenses	1,057,947	336,459
	$ 1,333,227	**$ 553,848**

7. Property and Equipment:

	Property and equipment							Right-of-use assets		
	Land	Buildings	Furniture and Equipment	Computers	Paving	Vehicles	Leasehold Improvements	Property	Furniture and Equipment	Total
Gross Carrying Amount										
Balance December 31, 2021	$ 686,781	$ 1,821,720	$ 1,352,564	$ 491,591	$ 91,516	$ 45,440	$ 174,009	$ 230,953	$ 56,065	$ 4,950,639
Additions	-	70,660	13,490	187,694	-	-	12,407	370,059	-	654,310
Disposals	-	-	-	(1,154)	-	-	-	(230,953)	(56,065)	(288,172)
Balance December 31, 2022	686,781	1,892,380	1,366,054	678,131	91,516	45,440	186,416	370,059	-	5,316,777
Amortization and impairment										
Balance December 31, 2021	-	856,303	1,246,026	476,679	90,565	17,082	160,564	184,761	49,227	3,081,207
Additions	-	103,007	39,715	28,791	951	8,726	14,895	64,695	6,838	267,618
Disposals	-	-	-	(1,154)	-	-	-	(230,953)	(56,065)	(288,172)
Balance December 31, 2022	-	959,310	1,285,741	504,316	91,516	25,808	175,459	18,503	-	3,060,653
Carrying amount, December 31, 2022	$ 686,781	$ 933,070	$ 80,313	$ 173,815	$ -	$ 19,632	$ 10,957	$ 351,556	$ -	$ 2,256,124
Gross Carrying Amount										
Balance December 31, 2020	$ 686,781	$ 1,578,188	$ 1,308,685	$ 482,868	$ 91,516	$ 45,440	$ 174,009	$ 230,953	$ 56,065	$ 4,654,505
Additions	-	243,532	43,879	10,478	-	-	-	-	-	297,889
Disposals	-	-	-	(1,755)	-	-	-	-	-	(1,755)
Balance December 31, 2021	686,781	1,821,720	1,352,564	491,591	91,516	45,440	174,009	230,953	56,065	4,950,639
Amortization and impairment										
Balance December 31, 2020	-	765,070	1,195,187	461,594	87,802	7,249	140,756	123,174	32,818	2,813,650
Additions	-	91,233	50,839	15,085	2,763	9,833	19,808	61,587	16,409	267,557
Disposals	-	-	-	-	-	-	-	-	-	-
Balance December 31, 2021	-	856,303	1,246,026	476,679	90,565	17,082	160,564	184,761	49,227	3,081,207
Carrying amount, December 31, 2021	$ 686,781	$ 965,417	$ 106,538	$ 14,912	$ 951	$ 28,358	$ 13,445	$ 46,192	$ 6,838	$ 1,869,432

The credit union did not record any impairment charges or reversals during the years noted above.

8. Accounts Payable and Accrued Liabilities:

	2022	2021
Accrued interest on members' accounts	$ 828,487	$ 558,184
Government payables	525	89,220
Other payables and accrued liabilities	2,047,901	1,043,311
Leased assets (see below)	352,578	56,899
	$ 3,229,491	**$ 1,747,614**

Lease liability includes the following:	2022	2021
Lease payable on operating premises in monthly instalments of $6,546 including imputed interest of 2.37%, maturing in September 2027.	$ 352,578	$ -
Lease payable on operating premises in monthly instalments of $5,750 including imputed interest of 2.30%, maturing in October 2022.	-	56,899
	$ 352,578	**$ 56,899**

Maturity analysis of lease liability - contractual undiscounted cash flows	2022	2021
Less than one year	$ 78,557	57,500
One to five years	314,226	-
Total	**$ 392,783**	**$ 57,500**

Lease liability included in the statement of financial position	2022	2021
Current	$ 70,968	$ 56,899
Non-Current	281,610	-
Total	**$ 352,578**	**$ 56,899**

Included in statement of comprehensive income is the following:	2022	2021
Interest on lease liabilities	**$ 2,260**	**$ 2,469**

Not included in lease payments above are common area costs which were recorded as an expense in occupancy costs.

9. Members' Accounts:

	2022	2021
Chequing accounts	$ 73,297,005	$ 68,392,537
Demand deposits	69,648,583	77,185,055
Term deposits	62,140,365	51,299,187
Registered Retirement Savings Plans and Registered Retirement Income Funds	19,165,228	18,811,366
	$224,251,181	$215,688,145

Demand Deposits

Demand deposits bear interest at an average annual rate of 0.32% (2021 - 0.37%) and may be withdrawn on demand, subject to the discretion of the directors of the Credit Union, who may require notice.

Term Deposits

Outstanding term deposits for periods of one to five years generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a waiting period.

Fixed term deposits bear interest at an average annual rate of 1.89% (2021 - 1.71%) and extend for terms of up to 5 years.

Registered Savings Plans

Concentra Trust (a subsidiary of Concentra Bank) is the trustee for the registered savings plans offered to members. Under an agreement with the trust company, member's contributions to the plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to members, or the parties designated by them, by the Credit Union, on behalf of the trustee. RRSP and RRIF term deposits bear interest at an average annual rate of 1.73% (2021 - 1.63%) and 1.92% (2021 - 1.82%) respectively.

10. Regulatory Equity:

Section 55 of the Credit Unions Act stipulates that credit unions must meet certain minimum equity requirements. This requirement, as set out in the regulations requires credit unions to maintain an equity level equal to 5% of the total assets.

In accordance with International financial reporting standards relating to the financial statement presentation of membership shares and surplus shares, the Credit Unions membership shares and surplus shares are presented in the statement of financial position as financial liabilities. These liabilities qualify as equity for regulatory purposes, notwithstanding their financial statement classification. At December 31, 2022, the equity level for Advance for regulatory purposes is as follows:

	2022	2021
Membership shares	$ 4,756,573	$ 5,088,313
Surplus shares	389,970	409,095
Retained earnings	8,871,598	7,538,262
Credit Union Central of New Brunswick dissolution surplus	531,851	531,851
IFRS charges to retained earnings (see below)	(11,500)	(21,300)
Total Regulatory Equity	$ 14,538,492	$ 13,546,221
Total Assets	$242,095,785	$231,149,816
Equity Level	6.01%	5.86%

The IFRS charges to retained earnings noted above are amounts New Brunswick Credit Union Federation Stabilization Board (NBCUFSB) has requested the credit union not include in its calculation of regulatory equity. This amount includes deemed cost increases for property and equipment net of deferred income taxes.

In the 2011 fiscal year the credit union received a distribution of $531,851 resulting from the dissolution of Credit Union Central of New Brunswick. The NBCUFSB put a restriction on the use of this distribution for a two year period from September 30, 2011 and is subject to NBCUFSB review at the end of the two year period. The NBCUFSB has not lifted the restriction as of the year end.

11. Membership Shares:

Section 30(1) of the Credit Unions Act describes shares as the capital of the credit union. Pursuant to Advance's by-laws, the value of each share is $5 and as a condition of membership each member must hold a minimum of one share. In addition, members are now permitted to purchase up to a maximum of 5,000 shares; however the directors have imposed a moratorium on additional share purchases at this time.

The authorized membership shares are not covered by Credit Union Deposit Insurance and the shares have various restrictions on withdrawals.

12. Surplus Shares:

Surplus shares do not receive any interest, are not covered by Credit Union Deposit Insurance and are subject to restrictions on their withdrawal. Generally the restrictions are based on the amount in the individual member's surplus shares account.

13. Income Taxes:

The effects of temporary differences, which give rise to the net deferred income tax assets reported, are as follows:

	Beginning of year	2022 Included in comprehensive income	End of year
Excess of undepreciated capital cost allowance over net book value	$ 100,171	$ (7,071)	$ 93,100
Excess of allowance for impaired loans over allowable tax reserve	72,349	53,949	126,298
Non tax deductible accounting reserves	10,080	920	11,000
Tax deferred dividends	(57,600)	(12,798)	(70,398)
	$ 125,000	$ 35,000	$ 160,000

In the year the deferred income tax rate changed from what was used in the 2021 fiscal year. As a result, there was $29,000 additional tax recovery included in the above.

	Beginning of year	2021 Included in comprehensive income	End of year
Excess of undepreciated capital cost allowance over net book value	$ 96,156	$ 4,015	$ 100,171
Excess of allowance for impaired loans over allowable tax reserve	66,704	5,645	72,349
Non tax deductible accounting reserves	7,740	2,340	10,080
Tax deferred dividends	(57,600)	-	(57,600)
	$ 113,000	$ 12,000	$ 125,000

The total provision for income taxes in the Statement of Comprehensive Income is at a rate which differs from the combined federal and provincial statutory income tax rates as follows:

	2022	2021
Combined statutory federal and provincial income taxes expense (29%)	$ 496,845	$ 417,420
Small business deduction	(87,500)	(87,500)
Non-deductible expenses	1,118	384
Temporary differences subject to deferred income taxes	10,088	19,498
Non-taxable dividends	(5,628)	-
Current Income tax expense	$ 414,923	$ 349,802

14. Related Party Transactions:

As a requirement of Section 112 of the Credit Unions Act, the Credit Union is required to disclose the following items:

Loans to Employees

Loans to employees bear interest which is lower than the rate below that can be obtained by a member who is not an employee of the credit union. At December 31, 2022 discounted rate loans to employees totaled $4,223,705 (2021 - $4,678,295). No allowance for impaired loans is required in respect to loans to employees.

As at December 31, 2022, the aggregate value of interest bearing personal loans, mortgage loans, and line of credits outstanding to directors and officers totaled $1,505,679 (2021 - $1,657,282). These loans have been advanced on the same terms and conditions as have been accorded to all members. There was no allowance for impaired loans required in respect to these loans.

As at December 31, 2022, the aggregate value of deposits and share accounts held by directors and employees totaled $217,879 (2021 - $273,123) and $1,505,679 (2021 - $1,048,363) respectively.

Directors' Remuneration and Key Management Information

The aggregate amount paid to all directors as remuneration and as reimbursement for expenses incurred includes the following:

	2022	2021
Remuneration	$ 15,420	$ 8,925
Reimbursement of expenses	$ 3,479	$ 1,480

Key management of the Credit Union consists of senior employees, officers and members of the board of directors. Key management personnel remuneration includes the following expenses:

	2022	2021
Key management remuneration	$ 449,886	$ 476,715

Loans and mortgages to and deposits from key management personnel consist of the following:

Loans and mortgages to key management personnel	$ 2,206,000	$ 2,087,000
Interest on loans and mortgages to key management personnel	$ 47,900	$ 39,900
Deposits from key management personnel	$ 541,000	$ 577,000
Interest on deposits from key management personnel	$ 5,600	$ 15,400

No allowance for impaired loans is required in respect to the above noted key management personnel loans and mortgages.

15. Financial Institution Risks:

Risk Management

The credit union board of directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The responsibilities of this risk management framework is split up amongst the board and various committees of the board.

The Credit Union's risk management policies are established to identify and analyze the risks faced by the credit union, 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 the Credit Union's activities. The Credit Union, 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.

The audit committee oversees how management monitors compliance with the Credit Union's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union.

The Credit Union is also reviewed by FCNB, which audit's loan files and other operational issues every 18 months.

Credit Risk

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet its financial obligations. Advance mitigates its lending credit risk exposure by defining its target market area, and by limiting the principal amount of credit to a borrower at any given time, providing credit analysis prior to approval of the loan, obtaining collateral when appropriate, by employing risk based pricing, for commercial loans by limiting concentration by industry and geographical location. Along with other credit unions in the Province of New Brunswick, Advance is restricted in making larger commercial loans without prior approval of Atlantic Central. The maximum credit risk exposure at December 31, 2022 for loans to members is their carrying amount shown in Note 5.

Liquidity Risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis. The credit union has adopted a liquidity risk management policy. This policy is administered by management and reports are provided to the Audit Committee at least quarterly. This policy has applied concentration limits to the deposit portfolio to help mitigate liquidity risk.

In addition, Advance maintains a line of credit with the Atlantic Central in the amount of $5,771,000 (2021 - $5,194,000) with an interest rate of prime less 0.5% (prime is currently 6.70%). The line of credit is secured by deposits and an assignment of book debts. At year end the line of credit was not utilized.

The Credit Union also has a liquidity deposit with Atlantic Central (Note 4). This deposit is in place in case of emergency liquidity requirements.

15. Financial Institution Risks (Continued):

The following is a table showing the maturity of financial liabilities. The time bands of 0 - 6 months, 6 months - 1 year, 1 year to 5 years have been used.

Other liabilities	0 - 6 Months	6 - 12 Months	1 - 5 Years	Not Specified	Total
Accrued interest on members' accounts (Note 8)	$ 828,487	$ -	$ -	$ -	$ 828,487
Other payables and accrued liabilities (Note 8)	2,047,901	-	-	-	2,047,901
Lease liability (Note 8)	35,274	35,694	281,610	-	352,578
Members' accounts (Note 9)	171,751,651	22,177,225	30,322,305	-	224,251,181
Liabilities Qualifying as Regulatory Equity (Statement 1)	-	-	-	5,146,543	5,146,543
Total Financial Liabilities 2022	$ 174,663,313	$ 22,212,919	$ 30,603,915	$ 5,146,543	$ 232,626,690
Total Financial Liabilities 2021	$ 164,727,053	$ 18,798,503	$ 33,820,983	$ 5,497,408	$ 222,843,947

Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on Advance's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets. The interest rate risk is being managed as noted below. Current average interest rates for loans to members and members' accounts can be found in Notes 5 and 9 respectively.

Interest Rate Risk

The credit union has implemented an interest rate risk policy. This policy outlines various objectives, limits of risk, responsibilities, strategies and corrective actions. The overall objectives of the policy is to:

Define limits of interest rate risk that the credit union is able to assume;

Provide a reporting system for management to monitor the interest rate risk exposure the credit union is accepting; and

To identify acceptable strategies for managing interest rate risk within applicable limits.

The interest rate risk policy is monitored and reported to the audit committee on a regular basis.

At December 31, 2022, if interest rates at that date had been 1% lower with all other variables held constant, after-tax comprehensive income for the year would have been $208,000 lower (2021 - $210,000 lower), arising mainly as a result of lower interest income on variable rate loans to members. If interest rates had been 1% higher with all other variables held constant, after-tax comprehensive income for the year would have been $208,000 higher (2021 - $210,000 higher), arising mainly as a result of higher interest income on variable rate loans to members. The Credit Union prepares an interest rate impact analysis on a quarterly basis which shows the effect to comprehensive income if interest rates rise or fall in the market by 1%. This analysis is used to determine if it is necessary to change new fixed rate loans and deposits to make up for changes in variable rate financial instruments. As can be seen above in the maturities of financial liabilities, the majority of the credit union's financial liabilities are due within a year. If the interest changes significantly, the majority of these financial liabilities would be coming due and interest rates paid on them could be adjusted accordingly. Management feels the policies in place are sufficient to alleviate significant interest rate risk.

15. Financial Institution Risks (Continued):

Foreign Exchange and Currency Risk

Foreign Currency Risk refers to the potential impact of changes in foreign currency exchange amounts when foreign currency financial assets are not matched with foreign currency financial liabilities.

At December 31, 2022, if the Canadian dollar had weakened 10 percent against the US dollar with all other variables held constant, after-tax comprehensive income for the year would have been $4,000 lower (2021 - $5,000 lower). Conversely if the Canadian dollar had strengthened 10 percent against the US dollar with all other variables held constant, after-tax net income would have been $3,000 higher (2021 - $5,000 higher).

16. Financial risk review:

This note details areas of credit risk of the credit union, current detail of allowances and determination of ECL. The Credit Union's financial risk management can be seen in Note 15.

Residential Mortgage Lending

The Credit Union mitigates risk of loss on loans to members through its residential mortgage portfolio. All residential mortgages with a loan to value of 80% or above are insured for potential losses through CMHC or Genworth. This limits the expected credit loss on this type of mortgage. All other mortgages consider underlying collateral and total debt service ratio. In these cases the Credit Union needs to determine the overall expected cash flows from these mortgages taking into account collateral, when considering expected credit losses.

Loans to Commercial Members

The general creditworthiness of commercial members tends to be most relevant indicator of credit quality of a loan extended to that member. However, collateral provides additional security and the Credit Union generally request that corporate borrowers provide it. The Credit Union may take collateral in the form of a first charge over real estate, floating charge over all corporate assets and other liens and guarantees.

As the Credit Union's focus is on commercial member creditworthiness, the Credit Union does not routinely update the valuation of collateral held against all the loans to commercial members. Valuation of collateral is updated when collectability of the loan is of concern, and the loan is being monitored more closely. For credit-impaired loans, the Credit Union obtains appraisals of collateral because it provides input into the valuation of the asset, and expected future cash flows of the loan.

Amounts Arising from ECL

The credit union reviews their loan portfolio on a constant basis to determine if there are any indicators of expected credit loss. The Credit Union determines if loans are in an area which requires more monitoring, or if they are in a default position. The credit union has determined that loans or mortgages that are over 90 days past due are credit-impaired.

The use of forward looking information assists the Credit Union in determining the 12 month and total expected credit losses of its loan portfolio. The information used as forward looking information is interest rate forecasts, unemployment rates, housing markets and both consumer and commercial vacancy rates. In addition the credit union will look at loans having late payments and the change in that number over the period to assist in determining expected credit losses. The information is reviewed on a quarterly basis to determine if there are any changes necessary to the calculation of ECL.

16. Financial risk review (Continued):

Amounts Arising from ECL (Continued)

Expected credit losses is broken down into various categories of loans including the following; Personal loans, Commercial loans, Lines of credit, Personal mortgages (insured), Personal mortgages (uninsured), Commercial mortgage (insured), Commercial mortgages (uninsured). These categories follow the model set out by BASELIII.

Under the current model of expected credit losses, the Credit Union determines various loans to be in one of three stages. Stage 1 is used to determine if there are any expected credit losses in the next 12 months. This category would include most of the credit unions loans. This would include all loans that are not past due or in default. Stage 2 would be loans which are 30 days past due, but not considered in default. Stage 3 would be loans which are past due more than 90 days, and considered in default. Both Stage 2 and 3 would consider expected credit losses over the lifetime of the loan.

Each of the three stages would consider the probability of default and a risk assessment to determine the risk adjusted probability of default. This will determine the expected credit loss before collateral. Then the Credit Union determines the expected credit loss by applying a loss given default percentage. In this stage collateral is considered, and therefore categories with a higher level of collateral, such as mortgages, would have a much lower expected credit loss. When moving from Stage 1 loans, to Stage 2 loans, the overall probability of default increases as the Credit Union has seen indications of possible impairment due to the loan being at least 30 days past due. Also risk assessments increase and loss given default increases, increasing the overall expected credit loss of loans at this stage.

Loans and mortgages at a Stage 3 level is considered on a loan by loan basis. Each loan or mortgage is assessed for collateral value, and expected future payments individually. For commercial files, all loan files are risk rated individually by the commercial lending department. The risk rating is determined at funding or on a review basis, and takes into consideration detailed assessment of the member's financial position, security, management of the member's commercial operations, and the environment. If the commercial lending department determines the member has a risk rating of 4, then the loan will be reviewed for expected credit losses.

Effect on ECL due to current economic factors

As a result of the uncertainty to ECL from changes in interest rates in the year and current levels of inflation, the credit union had to reassess its current risk assessment by class of loan and the model used to determine ECL. IFRS 9 requires the credit union to assess the expected impact on its loan portfolio as noted above. Stage 1 loans need to be assessed for any ECL in the next 12 months, and Stage 2 and 3 loans need to be assessed for any ECL over the lifetime of loan. In the last two years, this requirement had resulted in the credit union assessing risk factors and making changes to its ECL model on a more frequent basis. These adjustments to risk factors and the model has mainly affected Stage 1 ECL and Stage 2 ECL. The credit union has reviews the structure of its portfolio and adjusted risks of credit loss in areas that are more likely to be affected by the factors noted above. From this adjustment of risk, the credit union has factored in these changes to the ECL model. The credit union has used historical data on delinquencies and write offs along with estimates of how delinquency may be impacted by the above. From this the credit union continues to further develop the risk factors in the ECL model on a frequent basis and adjusts it accordingly.

16. Financial risk review (Continued):

Allowance for Expected Credit Losses

The following details a breakdown of total loans and their details when considering exposure to expected credit loss (ECL):

	2022			
	12 month ECL	Lifetime ECL not impaired	Lifetime ECL Impaired	Total
Low risk	$ 198,408,690	$ -	$ -	$ 198,408,690
Past due but not impaired	-	164,894	-	164,894
Doubtful/Loss	-	-	105,398	105,398
	198,408,690	164,894	105,398	198,678,982
Allowance for impairment	(535,430)	(28,108)	(105,398)	(668,936)
Carrying amount	$ 197,873,260	$ 136,786	$ -	$ 198,010,046

	2021			
	12 month ECL	Lifetime ECL Not Impaired	Lifetime ECL Impaired	Total
Low risk	$ 183,075,218	$ -	$ -	$ 183,075,218
Past due but not impaired	-	27,597	-	27,597
Doubtful/Loss	-	-	128,531	128,531
	183,075,218	27,597	128,531	183,231,346
Allowance for impairment	(386,316)	(2,760)	(128,531)	(517,607)
Carrying amount	$ 182,688,902	$ 24,837	$ -	$ 182,713,739

The following details allowance for expected credit losses for the current year with comparison of totals for the prior year:

	Balance Beginning Of Year	Loans Written Off	Recovery On Loans Previously Written Off	Provision For Expected Credit losses	Balance End of Year
Commercial					
Lines of credit	$ 80,557	$ -	$ -	$ 47,223	$ 127,780
Loans	16,036	-	-	5,540	21,576
Mortgages	43,339	-	-	37,883	81,222
Personal					
Lines of credit	283,356	(64,523)	14,623	94,757	328,213
Loans	80,468	-	14,626	(16,513)	78,581
Mortgages	13,851	-	-	17,713	31,564
Total **2022**	$ 517,607	$ (64,523)	$ 29,249	$ 186,603	$ 668,936
Total **2021**	$ 493,948	$ (61,341)	$ 94,043	$ (9,043)	$ 517,607

16. Financial risk review (Continued):

Allowance for Expected Credit Losses (Continued)

The following shows a reconciliation from the opening to closing balance of the allowance for impairment by class of financial instrument.

	2022			
	12 month ECL	Lifetime ECL not impaired	Lifetime ECL Impaired	Total
Loans to members				
Balance December 31, 2021	$ 386,316	$ 2,760	$ 128,531	$ 517,607
Net remeasurement of loan loss allowance	157,187	17,880	11,536	186,603
Transfer to lifetime ECL credit-impaired	(605)	-	605	-
Transfer to lifetime ECL not impaired	(7,468)	7,468	-	-
Write-offs	-	-	(64,523)	(64,523)
Recovery of amounts previously written off	-	-	29,249	29,249
Balance at December 31, 2022	$ 535,430	$ 28,108	$ 105,398	$ 668,936

	2021			
	12 month ECL	Lifetime ECL not impaired	Lifetime ECL Impaired	Total
Loans to members				
Balance as at December 31, 2020	$ 350,902	$ 5,958	$ 137,088	$ 493,948
Net remeasurement of loan loss allowance	35,859	(3,487)	(41,415)	(9,043)
Transfer to lifetime ECL credit-impaired	(156)	-	156	-
Transfer to lifetime ECL not impaired	(289)	289	-	-
Write-offs	-	-	(61,341)	(61,341)
Recovery of amounts previously written off	-	-	94,043	94,043
Balance at December 30, 2021	$ 386,316	$ 2,760	$ 128,531	$ 517,607

Loans that are past due but not classified as impaired are loans where members have failed to make payments when contractually due. As at December 31, 2022 the credit union had $462,023 of loans that were past due and not impaired (2021 - $451,959). Of these loans, $164,894 (2021 - $27,597) were over 30 days past due and considered in Stage 2 ECL above. The remaining were 30 days or under past due would be included in the Stage 1 calculation for ECL.

17. Capital Management:

The credit union has adopted a capital management policy. The purpose of this policy is to establish the credit union's philosophy for management capital and risk; and establish guidelines within which management can operate with managing capital for current and future strategic opportunities, safety and soundness.

The Credit Union's objectives when managing capital are to:

Protect members' deposits;

Establish and maintain a capital management framework which describes processes, policies, and governance in place to guide the credit union's capital risk management activities;

Utilize the strategic planning and budget process to understand the effects on capital;

Ensure the credit union develops a capital building strategic plan with capital thresholds;

Ensure the market risks are managed within the credit union's capital thresholds;

Ensure that a contingency capital plan is in place that sets out strategies and accountabilities to address capital challenges in normal operating conditions and in a stress event; and

Ensure the credit union maintains regulatory capital requirement level outlined in the Credit Unions Act.

This capital management policy sets appropriate limits in various areas including a Capital Leverage Ratio (CLR) and the balancing of overall risks including business strategy, credit risk concentration and local market threats and opportunities. In addition, various capital stress tests are performed on a regular basis to assess the effectiveness of the policy and any areas of concern. The policy is maintained by management, and various areas of capital management are reported to the Audit Committee on a regular basis.

Due to the nature of the Credit Union, capital is also managed through the regulation requirements on minimum regulatory equity (see Note 10) and the maintaining of liquidity deposits at Atlantic Central (see Note 4).

18. Fair Value of Financial Instruments:

The following is a breakdown of how financial instruments have been classified by Advance, by category, showing the carrying amount, the fair value and the difference of each financial asset and liability. The maximum credit risk exposure to the below financial assets is their carrying amounts. Fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.

	2022		
Financial Assets	**Carrying Amount**	**Fair Value**	**Fair Value Difference**
Amortized cost			
Accrued interest receivable (Note 6)	$ 275,280	$ 275,280	$ -
Loans to members (Note 5)	198,010,046	196,310,000	(1,700,046)
FVTPL			
Cash resources (Statement 1)	11,475,375	11,475,375	-
Investments (Note 4)	28,861,013	28,861,013	-
Total Financial Assets	**$238,621,714**	**$236,921,668**	**$ (1,700,046)**

18. Fair Value of Financial Instruments (Continued):

	Carrying Amount	Fair Value	Fair Value Difference
Financial Liabilities			
Amortized cost			
Accrued interest on members' accounts (Note 8)	$ 828,487	$ 828,487	$ -
Other payables and accrued liabilities (Note 8)	2,047,901	2,047,901	-
Lease liability (Note 8)	352,578	352,578	-
Members' accounts (Note 9)	224,251,181	226,290,000	2,038,819
Liabilities Qualifying as Regulatory Equity (Statement 1)	5,146,543	5,146,543	-
Total Financial Liabilities	**$232,626,690**	**$234,665,509**	**$ 2,038,819**

2021

	Carrying Amount	Fair Value	Fair Value Difference
Financial Assets			
Amortized cost			
Accrued interest receivable (Note 6)	$ 217,389	$ 217,389	$ -
Loans to members (Note 5)	182,713,739	182,845,000	131,261
FVTPL			
Cash resources (Statement 1)	12,652,729	12,652,729	-
Investments (Note 4)	33,235,068	33,235,068	-
Total Financial Assets	**$228,818,925**	**$228,950,186**	**$ 131,261**
Financial Liabilities			
Amortized cost			
Accrued interest on members' accounts (Note 8)	$ 558,184	$ 558,184	$ -
Other payables and accrued liabilities (Note 8)	1,043,311	1,043,311	-
Lease liability (Note 8)	56,899	56,899	-
Members' accounts (Note 9)	215,688,145	215,612,000	(76,145)
Liabilities Qualifying as Regulatory Equity (Statement 1)	5,497,408	5,497,408	-
Total Financial Liabilities	**$222,843,947**	**$222,767,802**	**$ (76,145)**

The above estimates were determined by management using the assumptions outlined below. Fair values are an estimate based on current market conditions and may not be reliable due to the use of assumptions.

Interest rate sensitivity is the main reason for changes in fair values of Advance's financial instruments. With the exception of FVTPL financial instruments, the carrying value is not adjusted to reflect fair value, as it is the Credit Union's intention to realize their value over time.

18. Fair Value of Financial Instruments (Continued):

The following are the methods and assumptions used to estimate the fair value of financial instruments:

The fair values of accrued interest receivable, cash resources, accrued interest on members' accounts, and other payables and accrued liabilities are the same as their carrying amount due to their short-term nature.

The fair values of investments are their carrying amount because fair value could not be measured reliably as a result of the absence of quoted market prices in an active market and because fair value could not otherwise be measured.

The fair values of loans to members' and members' accounts are determined by two methods. Variable rate loans to members' and demand deposit members' accounts are estimated to be at fair value, as the interest rates of these financial instruments vary with market interest rates. Fixed rate loans to members' and fixed term deposit members' accounts fair value is determined by discounting the expected future cash flows of these financial instruments at current market rates for products with similar terms and credit risks. The expected fair value of these loans to members', fixed term deposits may differ with changes in interest rates. If the interest rates used on these were adjusted by 1%, the effect of fair value would be the following:

	Interest rates 1% higher	Interest rates 1% lower
Loans to members'	(0.27)%	0.28 %
Fixed term deposits	0.43 %	(0.42)%

The Credit Union employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of (Level 1) quoted prices in active markets for identical assets or liabilities, (Level 2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and (Level 3) inputs for the asset or liability that are not based on observable market data in the valuation of securities as at December 31, 2022 is as follows:

	Total Fair Value	Level 1 Quoted Prices	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Financial Assets				
Cash resources	$ 11,475,375	$ 11,475,375	$ -	$ -
Investments	28,861,013	-	-	28,861,013
Loans to members	196,310,000	-	-	196,310,000
Accrued interest receivable	275,280	-	-	275,280
	$236,921,668	$ 11,475,375	$ -	$225,446,293

18. Fair Value of Financial Instruments (Continued):

	Total Fair Value	Level 1 Quoted Prices	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Financial Liabilities				
Accounts payable and accrued liabilities	$ 2,876,388	$ -	$ -	$ 2,876,388
Lease liability	352,578	-	-	352,578
Members' accounts	226,290,000	-	-	226,290,000
Liabilities qualifying as regulatory equity	5,146,543	-	-	5,146,543
	$234,665,509	$ -	$ -	$234,665,509

19. Commitment:

In the current year the credit union has committed to implement a new banking system with their service provider. This new banking system has an expected cost to the credit union of $1,580,000. The credit union has currently incurred $692,013 of the above expected cost. The new banking system is expected to be implemented in the 2024 fiscal year.

20. Business Combination

In the 2022 fiscal year, the Credit union entered into an amalgamation agreement with Bayview Credit Union and Progressive Credit Union providing the amalgamation of the three credit unions. As of September 27th, 2022, the members of Advance Savings Credit Union Limited, Bayview Credit Union Limited, and Progressive Credit Union limited had voted and approved the amalgamation of the three credit unions to create Brunswick Credit Union Limited. The amalgamation was completed subsequent to the year end on January 1, 2023.