
# MANAGEMENT'S DISCUSSION & ANALYSIS
# FINANCIAL STATEMENTS

Synergy Credit Union

# COVER ARTIST

## Hannah Barnes

This Synergy competition was such an amazing challenge for our level 20/30 Photography class. It challenged us to use all of our skills allowing us to explore our neighborhoods in Lloydminster. For me, I was inspired to do a cartoon style image showcasing important parts of our community that makes all locals feel included while having fun. I am very thankful to our teacher, Ms. Ferguson for encouraging us to take on the challenge and to push our limits, and to Synergy for allowing my class to partake in this competition and for being so generous. This competition was a great opportunity to inspire future work in this field, allowed me to be creative and pushed me to keep working on graphic art.

Management's Discussion and Analysis (MD&A) provides detailed information, including commentary on the results of operations and financial condition of Synergy Credit Union (Synergy) for the year ending December 31, 2022. The MD&A is an integral part of the annual report and should be read in conjunction with the financial statements.

Like the financial statements, the MD&A allows Synergy to demonstrate our accountability to members. The financial statements reflect what happened and the actual financial numbers, where the MD&A explains why these changes occurred, our plans, and outlines how we actively manage our risks. The MD&A provides members with a look at Synergy through the eyes of management by providing a balanced discussion on our operational results, financial conditions, and future prospects.

The following discussion and analysis is the responsibility of management and is current as of March 20, 2023.

## FORWARD LOOKING STATEMENTS

This MD&A may contain forward-looking statements concerning Synergy's future strategies. These statements involve uncertainties in relation to the prevailing economic, legislative, and regulatory conditions at the time of writing. Therefore, actual results may differ from the future-looking statements contained in this discussion.

## FACTORS THAT MAY AFFECT FUTURE RESULTS

While Synergy is a provincially regulated Saskatchewan credit union, economic factors outside our region, in Canada and abroad can have an impact that affects our local businesses and household incomes.

Nationally, the Bank of Canada and its monetary policy which impacts interest rates can significantly impact our performance. Shifting of capital markets along with competition can impact our pricing, market share and ability to meet our forecasted performance measures.

## BUSINESS ENVIRONMENT & STRATEGY

As the world gradually moves out of the COVID-19 pandemic, we find ourselves operating in a challenging yet rewarding environment. Despite a looming economic recession in Canada, Synergy Credit Union's trade area is expected to lead the GDP growth in the country, driven partially by higher energy prices. 2022 has seen a level of inflation and interest rate increases unprecedented in decades. While financial institutions generally benefit from higher interest rates, consumers are facing the "double whammy" of higher loan repayments and living expenditures, which may push up loan delinquencies and insolvencies. This poses a unique challenge for credit unions to capture growth within their risk tolerance.

The ever-increasing pressure to pool resources to combat cybersecurity threats and regulatory burdens is fueling the ongoing trend of amalgamation among credit unions. Credit unions are also participating in the Open Banking initiative, with a tentative implementation deadline of late 2023. While these events challenge the structural stability of credit unions, they present opportunities to innovate, modernize, and integrate with other participants in the financial market, including financial technology companies (FinTechs).

In 2020, Synergy Credit Union embarked on a 10-year journey, with the aspiration of becoming a dynamic $5 billion provincial credit union using optimal technology with proficient experts for the convenience and financial wellbeing of our members and communities. We remain committed to this goal. We know we can get there, but "how" to get there is informed by the need to adapt to the current environment.

In 2023 and beyond, we must continue our modernization journey and be prepared for Open Banking. We also remain committed to an outstanding member experience, collaboration with like-minded partners, and our co-operative to improve the financial wellbeing of our members and communities.

***Together, we will*** is deep within our organizational DNA and we remain committed to living out the Synergy experience where:

- People come first
- We actively support our communities
- We strengthen the local economy

# KEY STRATEGIC ASSUMPTIONS

Assumptions about the business environment, the performance of the Canadian economy and how these business drivers will affect Synergy's financial performance are material factors for the Board of Directors when setting corporate strategic priorities and performance targets. Key assumptions include:

## GLOBAL & NATIONAL BUSINESS ENVIRONMENT

Globally and in Canada, most of the pandemic restrictions were gradually lifted in 2022. As a result, many sectors have experienced increased activities over the past two years. The higher demand on goods was met with prolonged supply chain disruptions and production delays, which resulted in an inflation level unseen in decades. To tame inflation, the Bank of Canada implemented the most aggressive interest rate hikes in years: a cumulative rate increase of 425 basis points by the end of January 2023. Therefore, the policy interest rate was raised from 0.25% to 4.50%. This level of interest rate is only matched by the rates preceding the 2008-2009 global financial crisis. As history has repeatedly shown, rapid consecutive rate hikes are usually followed by a recession, and thus economists are anticipating this pattern to continue with a recession in 2023.

Energy prices were already rising in 2021, and this trend was further fueled by Russia's invasion of Ukraine. West Texas Intermediate (WTI) Crude Oil was trading at US$75 per barrel at the end of 2021 and rose to over US$120 per barrel in April 2022. Although oil prices have dropped from that peak, they trade in the range of US$70 to US$80 as of December 2022, a level unseen since 2014. Natural gas prices have also followed a similar trajectory and made a comeback to 2014 levels. The higher energy prices bode well for Synergy's trade area.

The pandemic has also significantly shifted the dynamics in employee relations. Workers are reviewing their priorities and focusing more on flexible work arrangements. Differential salary adjustments offered by many organizations are also causing higher-than-normal workforce turnover, so much so that the business world coined the term "the Great Resignation." These trends place higher pressure on talent attraction and retention strategies.

## POLITICAL LANDSCAPE

The federal election in 2021 did not change the political landscape much. The minority government is not expected to introduce drastic policy changes; instead, it will continue to focus on existing initiatives, including Open Banking and climate risk initiatives. The province of Saskatchewan will not see an election until 2024. Therefore, we anticipate some stability in Saskatchewan too.

Outside of Canada, political stability may be a question mark. The US midterm election results and geopolitical risks beyond North America may ultimately impact the Canadian business environment and consumers' financial wellbeing.

## FINANCIAL SERVICES SECTOR

Inflation and interest rate hikes act as a one-two punch for consumers, as living expenditures and loan repayment obligations both rise. The financial burden may cause higher loan delinquencies and insolvencies in some vulnerable segments. The significant depreciation and wide fluctuations in the stock market add to this instability. Financial institutions need to have sufficient loan default reserves.

The federal government expects federally regulated financial institutions (FRFI's) to implement Open Banking by the end of 2023. The government is taking a government-guided and industry-driven hybrid approach to ensure voices of stakeholders are heard. Synergy Credit Union, like our peer credit unions, is not required to participate; however, we feel this is an important part of our growth strategy and we fully intend to implement Open Banking. At present, we are actively participating in consultation efforts to represent the credit union perspective.

In May 2022, the Office of the Superintendent of Financial Institutions (OSFI) published a guideline for climate risk assessment, stress testing and reporting. FRFI's are required to follow this guideline, and provincially regulated credit unions can view the guideline as a best-practice standard. Due to the higher presence of energy and agriculture sectors in our portfolio, we aspire to undertake such an assessment soon, resources permitting.

Credit unions are facing increasing demands on resources to modernize technology, cope with Open Banking, fight cybersecurity threats, and keep up with regulatory burdens. Therefore, amalgamation is becoming a common approach allowing multiple credit unions to pull resources together to achieve success on these fronts.

## PROVINCIAL & REGIONAL

The Conference Board of Canada has an optimistic economic outlook for Saskatchewan, so much so that their provincial forecast is entitled "Nowhere to Go but Up." This publication forecasts real GDP growth of 7.6% in 2022 and 4.1% in 2023. Natural resources and non-metal mining will contribute to the growth in the province, but "the most significant boost will come from agriculture," according to the forecast.

The Conference Board of Canada expects "agricultural production to increase by 44.0 percent (in 2022) and another 17.0 percent in 2023." Alberta has a relatively bright forecast too, with a prediction of real GDP growth of 4.9% in 2022 and 3.5% in 2023.

The Lloydminster area is also seeing some signs of improvement. Zolo's statistics indicates the year over-year real estate price increase to be in the 5% - 8% range in the second half of 2022.

The merger with New Community Credit Union, effective January 2023, will allow Synergy to penetrate the Saskatoon market and diversify our portfolio composition.

# 2022 FINANCIAL PERFORMANCE HIGHLIGHTS

In the fourth quarter of each year Synergy Credit Union develops its business plan and budget that is approved by the Board of Directors.

Below is a summary of key financial ratios compared to our 2022 budget and the previous year financials.

| $ thousands | 2022 Results | 2022 Budget | 2021 Actual |
|---|---|---|---|
| **Assets, Deposits and Loans** | | | |
| Total assets - on balance sheet | 1,706,029 | 1,713,201 | 1,639,738 |
| Annual asset growth (contraction) - on balance sheet | 4.0% | 4.5% | (0.4%) |
| Total assets - under administration | 2,198,758 | 2,263,093 | 2,166,531 |
| Annual asset growth - under administration | 1.5% | 4.5% | 4.8% |
| Total deposits | 1,503,468 | 1,519,182 | 1,454,579 |
| Annual deposit growth (contraction) | 3.4% | 4.4% | (0.4%) |
| Total loans | 1,258,105 | 1,199,428 | 1,163,814 |
| Annual loan growth (contraction) | 8.1% | 3.1% | (1.7%) |
| **Asset Quality** | | | |
| Delinquency greater than 90 days | 0.4% | < 3.0% | 0.7% |
| Gross impaired loans | 9,427 | 12,162 | 12,162 |
| Allowance for expected credit losses (excluding specific allowances) | 6,046 | 6,032 | 5,492 |
| Specific allowances | 1,697 | 1,508 | 2,048 |
| Net loan to average assets | 75.2% | 70.0% | 71.0% |
| **Capital** | | | |
| Common equity tier 1 to risk-weighted assets | 14.9% | 14.1% | 14.4% |
| Tier 1 capital to risk-weighted assets | 14.9% | 14.1% | 14.4% |
| Total eligible capital to risk-weighted assets | 19.6% | 18.4% | 19.1% |
| Leverage ratio | 11.1% | 9.8% | 10.1% |
| **Profitability** | | | |
| Comprehensive income | 21,023 | 3,790 | 8,420 |
| Operating income before taxes and member allocations | 28,748 | 6,789 | 14,228 |
| Return on average assets before taxes and member allocations | 1.7% | 0.4% | 0.9% |
| Efficiency ratio | 54.9% | 78.8% | 70.7% |
| Allocation payable to members | 6,593 | 1,597 | 3,122 |

Synergy had a very solid fiscal year compared to last year as well as compared to our forecast. While we did not achieve our growth expectations for deposits and assets, we exceeded our loan growth forecast and achieved positive growth after a contraction in 2021.

We are forecasting organic growth for 2023 of 4.7% on the balance sheet, and with the addition of assets from our amalgamation with New Community Credit Union on January 1st, 2023, we are forecasting to end 2023 up 12.5% on our balance sheet.

Our asset quality also continued to improve with a decrease in delinquency over 90 days, and a reduction of impaired loans by almost a third compared to our 2021 results. In addition, we improved our lent-out ratio from 71% to over 75%, a result of our loan growth of 8%, more than doubling our deposit growth of 3% in 2022.

We expect to see a rise in delinquency and specific allowances in 2023 and into 2024 due to the compounding effect of higher interest rates and prolonged high inflation which could make it difficult for members to meet their obligations as agreed upon as well the potential of increased bankruptcies. We will continue to support high-quality borrowers within our region focusing on loans that offer a fair and appropriate return and risk profile.

We also see our lent-out ratio rising to 77% with the addition of New Community assets and forecasted organic growth.

Our capital is extraordinarily strong, ending 2022 at 19.6%, exceeding regulatory requirements, the Synergy board set minimum of 12.5% and a regulatory minimum of 10.5%. This provides Synergy and its members strength and stability to weather economic weakness expected throughout 2023 across the country.

We will put our capital to work by leveraging current and future investments in technology and initiatives to enhance our members' experience. Investing in our teams and encouraging continued professional development will contribute to providing extraordinary service and delighting our members.

Our operating income before allocations and taxes exceeded the forecast by more than four times to finish at $28.7 million. A long-term investment that Synergy has held for many years was sold in late 2022, adding $16.9 million in dividends to our income.

Neutralizing this one-time gain, we would have exceeded our 2022 forecast by $5 million. This was achieved due to lower-than-expected credit losses, gains on our remaining investments, increasing our lent-out position and prudent expense management.

In comparison to 2021, we would have achieved $2.4 million less in income before member allocations and taxes without the sale dividend.

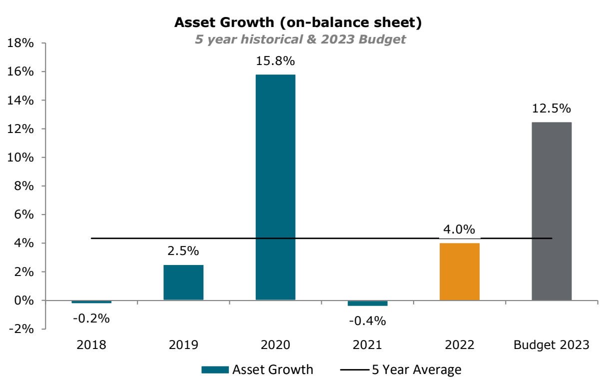
Staying true to our cooperative principles, along with profits from the sale of our investment and our operating income, we are proud to give back to our members more than double the amount they received last year in ProfitShares.

## ASSETS

Our assets on balance sheet finished the year at $1.7 billion (2021 - $1.6) a 4.0% increase year-over-year.

Synergy is forecasting an organic growth rate of 4.7% on balance sheet and an additional 7.8% with the addition of New Community Credit Union assets in 2023. We are excited for the opportunity to leverage the expertise of the New Community team in Saskatoon to capture additional market share. Saskatoon, Saskatchewan's largest city, Statistics Canada predicts to be a bright spot in the Canadian economy in 2023.

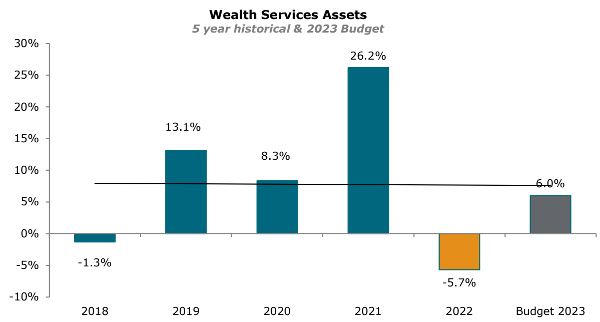
See below the asset growth chart for Synergy's 5 year historical & 2023 forecasted growth rate along with our 5-year trendline. You will notice a large growth rate in 2020 when Macklin Credit Union amalgamated with Synergy, contributing approximately 8% of the 15.8% growth achieved.




As our Board and Management contemplated budgeted growth rates for 2023, we looked to anticipated GDP growth for Saskatchewan 4.1% and Alberta 3.5%, according to the Conference Board of Canada's September 2022 outlook. We have set our organic growth rate above average GDP expectations at 4.7% for 2023, as we believe we will capture opportunities in the Saskatoon market with an increased complement of employees to service this new market for Synergy.

The pent-up consumer demand, especially for spending related to experiences, could temper our efforts to grow assets as members deplete savings to fund. In addition, if inflationary pressures become prolonged, interest rates remain high, and we slide into a recessionary period, we may see consumers and businesses deplete their reserves for day-to-day expenses.

Other assets under administration include off-balance sheet assets managed by our wealth services division totaling $490.6 million (2021 - $520.3), a decrease year-over-year due to the weaker equity markets and $3.4 million (2021 - $6.5) in loans sold or syndicated to other credit union partners but serviced by Synergy. The following chart shows our 5-year historical growth in wealth assets under administration.



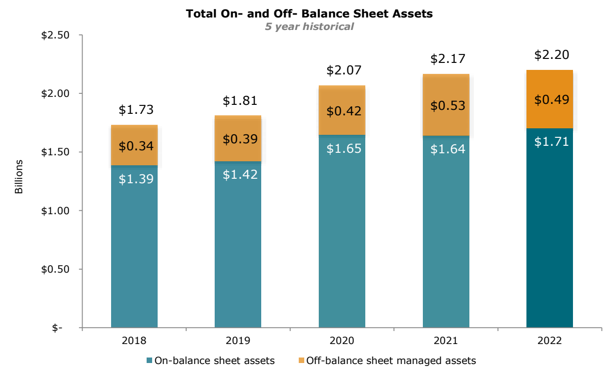

A key strategic focus for Synergy for the past ten-plus years has been to grow our wealth assets. Our 10-year historical average growth rate is 14.9%.

Our increased staff complement of thirteen in this area to service in-person advisory, as well as a digital advisor platform to complement our digital online brokerage. This is a key area of our business where we are enhancing our 'digital plus human.'

This continues to be our focus, and we expect double-digit growth in new investments. The markets are expected to be volatile in 2023 and could dampen our overall growth in our wealth assets. We are forecasting for a 5.3% growth rate in 2023.

Along with a modest paydown of the loans sold to other credit union partners, Synergy purchased back a loan from one of our partners that contributed to the approximate 50% decrease in 2022. Synergy is not requiring additional liquidity and is not expected to, in the near term. As a result loans sold or syndicated to other credit union partners will pay down and not be replaced.

The following chart shows the on-balance sheet assets (blue) combined with off-balance sheet assets (orange) under administration.

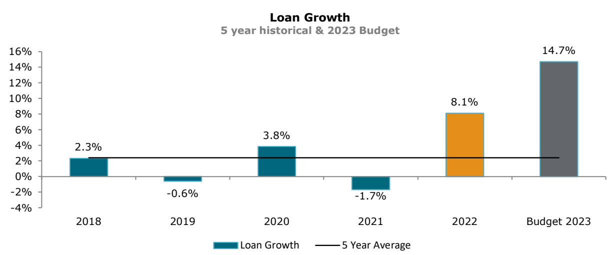



As a result, our assets under administration finished at $2.20 billion (2021 - $2.17) a modest 1.5% growth year-over-year.

## LOANS

We experienced an 8.1% growth in our loan portfolio (2021 - 1.7% contraction) in 2022 and also 2.5% in organic growth, primarily in our commercial portfolio, and the remaining 5.6% a result of purchasing loans from other credit union partners.

In the chart below you will see our five-year historical and 2023 forecasted loan growth rates. Forecasted growth consists of organic growth of 4% with an additional 2.6% expected in our syndication portfolio as commitments fund and the remaining 8.1% achieved with the addition of New Community credit union's loan portfolio in January 2023.




If Canada enters a recession early in 2023, as predicted, inflation remains high, and current interest rates hold, we will be challenged to achieve our forecasted loan growth.

Gross loans (on-balance sheet) totaled $1.27 billion (2021 - $1.17), an increase of $100 million. Net loans (gross loans less allowances) $1.26 billion (2021 - $1.16), an increase of $100 million over 2021.

Our loan portfolio grew faster than our deposit book in 2022, resulting in an improved lent-out ratio of 75.2% (2021 - 71.0%), which has contributed positively to our profitability.

For 2023, we are budgeting to improve this ratio to 77% which moves us closer to our optimal ratio of 82% as lower levels of liquidity and a higher loan-to-asset ratio will generally enhance net interest income by placing assets into comparatively higher-yielding, interest-bearing assets.

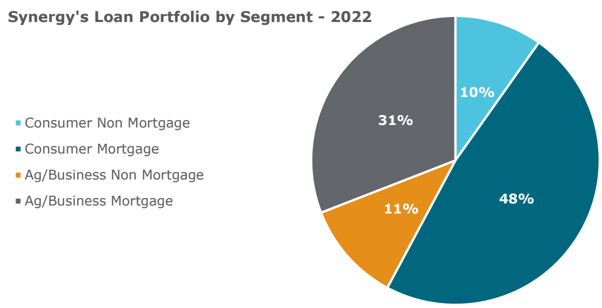
We expect our businesses to resume investment slowly and cautiously due to increased energy and commodity prices, inflation, and higher interest rates than we have experienced for some time.

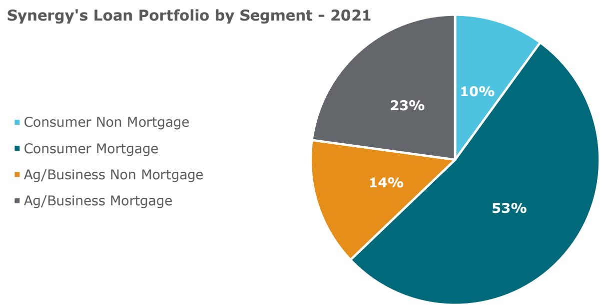
Our agricultural community, which had a good growing season and higher-than-average commodity prices, is borrowing to expand and/or upgrade equipment to make them more efficient. We expect investment by our producers to continue in 2023 as they continue to grow, adjust, and thrive while advancing their sustainable farming practices.

Inflationary pressures appearing entrenched in 2022 had the Bank of Canada raising interest rates at a pace not seen in decades. Consumers who are significantly indebted, will feel the greatest impact of high inflation as it increases borrowing costs and affects the ability of these borrowers to qualify for new credit.

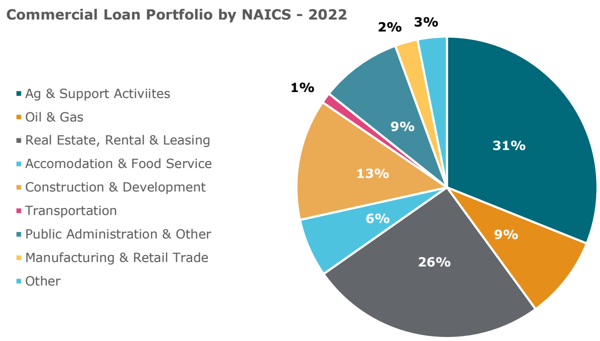
As shared in past years, we believe we are past the peak of the credit cycle and that loan demand locally will be muted. This is one of the reasons we are excited to welcome the New Community branch in Saskatoon, which provides a new market of opportunities for us to leverage in 2023.

As part of our strategic plan, we aspire to change our portfolio mix from 60% consumer and 40% Commercial and Ag Business to 50% in each of the above categories to bolster our margin. The following pie chart illustrates this shift happening as our consumer portfolio has shifted from 63% to 58% and our commercial and ag business has increased to 42% from 37% in 2022. As we gradually shift our overall portfolio mix, we also need to ensure that our commercial and ag business portfolio is not overly concentrated in any one industry type.




In 2022, we purchased loans from other credit union partners to deploy excess liquidity and contribute positively to profitability. These opportunities came primarily in Real Estate, Rental and Leasing, and Construction and Development. The following pie chart shows our current exposure to various industries.




In 2023, we will continue cultivating opportunities to partner with peers to achieve growth, a higher return for our depositors and minimize the negative impact on profitability based on lower than optimal leverage position. Having said that we will be constrained on what opportunities we will be able to act on based on portfolio industry limits, to manage our overall credit risk.

## CREDIT QUALITY

Credit losses are a normal part of our business and tend to increase during economically uncertain times. Our lending portfolio is focused in areas of demonstrated lending expertise using a set risk profile scoring. The risk profile of a loan is based on several key metrics and applied consistently throughout our portfolio.

Allowances for credit losses are maintained to absorb potential (collective) and probable (specific) losses and are determined by the overall quality and marketability of the security held against the impaired loan. Our practice is to set up specific allowances early on and work diligently to minimize actual write-offs.

Loan allowances increased by $203 thousand (2021 - $1.5 million decrease) year-over-year. Specific allowance was reduced by $351 thousand (2021 - $800), and collective increased by $554 thousand (2021 - decreased by $673 thousand).

We experienced a decrease of $351 thousand (2021 - $800) in our specific provisions during 2022 for two reasons: the completed realization of security and its application to the outstanding balance of the loan and the allowance is applied to reduce overall write-off, and secondly continued increased early intervention by our loan loss and prevention team to create a greater number of positive outcomes for our members and Synergy.

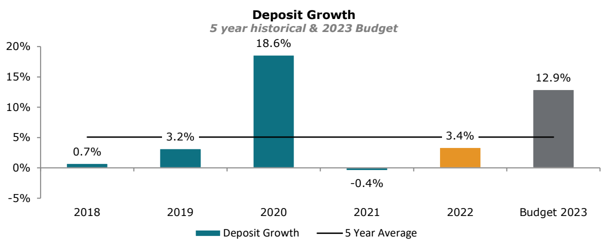
Collective provisions are maintained to absorb potential losses based on both historical and forward-looking metrics that are applied to our portfolio. The amount required to be held will be increased primarily for three reasons: as the loan portfolio grows in size the collective allowance needs to increase to absorb any future losses, a negative economic outlook, or deterioration of individual loans performing normally to past due but not impaired.

Actual write-offs were $1.0 million (2021 - $1.7). Approximately $500 thousand of these write-offs had been allowed for in previous years. Loans reached 75.2% (2021 - 71.0%) of average assets; below our optimal range of 82% - 84%, which helps to maximize our overall profitability. In 2023, we have returned our provision for credit losses to approximately 17 basis points of average assets benchmarked to our ten-year average. There is potential for us to experience actual losses higher than budget if we do not see inflation return to more normal levels and if interest rates continue to rise. We feel that our early intervention efforts will help to lower overall risk along with our prudent underwriting practices.

## DEPOSITS

We ended 2022 at $1.50 billion (2021 - $1.45), resulting in a growth of 3.4% (2021 - 0.4% contraction) or an increase of $50 million (2021 - a decrease of $6.5).

Demand deposits, which account for 64.3% (2021 - 65.8%) of our deposit base, increased $10.8 million (2021 - $109.5) or 1.1% (2021 - 11.5%) year-over-year.




Term deposits, which make up the remaining 35.7% (2021 - 34.2%) of our deposit base, increased $38.0 million (2021 - $116.0 contraction), an increase of 7.6% (2021 - 23.3% contraction) year-over-year.

Our mix of demand and term deposits remained relatively stable indicating that members are holding a significant amount of deposits in their chequing and savings accounts; however, as rates have risen over the second half of 2022 we do expect some of the demand deposits to move to higher yielding term deposits in 2023. This would put downward pressure on our interest margin.

In 2023, we are forecasting to grow organically by 5%, almost 2% above what we achieved in 2022, and with the addition of New Community assets of 7.9% for a total anticipated growth of 12.9%.

We will make recommendations for our members' deposits that are in their best interest and match their goals; for some that may result in moving to off-balance sheet products, creating downward pressure on deposit growth.

If higher-than-normal inflation persists, we expect to see a larger outflow of our members' deposits to fund day-to-day costs as well as debt reduction to avoid higher interest-carrying costs. We will need to replace with new business to achieve our targeted growth rate.

## NET INTEREST INCOME AND MARGIN

**Net interest income** represents the difference between the interest we receive from borrowers and our other assets less what we pay our depositors.

**Net interest margin** is the above calculation less provision for credit losses, allowances, and write-offs.

Net interest income increased by $20.2 million, or 54.6%, to $57.2 million (2021 - $37), representing 3.4% (2021 - 2.3%) of average assets.

This is a much higher return on average assets than typical because of the anticipated receipt of dividends declared from the sale of a long-term investment totaling $16.9 million that will not be realized in future years. Neutralizing this revenue would result in $40.3 million in net interest income or 2.4% of average assets.

Once the dividends are neutralized the resulting increase of 16 basis points year over year of interest income was achieved primarily due to the steep rising rates where new loans were booked at higher rates quicker than deposits repriced.

In 2023, we expect our margin compression to return as deposits re-price quicker than loans. This margin squeeze is expected to continue as increased competition and changing consumer behavior disrupts our core business.

The negative impact on margin may be muted if members continue to hold a higher amount of their deposits in demand accounts that are non-interest bearing.

Net interest margin (net of loan provisions) increased by $19.2 million (2021 - $3.7) to $56.0 (2021 - $36.8) million, representing 3.4% (2021 - 2.2%) of average assets.

Provisions expense increased to $1.2 million or seven basis points of average assets in 2022 versus $194 thousand in 2021 or one basis point. While we experienced an increase in provisions in 2022, compared to 2021, it was just over half as much as what was forecasted for the year.

Due to the combination of high inflation not experienced in decades and a return to more normal interest rates we do expect provisions to increase in 2023 and 2024.

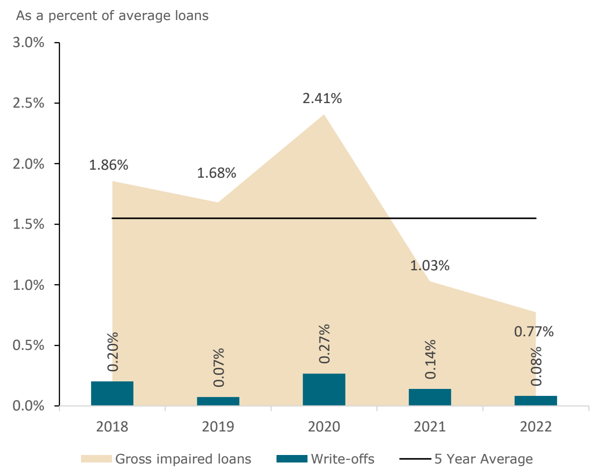
The table below shows our average portfolio year-over-year with a calculated yield we earned on our assets versus the average yield we pay on our liabilities.

Due to the sale of our long-term investment our return on investments ended with an average yield of 5.9%, up significantly from 2021, where it was 1.2%. When the one-time investment sale is removed, average yield would be 1.9% for 2022, primarily a result of repricing our existing investments as interest rates rose and above-average returns on our venture capital portfolio.

Our loan interest revenue also increased 25 basis points year-over-year due to loans booked at higher rates, however, the yield paid on deposits was up 26 points outpacing the yield received on loans. While this was fairly balanced in 2022, should the cost of deposits continue to outpace yield received on loans, it will negatively impact margin and profitability.

| | 2022 | | | | Change in Rates | 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|
| $thousands | Average Balances | Mix | Interest | Rate | | Average Balances | Mix | Interest | Rate |
| **ASSETS** | | | | | | | | | |
| Cash and investments | 416,534 | 25% | 24,640 | 5.92% | 4.77% | 430,408 | 26% | 4,953 | 1.15% |
| Loans | 1,210,960 | 72% | 47,537 | 3.93% | 0.25% | 1,173,769 | 72% | 43,220 | 3.68% |
| Other assets | 45,391 | 3% | - | 0.00% | 0.00% | 38,953 | 2% | - | 0.00% |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| Deposits | 1,479,024 | 88% | 14,705 | 0.99% | 0.26% | 1,457,810 | 89% | 10,635 | 0.73% |
| Loans payable | 11,309 | 1% | 283 | 2.50% | -0.25% | 19,591 | 1% | 538 | 2.75% |
| Other liabilities | 6,930 | 0% | - | - | - | 7,039 | 0% | - | - |
| Equity and membership shares | 175,622 | 11% | - | - | - | 158,691 | 10% | - | - |
| **NET INTEREST INCOME** | | | **57,189** | **3.42%** | **1.17%** | | | 37,000 | 2.25% |
| Provision for credit losses | | | 1,208 | 0.07% | 0.06% | | | 194 | 0.01% |
| **NET INTEREST MARGIN** | | | **55,981** | **3.35%** | **1.11%** | | | 36,806 | 2.24% |

The following chart outlines Synergy's 5-year gross impaired loans and write-off history for its loans portfolio. Gross impaired loans continued to reduce in 2022 to 0.8% of average loans (2021 - 1.0%) because of our early engagement and focused collection activities. Write-offs also continued their downward trajectory and have returned to pre-pandemic levels.




The health of our loan portfolio can have a material effect on interest margin and profitability, and therefore we deploy prudent lending practices, test our portfolio regularly for signs of deterioration, and act quickly to intervene as necessary.

High consumer debt loads and higher interest rates coupled with inflationary pressures have the potential to increase bankruptcies, which directly correlates to increased loan losses, and remains a concern for the foreseeable future. To mitigate this risk, we have a focus on early intervention in our lending portfolio, leading to improved outcomes for our members and less losses for Synergy.

## NON-INTEREST INCOME

Non-interest income consists of unrealized gains on investments, foreclosed properties, and other revenue.

In 2022, Synergy experienced a $1.0 million unrealized gain (2021 - $1.6 million) on investments and a $185 thousand gain (2021 - $54) on foreclosed properties. The remainder of our non-interest income is comprised of other revenue. Synergy's other revenue ended the year at $10.1 million (2021 - $10.6), a decrease of $470 thousand or four basis points of average assets.

Captured in the table below is Synergy's other revenue broken down by category both by dollar amount and as a percentage of average assets compared to 2021.

| | $ | | | % of Average Assets | | |
|---|---|---|---|---|---|---|
| $ thousands | 2022 | 2021 | Change | 2022 | 2021 | Change |
| Deposit fees and commissions | 3,177 | 3,050 | 127 | 0.19% | 0.19% | - |
| Wealth services | 3,838 | 3,672 | 166 | 0.23% | 0.22% | +0.01 |
| Creditor insurance | 804 | 903 | (99) | 0.05% | 0.05% | - |
| Loan fees | 908 | 1,093 | (185) | 0.05% | 0.07% | -0.02 |
| Credit card | 851 | 239 | 612 | 0.05% | 0.01% | +0.04 |
| Lease | 379 | 453 | (74) | 0.02% | 0.03% | -0.01 |
| Government assistance | - | 915 | (915) | 0.00% | 0.06% | -0.06 |
| Other | 130 | 232 | (102) | 0.01% | 0.01% | - |
| **Total other revenue** | **10,087** | 10,557 | **(470)** | 0.60% | 0.64% | -0.04 |

A couple of items to note in 2022, we received a one-time payment of just over $500 thousand from our partner Collabria as part of our guaranteed income from our credit card portfolio. A minimum revenue threshold was negotiated and guaranteed in the first five years of our contract but will not be repeated in future years. We continue to grow our credit card portfolio through a win-back strategy, after our change in providers in 2018. We anticipate steady growth in this portfolio in the future.

The Canadian Emergency Wage subsidy ended in 2021, and as a result, we decreased our other revenue by six basis points as a percentage of average assets year-over-year.

While loan fees decreased in 2022, we did experience a higher-than-normal application revenue through the expansion of our syndication book, however, the revenue is amortized over the life of the loan, and not all revenue flows into income in the year received.

Our focus on growing our wealth portfolio over the past several years, ensuring our members have robust investment options, has resulted in wealth revenue that now makes up the largest proportionate share of our other revenue.

In 2023, we expect our other income as a percentage of average assets to decrease by five basis points, as previously salaries for our Aviso partner employees were captured in non-interest expense but now are represented net in non-interest wealth revenue.

We are actively working on either selling or leasing our excess office space not needed for our own use in 2023.

We anticipate continued negative pressure on both creditor insurance due to the potential of slower loan demand, and deposit revenue as our account packages continue to evolve and decrease in cost to remain competitive in the marketplace.

Growing other revenues, particularly revenues generated by our Wealth Services division, will be essential to maintaining sufficient profitability and sustaining Synergy's strategic direction, growth plans and capital ratios.

## NON-INTEREST EXPENSE

Total non-interest expenses include personnel expense that encompasses allocations to Synergy's annual employee profit sharing program, occupancy, member security, general business, and organization costs.

The chart below shows the amount of each expense category, the change in dollars year-over-year, as well as the change in expense as a percentage of average assets.

| | $ | | | % of Average Assets | | |
|---|---|---|---|---|---|---|
| $ thousands | 2022 | 2021 | Change | 2022 | 2021 | Change |
| Personnel | 23,282 | 20,668 | 2,614 | 1.39% | 1.26% | +0.13 |
| Occupancy | 3,803 | 3,584 | 219 | 0.23% | 0.22% | +0.01 |
| Member security | 1,334 | 1,326 | 8 | 0.08% | 0.08% | - |
| General business | 9,765 | 8,980 | 785 | 0.58% | 0.55% | +0.03 |
| Organization | 339 | 273 | 66 | 0.02% | 0.02% | - |
| **Total non-interest expense** | **38,523** | 34,831 | **3,692** | **2.30%** | 2.13% | **+0.17** |

Non-interest expenses increased by $3.7 million (2021 - $2.1), or 10.6% (2021 - 6.2%), to $38.5 million (2021 - $34.8).

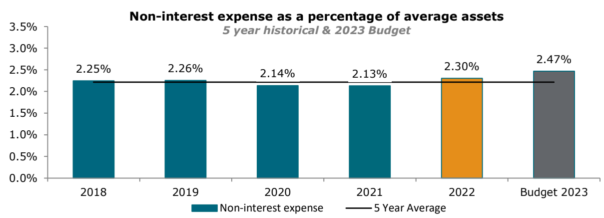
Included in advertising and donations was $921 thousand (2021 - $373 thousand) that was funded from Synergy Shares. While the money is allocated each year to the fund, the expense flows through our income statement in the year it was funded.

In addition, $1.7 million of the employee profit share is a direct result of the sale of a long-term investment that will not be repeated in future years. Neutralizing this expense would mean an increase in expense of $2.0 million in 2022, a 5.4% increase year-over-year compared to the 10.6% showing in the financial statements.

Occupancy increased by $219 thousand and one basis point as a percentage of average assets, a result of higher utility and tax costs. Some of our leased office space became vacant in April of 2022, and since the tenant is no longer contributing its proportionate share of building operating costs, this has resulted in increased occupancy costs in 2022.

One of management's key priorities is to ensure non-interest expenses are properly aligned with net interest margins, ensuring Synergy is well-positioned to deliver strong results over the long term.

The below chart shows our five-year historical non-interest expenses as a percentage of average assets, along with our forecasted percentage for 2023.




As a percentage of average assets, non-interest expenses increased from 2.1% in 2021 to 2.3% in 2022.

Synergy continues to make substantial investments in its technology infrastructure to position itself for future growth. These investments are expected to provide considerable efficiencies in the future, as they will improve member service by automating standardized and manually intensive processes. We believe technology can improve turnaround times, reduce errors, and add significant value to our member experience. Anticipated expenditures include continued upgrades to our technology platforms and technology-based service delivery channels. Investments in these areas are expected to provide material benefits in future periods but drag on efficiency in the near term.

With increasing levels of regulatory compliance for Saskatchewan credit unions and all Canadian financial institutions in general, we continue to see a significant investment in both time and resources required to meet regulatory expectations. This results in escalating compliance costs and is expected to grow in future years.

In addition, it is important that we protect both our members' data as well as their privacy, and we see these costs rising in future years.

We budget to include all costs that we believe will be required to achieve our goals for the year. Due to constraints such as time, resources, or third-party readiness, we are not always able to complete everything we budget for in the current year.

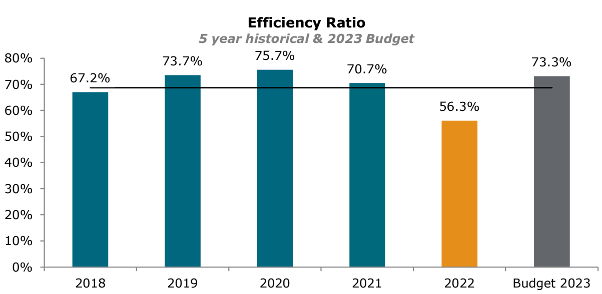
In 2023, we have added additional expense lines to support the expansion of both our wealth and business and ag financing center in Saskatoon, funds to assist in remaining market competitive in salaries and benefits as we navigate an employee-driven market in inflationary times, as well as investment in technology that enhances our digital plus human experience. We also have forecasted expenses that are required to position us for entrance into the Open Banking framework expected to be implemented by the end of 2023. In addition, 2023 has $1.5 million included for the costs of our merger with New Community Credit Union, that will not be repeated in future years.

We are forecasting a 17-basis points as a percentage of average assets increase to non-interest expense in 2023, which as we create efficiencies, will allow us to return closer to 2.2% of average assets over the next three to five years.

Continuous improvement will enhance our member experience and ensure that our non-interest expenses grow slower as a percentage of average assets than our revenue. We will take advantage of our strong capital base to support our future growth opportunities.

Synergy's efficiency ratio, which is non-interest expenses divided by net interest income and total non-interest revenue, has seen an improvement in 2022 to 56.3% (2021 - 70.7%) including unrealized gains on investments.

If we remove the one-time influx of revenue from the sale of our long-term investment and remove the expense items mentioned in the non-interest expense comments, this ratio would increase to 70%.



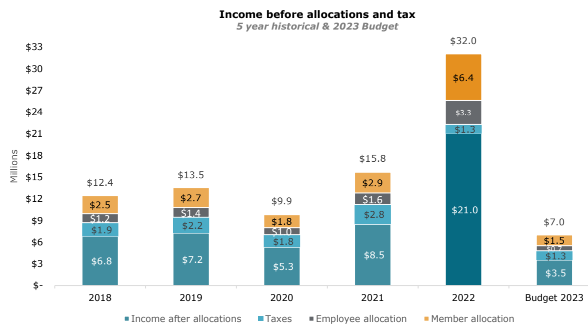

Our forecast for 2023 is to see our efficiency ratio rise to 73.3% because of relatively flat net interest income, increased provisions expense to normal levels, less non-interest revenue as discussed earlier and higher operating expenses.

Our goal is to reduce this ratio to 70% or less over the next several years as we become more efficient from our digital investments.

## INCOME BEFORE ALLOCATIONS AND TAX

Income before employee allocations, member allocations and tax were $32.0 million (2021 - $15.8), an increase of $16.2 million or 102.5%. Allocations to employees (employee profit sharing) was $3.3 million (2021 - $1.6), representing an increase of $1.7 million or 111.2% year-over-year.

The chart below shows how our income has been distributed over the past five years as well as our budget for 2023.



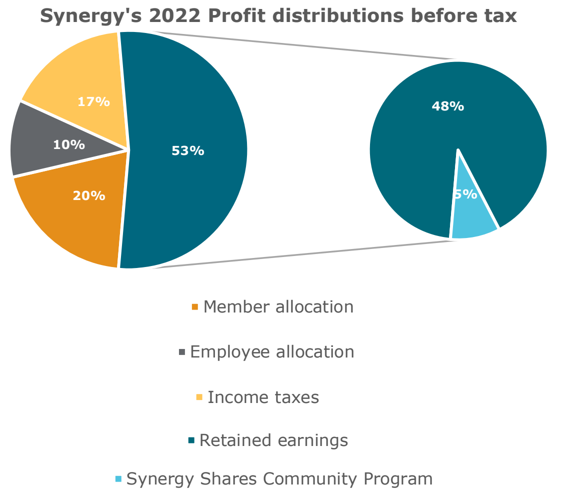

In 2022 we exceeded our forecast by more than four times, in large part to the dividend received from our sale of investment in the amount of $16.9 million. This was also achieved by higher-than-expected net interest income due to the rapid increase in interest rates, half the forecasted provision expense, unrealized gains on investments, other revenue items and lower operating expenses as discussed above.

We are forecasting to end 2023 at $7.0 million in income before taxes and allocations, for the reasons previously mentioned as well as the interest rate environment slowing loan growth and the resulting increased competition to attract the business.

## COMPREHENSIVE INCOME

After our expenses are subtracted from our revenue we share and distribute a portion with our members, employees, and our community.

Synergy is proud to share our pre-tax profits with our stakeholders as follows: up to 20% for members, up to 10% for our employees and up to 5% for our communities via Synergy Shares.




Our comprehensive income is added to our retained earnings, which supports the responsible and sustainable growth of our business for the long-term benefit of our members and local communities.

Allocations expense to members (ProfitShares) was $6.4 million (2021 - $3.0), representing an increase of $3.4 million or 112% year-over-year.

Income tax expense was $1.3 million (2021 - $2.8), a decrease of $1.5 million or 53.8%. Although our income was significantly higher, we experienced a decrease in income tax expense due to the non-taxable treatment of the sale of our long-term investment.

Comprehensive income after taxes and allocations was $21.0 million (2021 - $8.4), up $12.6 million or 149.7% over 2021.

In 2023, we expect comprehensive income to be significantly less than 2022 due to one-time items discussed above along with higher expenses in the near term.

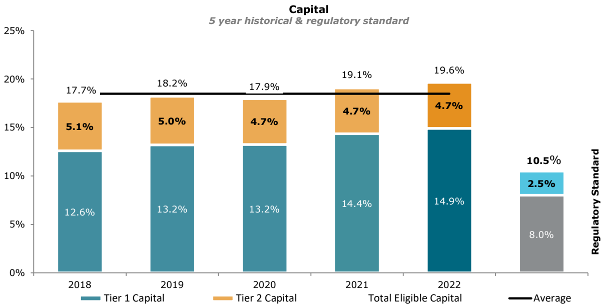
## CAPITAL MANAGEMENT

Equity grew by 16.5% to $148.2 million (2021 - $127.2) and made up 76.7% (2021 - 75.3%) of Synergy's capital.

In 2023, we are planning to introduce some changes to our ProfitShares program, which will further increase the percentage of our retained earnings to total capital.

Eligible capital grew by 15.1% to $193.1 million (2021 - $167.8), and Tier I capital rose by 16.6% to $147.3 million (2021 - $126.3).

The chart below depicts Synergy's capital history over the past 5 years.

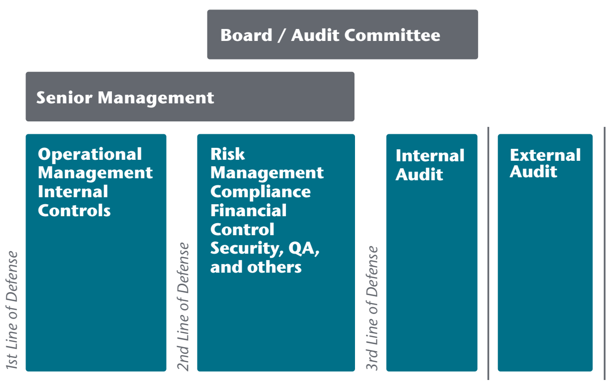



With our strong capital position, we are prepared to weather current economic conditions, and take advantage of growth opportunities. We can invest in technology that both enhances the member experience and makes us more efficient.

Target capital ratios under Basel III, including any appropriate capital buffers over the prescribed Credit Union Deposit Guarantee (CUDGC) minimums, are reconfirmed through the credit union's comprehensive Internal Capital Adequacy Assessment Program (ICAAP) and annual stress-testing results. Stress testing simulations include three separate five-year forward scenarios where the credit union experiences escalating levels of delinquency and credit losses, higher deposit and funding costs, and a severe economic downturn which, when combined, results in a significant compression of net interest margin. Synergy's capital can withstand all our forecasted scenarios.

# RISK MANAGEMENT

Synergy incorporates the Three Lines of Defense model in its risk management practices. Management control is the first line of defense in risk management, the various risk control and compliance oversight functions established by management are the second line of defense, and independent assurance is the third. Each of these three "lines" plays a distinct role within the organization's wider governance framework. Illustrated in the diagram below.




Synergy's business activity exposes us to a wide variety of risks in virtually all aspects of our operations. Our ability to manage these risks is a key competency within the organization and is supported by a strong risk culture and an effective approach to risk management.

Taking measured risks is part of Synergy's business. As a provider of financial products and services, we consider risk management to be critical and integral to our business success. Our risk profile is determined by our own strategies, actions, and changes to the external business environment. We manage these risks within an enterprise-wide risk management (ERM) framework. We continually review our operations, assess and analyze the level of our risk exposures, and compare our risk profile and risk performance measures against a group of selected peer credit unions in Saskatchewan, the Big 5 Canadian chartered banks, and other key competitor financial institutions.

## RISK MANAGEMENT PRINCIPLES

These core risk management principles guide Synergy's risk management practices:

- Balancing risk and reward effectively through aligning business strategy with risk appetite, diversifying risk, pricing appropriately for risk, and mitigating risk through preventive and detective controls
- Viewing risk as acceptable and necessary to build the business. We only accept those risks that can be understood, and managed and are consistent with our cooperative values, code of conduct, and board-approved policies
- Believing every employee is essentially a risk manager and must be knowledgeable of the risks inherent in their day-to-day activities and responsibilities
- Building stronger relationships with members reduces our risks by "knowing our members" and ensuring the services we provide are risk suitable for, and understood by each member
- Aiming risk controls at minimizing uncertainty and maximizing opportunity in a way that optimizes the credit union's capacity to protect and sustainably grow value for our members
- Using common sense and sound judgment to manage risk throughout the credit union

## ENTERPRISE RISK MANAGEMENT FRAMEWORK

The primary goal of ERM is to ensure the outcomes of risk taking are consistent with the credit union's business activities, strategy, and risk appetite. Our ERM framework provides the foundation for achieving this goal and it is constantly evaluated to ensure it meets the challenges and requirements faced by Synergy. The evaluation includes a comparison to industry best practices, as well as compliance with evolving regulatory standards.

## RISK CULTURE

A strong risk culture emphasizes transparency and accountability. Organizations with a strong risk culture have a consistent and repeatable approach to risk management when making key business decisions, including regular discussions of risk and ongoing reviews of risk scenarios that can help management and board members understand the interconnectedness and potential risk impacts. Synergy's strong risk culture is the cornerstone of its effective ERM framework. It starts with appropriate leadership that demonstrates and sends clear messages throughout the organization. This strong risk culture is communicated and emphasized by the actions of executive leadership and the Board of Directors.

# RISK APPETITE

Risk appetite is the formalization of basic principles and statements that guide discussions on risk-reward trade-offs. It provides a context to discuss risk and risk-related opportunities to determine whether they may be "on strategy" or "off strategy." Additionally, it facilitates a shared understanding of the over-arching risk philosophy to make appropriate risk decisions.

Setting the risk appetite is dynamic and requires flexible processes, as well as continuous review and guidance from both executive leadership and the Board. The Board of Directors reviews Synergy's risk appetite statement annually as part of its planning cycle. Key attributes of our risk appetite include the following basic business principles and statements:

- We offer core banking and advisory services and engage in business activities that will not put our long-term value at risk. We review growth opportunities in the context of positive impact on members, employees, and communities
- We are committed to achieving high-quality and sustainable financial results
- We have a constructive and highly ethical culture led by an experienced management team committed to standards of sound business practice. Our reputation and brand are important, and we will seek to avoid any situation or action that could jeopardize either
- We seek alliances, collaboration, and mergers to create future efficiencies and opportunities
- We take prudent risks to build and execute our business strategies to better serve our current and future members
- We display careful and diligent management where all employees and directors understand our appetite for risk and consider the risk appetite in all operational and strategic decisions

# CREDIT RISK

Credit risk is the risk of loss arising from a member or counterparty's failure to meet the terms of any contract with the credit union or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on a counterparty, debt issuer or borrower performance. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

## CREDIT RISK OVERVIEW

Synergy's main source of credit risk exposure is held within our loan portfolio. The culture of our credit risk management reflects the unique combination of policies, practices, experience, and management attitudes that support loan growth within our geographic markets. Underwriting standards are designed to ensure an appropriate balance of risk and return and are supported by established loan exposure limits in areas of demonstrated lending expertise.

Our concentration of credit is measured against specified tolerance levels by industry sector and product type. To minimize potential loss, most loans are secured by tangible collateral. This approach to managing credit risk has proven to be very effective, as demonstrated by Synergy's consistently lower-than-industry – and relatively stable provision for credit losses and write-offs.

## CREDIT RISK MANAGEMENT

We are committed to several important principles to manage our credit risk exposures, which includes:

- The clear communication of delegated lending authorities to employees engaged in the credit granting process, which is complemented by a defined approval process for loans in excess of those limits and includes making recommendations to the Credit Department or Credit Committee for credit adjudication
- The clear communication of credit policies, guidelines and directives to all financial service advisors, retail service centre managers, and regional managers whose activities and responsibilities include credit granting and risk assessment
- The appointment of qualified and experienced employees engaged in credit granting
- The establishment of a standardized credit risk rating classification for all commercial and agricultural credits
- The quarterly review of risk diversification by industry sector and the measurement and reporting of product category against assigned portfolio limits
- The alignment of pricing of credit with risk to ensure an appropriate financial return
- The balancing of loan growth targets without degrading the overall quality of the loan portfolio
- A detailed review of accounts is completed on a quarterly basis. These reviews include the completion of a watch list report recording accounts showing evidence of weaknesses, as well as an impaired loan report covering loans that show impairment to the point where a loss is probable
- The independent reviews of credit evaluation, risk classification and credit management procedures by internal audit, which includes direct reporting of results to executive leadership, the CEO, and the Audit Committee

## RESIDENTIAL MORTGAGE PORTFOLIO

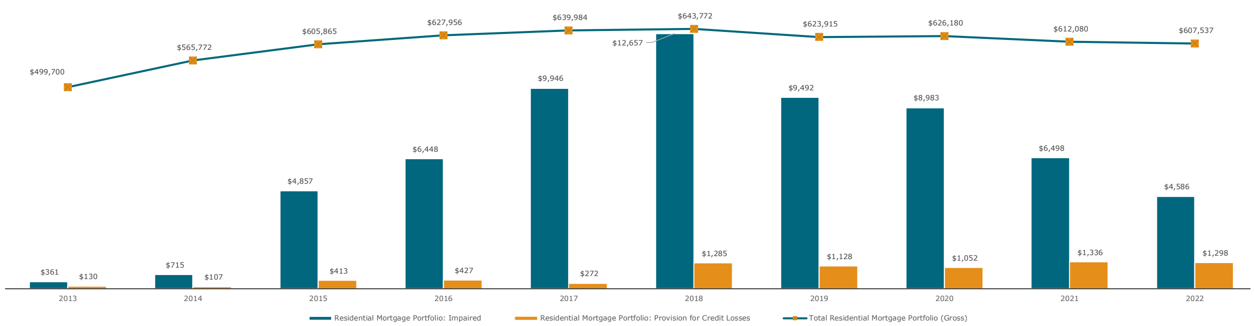
In accordance with CUDGC guidelines, the Credit Union is required to provide additional credit disclosures regarding its residential mortgage portfolio. Synergy is limited to providing residential mortgages of no more than 80% of the collateral value. Lending at a higher loan-to-value (LTV) is permitted but requires default insurance.

The insurance is contractual coverage that protects Synergy's real estate secured lending portfolio against potential losses caused by borrower default. Default insurance can be provided by either government-backed entities or other approved private mortgage insurers. Currently, Synergy uses Canada Mortgage and Housing Corporation (CMHC) and Sagen (formerly Genworth) to provide mortgage default insurance.

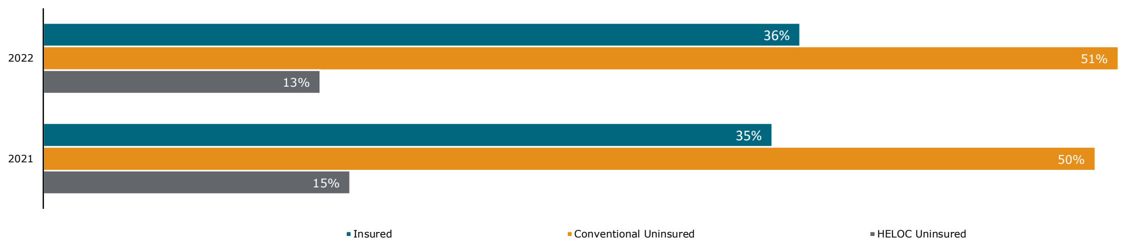
Synergy regularly performs stress tests to determine the impact of a significant decline in housing prices on the residential mortgage portfolio. The IFRS 9 accounting standard requires the use of expected loss model, which calculates the shortfalls that would be incurred in various default scenarios and multiply that by the probability of it occurring. Each quarter the outcomes are measured and applied to the portfolio.

The following charts are intended to provide: (1) a historical perspective of how Synergy's residential mortgage portfolio has performed throughout the last ten years, including the 2015/16 economic downturn experienced in Saskatchewan and Alberta due to the collapse of oil prices and (2) a breakdown of the current residential mortgage portfolio into insured mortgages, conventional uninsured mortgages, and uninsured HELOCs.

Total residential mortgage portfolio represents the GROSS amount of outstanding residential mortgages prior to any provision for credit losses being applied to impaired mortgages ($thousands)




As a percentage of the total gross portfolio




As at December 31, 2022
$ thousands

| Amortization Range | Insured | Uninsured | HELOC | TOTAL |
|---|---|---|---|---|
| Less than 10 years | 6,457 | 17,828 | 6,624 | 30,909 |
| 10 - 15 years | 14,728 | 32,308 | 22,927 | 69,963 |
| 15 - 20 years | 87,026 | 107,593 | 31,242 | 225,861 |
| 20 - 25 years | 82,988 | 123,056 | 15,462 | 221,506 |
| Greater than 25 years | 26,820 | 28,903 | 3,575 | 59,298 |
| **TOTAL** | **218,019** | **309,688** | **79,830** | **607,537** |

# MARKET RISK

Market risk is the risk of loss arising from market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. Market risk includes:

- Interest rate risk resulting from movements in interest rates. It arises primarily from timing differences in the re-pricing of assets and liabilities, both on-and off-balance sheet, as they are contractually re-priced or mature
- Price risk resulting from changes in the market price of an asset or liability
- Foreign exchange risk resulting from movements in foreign exchange rates

## MARKET RISK OVERVIEW

Market risk arises when making loans, taking deposits, and making investments. Synergy does not undertake market activities such as market making, arbitrage or proprietary trading; therefore, the credit union does not have direct risks related to those activities. The most material market risks for Synergy are those related to changes in interest rates. Synergy has limited exposure to foreign exchange risk and considers its risk position to be immaterial.

## INTEREST RATE RISK & MANAGEMENT

Interest rate risk arises from changes in interest rates that affect our net interest income. Exposure to this risk is what allows the credit union to make money on its loan and deposit portfolios. Synergy's earnings are affected by the monetary policies of the Bank of Canada. Monetary policy decisions have an impact on the level of interest rates, which can have an impact on earnings. Our objective is to earn an acceptable net interest income without taking an unreasonable risk, while striving to meet member needs and expectations.

To manage interest rate risk, ALCO works within policy guidelines for interest rate exposures and meets regularly to monitor the credit union's position and to decide on future strategies. The objective is to manage interest rate risk within prudent guidelines. Interest rate risk policies are reviewed by the Risk Committee and approved by the Board of Directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest-sensitive assets and interest-sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset-liability portfolio structure, duration analysis and dollar estimate of net interest income sensitivity for periods of up to one year.

The analysis in NOTE 20 *Financial Instrument Risk Management, Market Risk* in the financial statements is a static measurement of interest rate sensitivity gaps at a specific point in time. There is potential for these gaps to change significantly in a short period of time. The impact on earnings from changes in market interest rates will depend on both the magnitude of, and speed with which, interest rates change.

It will also depend on the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time. To the extent possible within the credit union's acceptable parameters for risk, the asset/ liability position will continue to be managed in such a way that changing interest rates would generally have a marginal impact on net interest income.

Management intends to continue to manage the asset-liability structure and interest rate sensitivity through pricing and product policies to attract the desired assets and liabilities, as well as through the use of interest rate swaps or other appropriate economic hedging techniques.

# LIQUIDITY RISK

Liquidity risk is the risk that Synergy cannot meet a demand for cash or fund its financial obligations in a cost-efficient or timely manner as they become due. Demand for cash can arise from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to sell assets in a timely manner at a reasonable price.

## LIQUIDITY RISK OVERVIEW

Synergy maintains a balanced, sound, and prudent approach to managing its exposure to liquidity risk. There is a risk and reward trade-off between holding higher levels of liquid, low-yielding assets, such as SaskCentral term deposits and government bonds or deploying these funds into less-liquid, higher-yielding assets, such as member loans.

Through its Internal Capital Adequacy Assessment Program (ICAAP) and its liquidity management program, Synergy assesses and monitors its liquidity strategies and contingency plans under normal, slightly stressed, and severe operating conditions that may be caused by either Synergy specific or market-wide scenarios. The contingency planning and related liquidity and funding management strategies comprise an integrated liquidity risk management program designed to ensure Synergy maintains liquidity risks within an appropriate threshold.

Key liquidity risk principles include:

- Preserving and growing our reliable and stable base of retail depositors
- Maintaining a flexible liquidity position to manage current and future growth requirements, while also contributing to the safety and soundness of the credit union
- Maintaining an appropriate balance between the levels of liquidity Synergy holds and the corresponding costs of liquidity risk mitigation that considers the potential impact of extreme, but plausible, liquidity stress events
- Maintaining a comprehensive liquidity contingency plan that is supported by a pool of saleable assets that can provide access to liquidity in a crisis

### LIQUIDITY RISK MANAGEMENT

Synergy has comprehensive Asset Liability Management policies that cover key aspects of liquidity risk management. The key elements of managing liquidity risk include the following:

- *Policies.* Liquidity risk management policies establish targets for minimum liquidity, set the monitoring regime, and define authority levels and responsibilities. Policies are reviewed by the ALCO and the Risk Committee and are approved by the Board of Directors. Acceptable thresholds for liquidity risk are established by the setting of limits
- *Monitoring.* Trends and behaviours regarding how members manage their deposits and loans are monitored to determine appropriate liquidity levels. Active monitoring of the external environment is performed using a wide range of sources and economic barometers
- *Measurement and modeling.* Synergy's liquidity model measures and forecasts cash inflows and outflows, including any cash flows related to applicable off-balance sheet activities over various risk scenarios
- *Stress testing.* Synergy performs liquidity stress testing on a regular basis, including the CUDGC prescribed Liquidity Coverage Ratio (LCR) stress test as detailed in NOTE 20 Financial Instrument Risk Management, Liquidity Risk to evaluate the potential effect of both industry (macro) and Synergy-specific (micro) disruptions on the credit union's liquidity position. Stress test results are reviewed by the ALCO and are considered in making liquidity management decisions. Liquidity stress testing has many purposes, including, but not limited to:
  - Assisting the Board and executive leadership in understanding the potential behaviour of various positions on the credit union's balance sheet in circumstances of stress
  - Facilitating the development of effective risk mitigation and contingency plans
- *Contingency planning.* A liquidity contingency plan is developed and maintained specifying the desired approaches for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate team structure for the management and monitoring of liquidity events. Additionally, the plan indicates processes for effective internal and external communication and identifies potential countermeasures to be considered at various stages of an event
- *Funding diversification.* Synergy actively monitors and manages the diversification of its deposit liabilities by source, type of depositor, instrument, and term. Supplementary funding sources include securitization, whole loan sales, and utilization of the credit facilities provided by SaskCentral and Concentra Bank (a subsidiary of Equitable Bank)
- *Statutory liquidity.* SaskCentral, which serves as the provincial liquidity manager for Saskatchewan credit unions, requires Synergy to maintain a minimum of 10% of its liabilities on deposit with SaskCentral. Statutory liquidity requirements are calculated on a quarterly basis. SaskCentral is an integral partner in Synergy's liquidity risk management program, and we are actively collaborating with SaskCentral to ensure our liquidity stress testing and contingency plans are both aligned and coordinated

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people, and systems from either internal or external sources. Operating a complex financial institution exposes Synergy to a broad range of operational risks, including failed transaction processing, documentation errors, information breaches, technology failures, business disruption, theft and fraud, workplace injury, and damage to physical assets. A subset of operational risk is people risk, which is the risk that Synergy is not able to retain and attract sufficient qualified resources to implement its strategies and/or achieve its objectives.

## OPERATIONAL RISK OVERVIEW

Operational risk is inherent in all business activities. It is embedded in processes that support the management of other risks, such as credit, liquidity, market, capital, and reputational risk. Its impact can be financial loss, loss of reputation, loss of competitive position, regulatory penalties, or failure in the management of other risks, such as credit or liquidity risk. Synergy is exposed to operational risk from internal business activities, external threats, and outsourced business activities. While operational risk cannot be completely eliminated, proactive operational risk management is a key strategy to mitigate this risk.

The primary financial measure of operational risk is actual losses incurred. Synergy has not incurred any material losses related to operational risks in 2022. Based on the Basel III regulatory framework, CUDGC requires Synergy to allocate a predetermined amount of capital to provide coverage for potential operational risks. The operational risk capital charge is 15% of the average gross net interest income and gross non-interest income for the previous three years.

Based on this formula, Synergy has allocated $6.9 million in capital as of December 31, 2022, to cover operational risks (2021 - $6.8 million).

## OPERATIONAL RISK MANAGEMENT

Synergy's individual business and support areas are fully accountable for the management and control of operational risks. Strategies and factors that assist with the effective management of operational risk include, but are not necessarily limited to:

- Recruiting and retaining a knowledgeable and experienced management team committed to sound management practices and the promotion of a highly ethical culture
- Providing strong leadership that supports and clearly communicates effective risk management practices and encourages employees to report incidents of operational risk failures, breaches, and potential losses to senior managers in a prompt and timely manner
- Developing organizational surveys on employee engagement and Synergy's desired constructive corporate culture
- Emphasizing the importance of effective risk management to all levels through a combination of training, coaching, and policy implementation

Key practices to monitor, assess and manage operational risks include:

- Monitoring losses to maintain awareness of identified operational risks and to assist management in taking constructive action to reduce exposures to future losses
- Implementing policies and procedural controls appropriate to address the identified risks, including segregation of duties, dual custody, and other checks and balances
- Enhancing fraud prevention processes and policies on an ongoing basis
- Establishing "whistleblower" processes and an employee code of conduct
- Developing human resource policies and processes to ensure employees are adequately trained in the tasks for which they are responsible
- Incorporating automated systems with built-in controls using technology
- Developing ongoing succession planning

# LEGAL AND REGULATORY RISK

Legal and regulatory risk represents the negative impact to business activities, earnings or capital, regulatory relationships, or reputation as a result of a failure to comply - or adapt to - current and changing regulations, laws, industry codes, regulatory expectations, or ethical standards.

## LEGAL AND REGULATORY RISK OVERVIEW

The financial services industry is one of the most closely regulated industries, and the management of a financial services business, such as ours, is expected to meet high standards in all business dealings and transactions. As a result, we are exposed to legal and regulatory risk in virtually all our activities.

Failure to meet our requirements not only poses a risk of censure or penalty, and may lead to litigation, but it also puts our reputation at risk. Financial penalties, unfavorable judicial judgments, costs associated with legal proceedings or regulatory sanctions can adversely affect our earnings and constrain our strategic business decisions. Legal and regulatory risk differs from other risks, such as credit risk or market risk, in that it is typically not a risk actively or deliberately assumed with the expectation of a return. It occurs as part of the normal course of operating our business.

Over the past several years, the intensity of supervisory oversight of all Canadian financial institutions has increased significantly in terms of new regulatory standards. This includes amplified supervisory activities, an increase in the volume of regulation, more frequent data and information requests from regulators, and shorter implementation time frames for regulatory requirements, including the Basel III capital and liquidity standards. Certain regulations, specific to Saskatchewan credit unions, may also impact Synergy's ability to compete against federally regulated financial institutions, other non-Saskatchewan provincially regulated financial institutions, and government-based financial institutions such as ATB Financial, Farm Credit Canada, and the Business Development Bank of Canada.

Effective management of regulatory risk and compliance in the current environment requires considerable internal resources and the active involvement of executive leadership. Notwithstanding the additional resources, the volume, pace, and implementation of new and amended regulations and standards increase the risk of unintended non-compliance.

## OTHER RISK FACTORS

In addition to the risks previously described, other risk factors, including those which follow, may adversely affect Synergy's business, its financial condition, and its earnings estimates.

### GENERAL BUSINESS AND ECONOMIC CONDITIONS

Synergy's earnings are largely impacted by the general business and economic conditions of Saskatchewan and Alberta. Several factors that could impact general business and economic conditions in the credit union's core markets include but are not limited to changes to energy and other commodity prices; inflation; exchange rates; levels of consumer, business, and government spending; levels of consumer, business and government debt; consumer confidence; real estate prices; and adverse global economic events and/or elevated economic uncertainties.

### LEVEL OF COMPETITION

Synergy's performance is impacted by the intensity of competition in the markets in which we operate, where online competitors could increase the competitive environment as well. Synergy operates in highly competitive markets and member retention may be influenced by many factors, including relative service levels, the prices and attributes of products and services, changes in products and services, and the actions taken by competitors.

### ACCURACY OF INFORMATION

Synergy depends on the accuracy and completeness of information about members and counterparties. In deciding whether to extend credit or enter into other transactions with members and counterparties, Synergy may rely on information furnished by them, including financial statements, appraisals, external credit ratings and other financial information. Synergy may also rely on the representations of members and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on the reports of auditors. Synergy's financial condition and earnings could be negatively impacted to the extent it relies on financial statements that do not comply with standard accounting practices, that are materially misleading, or that do not fairly present (in all material respects) the financial condition and results of operations of members or counterparties.

### ABILITY TO ATTRACT AND RETAIN EMPLOYEES

Competition for qualified employees is intense, reflecting the recruitment needs of other companies in our local markets, as well as those in Saskatchewan and Alberta in general. The goal for Synergy is to continually retain and attract qualified employees who fit within our desired constructive corporate culture, but there is no assurance Synergy will be able to continue to do so.

### INFORMATION SYSTEMS AND TECHNOLOGY

Synergy is highly dependent upon information technology and supporting infrastructure, such as voice, data, and network access. Various third parties provide key components of the infrastructure and applications.

Disruptions in the credit union's information technology and infrastructure, whether attributed to internal or external factors, including potential disruptions in the services provided by various third parties, could adversely affect the ability of Synergy to conduct regular business and/or deliver products and services to members. In addition, Synergy currently has several significant technology projects underway, which further increases risk exposures related to information systems and technology.

## ADEQUACY OF OUR ERM FRAMEWORK

Our ERM framework is made up of various processes and strategies for managing risk exposure. Given our current business structure and the scope of our operations, Synergy is primarily subject to credit, market (mainly interest rate), liquidity, operational, legal, regulatory, and strategic risks. There can be no assurance that the framework to manage risks, including the framework's underlying assumptions and models, will be effective under all conditions and circumstances. If the risk management framework proves ineffective, the credit union could be materially affected by unexpected financial losses and/or other harm.

## CHANGES IN ACCOUNTING STANDARDS

The International Accounting Standards Board continues to change the financial accounting and reporting standards that govern the preparation of Synergy's financial statements. These types of changes can be significant and may materially impact how Synergy records and reports its financial condition and results of operations.

## OTHER FACTORS

Synergy's management cautions the above discussion of risk factors is not exhaustive. Other factors beyond Synergy's control that may affect future results include changes in tax laws, technological changes, unexpected changes in membership spending and savings habits, timely development and introduction of new products and services and the anticipation of, and success in, managing the associated risks.

[i] *The Conference Board of Canada, Nowhere to Go but Up, Saskatchewan's Three-Year Outlook, September 2022.*

[ii] *The Conference Board of Canada, Forging Forward Despite Risks, Alberta's Three-Year Outlook, September 2022.*

[iii] *Zolo, https://www.zolo.ca/lloydminster-real-estate/trends*


# FINANCIAL STATEMENTS 2022

Synergy CREDIT UNION

**COVER ARTIST:** Lucas Feeley

## 2022 FINANCIAL STATEMENTS

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

To the Members of Synergy Credit Union Ltd.:

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

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

The Board of Directors and Audit Committee are comprised entirely of directors who are neither management nor employees of the credit union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the credit union's external auditors.

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

Glenn Stang
Chief Executive Officer

Christine Tucker
Chief Financial Officer

March 20, 2023
Lloydminster, Saskatchewan

**To the Members of Synergy Credit Union Ltd.:**

## Opinion

We have audited the financial statements of Synergy Credit Union Ltd. (the "credit union"), which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, changes in equity and cash flows, and the related schedule for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the 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.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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. 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, 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.

## 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 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 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 the credit union 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.

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.

MNP LLP

Chartered Professional Accountants

March 20, 2023
Saskatoon, Saskatchewan

## STATEMENT OF FINANCIAL POSITION

As at December 31

| ($ thousands) | NOTE | 2022 | 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | 68,266 | 75,957 |
| Investments | 6 | 326,391 | 362,453 |
| Loans | 7 | 1,258,105 | 1,163,814 |
| Foreclosed property | | 777 | 468 |
| Other receivables | 8 | 18,611 | 2,153 |
| Other assets | | 2,373 | 1,597 |
| Property, plant and equipment | 9 | 29,141 | 31,022 |
| Intangible assets | 10 | 981 | 907 |
| Deferred tax assets | 16 | 1,384 | 1,367 |
| | | **1,706,029** | **1,639,738** |
| **LIABILITIES** | | | |
| Deposits | 11 | 1,503,468 | 1,454,579 |
| Loans payable | 12 | 8,594 | 14,024 |
| Other liabilities | 13 | 5,916 | 7,943 |
| Membership shares | 14 | 33,214 | 32,849 |
| Allocation payable to members | 14 | 6,593 | 3,122 |
| | | **1,557,785** | **1,512,517** |
| Commitments (Note 21) | | | |
| Events after the reporting period (Note 23) | | | |
| **EQUITY** | | | |
| Retained earnings | | 141,793 | 120,770 |
| Contributed surplus | | 6,451 | 6,451 |
| | | 148,244 | 127,221 |
| | | **1,706,029** | **1,639,738** |

*The accompanying notes are an integral part of these financial statements*

On behalf of the Board of Directors:

Neil Carruthers, President
Board of Directors

Carolyn Young, Chair
Audit Committee

## STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

| ($ thousands) | NOTE | 2022 | 2021 |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Loans | | 47,537 | 43,220 |
| Investments | | 24,640 | 4,953 |
| | | 72,177 | 48,173 |
| **INTEREST EXPENSE** | | | |
| Deposits | | 14,705 | 10,635 |
| Loans | | 283 | 538 |
| | | 14,988 | 11,173 |
| **NET INTEREST INCOME** | | **57,189** | **37,000** |
| Provision for credit losses | 7 | 1,208 | 194 |
| **NET INTEREST MARGIN** | | **55,981** | **36,806** |
| **NON-INTEREST INCOME** | | | |
| Unrealized gains on investments | | 1,018 | 1,642 |
| Gains on foreclosed property | | 185 | 54 |
| Other revenue | 15 | 10,087 | 10,557 |
| | | 11,290 | 12,253 |
| **NON-INTEREST EXPENSES** (Schedule 1) | | | |
| Personnel | | 23,282 | 20,668 |
| Occupancy | | 3,803 | 3,584 |
| Member security | | 1,334 | 1,326 |
| General business | | 9,765 | 8,980 |
| Organization costs | | 339 | 273 |
| | | 38,523 | 34,831 |
| **INCOME BEFORE ALLOCATIONS AND INCOME TAX** | | **28,748** | **14,228** |
| Patronage allocation | | 6,446 | 3,040 |
| Income tax expense | 16 | 1,279 | 2,768 |
| **COMPREHENSIVE INCOME FOR THE YEAR** | | **21,023** | **8,420** |

*The accompanying notes are an integral part of these financial statements*

## STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

| ($ thousands) | Retained earnings | Contributed surplus | Total equity |
|---|---|---|---|
| **Balance at December 31, 2020** | 112,350 | 6,451 | 118,801 |
| Comprehensive income | 8,420 | - | 8,420 |
| **Balance at December 31, 2021** | **120,770** | **6,451** | **127,221** |
| Comprehensive income | 21,023 | - | 21,023 |
| **Balance at December 31, 2022** | **141,793** | **6,451** | **148,244** |

*The accompanying notes are an integral part of these financial statements*

## STATEMENT OF CASH FLOWS

For the years ended December 31

| ($ thousands) | 2022 | 2021 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loan interest received | 47,274 | 44,117 |
| Investment interest received | 6,365 | 4,273 |
| Dividends received | 473 | 730 |
| Non-interest revenue received | 11,629 | 12,537 |
| Interest paid | (13,493) | (14,132) |
| Patronage paid to members | (2,975) | (2,559) |
| Payments to vendors and employees | (39,312) | (31,499) |
| Income taxes paid | (2,191) | (1,452) |
| Net (increase) decrease in loans and foreclosed property | (94,478) | 20,226 |
| Net increase (decrease) in deposits | 47,394 | (3,501) |
| **Net cash from (used in) operating activities** | **(39,314)** | **28,740** |
| **INVESTING ACTIVITIES** | | |
| Property, plant and equipment and intangible assets purchased | (333) | (1,569) |
| Purchases of investments | (9,703) | (47,045) |
| Proceeds on sale and maturities of investments | 46,698 | 26,104 |
| **Net cash from (used in) investing activities** | **36,662** | **(22,510)** |
| **FINANCING ACTIVITIES** | | |
| Membership shares redeemed and distributions (net) | 391 | 17 |
| Repayment of securitization liabilities | (5,430) | (11,134) |
| **Net cash used in financing activities** | **(5,039)** | **(11,117)** |
| Decrease in cash and cash equivalents | (7,691) | (4,887) |
| Cash and cash equivalents, beginning of year | 75,957 | 80,844 |
| **Cash and cash equivalents, end of year** | **68,266** | **75,957** |

*The accompanying notes are an integral part of these financial statements*

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2022
($ thousands)

## 1. REPORTING ENTITY

Synergy Credit Union Ltd. (the credit union) was continued pursuant to *The Credit Union Act 1998* of the Province of Saskatchewan, and operates eleven credit union branches. The credit union serves members in Lloydminster, Kindersley and surrounding areas.

In accordance with *The Credit Union Act 1998*, Credit Union Deposit Guarantee Corporation (CUDGC), a provincial corporation, guarantees the full repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

*Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors and authorized for issue on March 20, 2023.

## 2. CHANGE IN ACCOUNTING POLICIES

*Standards and interpretations effective in the current period*

The credit union adopted amendments to the following standards, effective January 1, 2022. Adoption of these amendments had no effect on the credit union's financial statements.

- IFRS 3 *Business combinations*
- IFRS 16 *Leases*
- IAS 16 *Property, plant and equipment, and*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

## 3. BASIS OF PREPARATION

*Basis of measurement*

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

*Functional and presentation currency*

These financial statements are presented in Canadian dollars, which is the credit union's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

*Significant accounting judgments, estimates and assumptions*

The preparation of the credit union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

*Macroeconomic environment*

The credit union continues to operate in an uncertain macroeconomic environment. There is inherent uncertainty in estimating the impact that rising interest rates, inflation and supply chain disruptions, in part caused by some countries attempts to combat the spread of COVID-19, will have on the macroeconomic environment. As a result, a heightened level of judgment in estimating expected credit loss continues to be required.

*Classification of financial assets*

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

*Key assumptions in determining the allowance for expected credit losses*

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

- Expected significant increase in unemployment rates, interest rates, industrial restructuring and other economic circumstances
- Declining revenues, working capital deficiencies, increases in balance sheet leverage and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument and overdue status
- Credit scores for regions or demographics
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about:

- Prepayments
- The timing and extent of missed payments or default events

In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

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

- The period over which the credit union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash shortfalls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements

## 3. **BASIS OF PREPARATION** (continued)

*Key assumptions in determining the allowance for expected credit losses (continued)*

- Estimates of effective interest rates used in incorporating the time value of money
- Effects of the economic changes, such as inflation and rising rates, on specific sectors to which the credit union has credit exposures

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

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to Value ratios
- Housing price indices

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

*Fair value of unquoted equity instruments*

The credit union has assessed that the fair values of its unquoted equity instruments, SaskCentral shares and Concentra Bank (a subsidiary of Equitable Bank) shares approximates its cost based on the terms that the equity investments cannot be transferred, the shares cannot be sold and new shares are issued at par value of all currently held shares.

*Deferred taxes*

The calculation of deferred tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of financial statement preparation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future years could be material.

*Income taxes*

The credit union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the credit union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that 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.

*Impairment of non-financial assets*

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

*Useful lives of property, plant, equipment and intangible assets*

Estimates must be utilized in evaluating the useful lives of all property, plant, equipment and intangible assets for calculation of the depreciation or amortization for each class of assets.

*Securitization de-recognition*

The determination of whether the credit union's securitization arrangements qualify for de-recognition requires management judgment on the evaluation of the criteria for de-recognition.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements have been summarized below. These accounting policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

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

*Foreign currency translation*

Transactions denominated in foreign currencies are translated into the functional currency of the credit union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in comprehensive income for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined. Translation gains and losses are included in comprehensive income.

*Revenue recognition*

The following describes the credit union's principal activities from which it generates revenue.

*Service charge fees, commission and other revenue*

The credit union generates revenue providing financial services to its members. Revenue is recognized as services are rendered. The credit union does not have an enforceable right to payment until services are rendered and commission revenue earned when the products are sold. The amount of revenue recognized on these transactions is based on the price specified in the contract.

The credit union does not expect to have any contracts where the period between the transfer of the promised goods or services to the member and payment by the member exceeds one year. Consequently, the credit union does not adjust any of the transaction prices for the time value of money.

Revenue recognition for items outside the scope of IFRS 15 is included in the financial instruments section of Note 4.

***Financial instruments***

*Financial assets*

*Recognition and initial measurement*

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

The credit union recognizes and de-recognizes purchases and sales of financial assets on the trade date, which is the date that the credit union commits to selling or purchasing the financial asset. Interest is not accrued on the asset and corresponding liability until the settlement date when title of the financial asset passes.

*Classification and subsequent measurement*

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

## 4. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Classification and subsequent measurement (continued)*

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and de-recognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, other receivables, loans and certain investments held.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon de-recognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The credit union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatory at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and derivative financial assets (which are index-linked derivatives).
- Designated at fair value through profit or loss – On initial recognition, the credit union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different basis. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The credit union does not hold any financial assets designated to be measured at fair value through profit or loss.

The credit union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of investment funds, preferred shares, and shares in SaskCentral and Concentra Bank. Derivatives measured at fair value through profit or loss are comprised of index linked derivatives.

*Business model assessment*

The credit union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated and risks affecting the performance of the business model.

*Contractual cash flow assessment*

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

*Reclassifications*

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

*Impairment*

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

The date the credit union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the credit union's accounting policies for impairment of financial assets. For financial assets, the credit union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the credit union assessed that a significant increase in credit risk has occurred, the credit union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime. The credit union applies the simplified approach for accounts receivable. Using the simplified approach, the credit union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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

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

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset;
- For loan commitments and financial guarantee contracts, as a provision; and
- For facilities with both a drawn and undrawn component where the credit union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision.

Financial assets are written off when the credit union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 20 for additional information about the credit union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

*De-recognition of financial assets*

The credit union applies its accounting policies for de-recognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the credit union applies its accounting policies for de-recognition of a financial asset to the entirety of a financial asset.

The credit union de-recognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the credit union either:

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

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

The credit union engages in certain securitization transactions resulting in transfers not qualifying for de-recognition, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the credit union de-recognizes the financial asset. At the same time, the credit union separately recognizes as assets or

## 4. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

*De-recognition of financial assets (continued)*

liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss. Such transactions include syndication transactions resulting in transfers qualifying for de-recognition.

*Modification of financial assets*

The credit union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the credit union's de-recognition policy.

The credit union considers the following circumstances as an expiry of its contractual rights to the cash flows from an asset: changes to the present value of contractual cash flows of the original asset exceeding 10% (i.e. the credit union applies the guidance for modification of a financial liability by analogy), or substantial changes to the risk exposures arising from the financial asset.

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

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

*Financial liabilities*

*Recognition and initial measurement*

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

*Classification and subsequent measurement*

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

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

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

Changes in the carrying amount of these financial liabilities are recognized in profit or loss. Where the credit union has designated a financial liability at fair value through profit or loss, the change in fair value of the financial liability attributable to the credit union's own credit risk is presented in other comprehensive income, except where doing so creates or enlarges an accounting mismatch. Those amounts recorded in other comprehensive income are not subsequently reclassified to profit or loss.

Financial liabilities measured at fair value through profit or loss include derivative liabilities (index-linked derivatives). When the transfer of a financial asset does not qualify for de-recognition because the credit union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in profit or loss.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include deposits, loans payable, other liabilities and member capital.

Financial liabilities are not reclassified subsequent to initial recognition.

*De-recognition of financial liabilities*

The credit union de-recognizes a financial liability only when its contractual obligations are discharged, canceled or expire.

*Derivatives*

Derivatives are initially recognized at fair value on the date the credit union becomes party to the provisions of the contract and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivative instruments are recognized in profit or loss.

*Dividend income*

Dividend income is recorded in profit or loss when the credit union's right to receive payments is established, it is probable that the economic benefits associated with the dividend will flow to the credit union, and the amount of the dividend can be measured reliably.

*Interest*

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

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

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

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

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

*Collateral*

The credit union recognizes the proceeds from the sale of any non-cash collateral that has been pledged to it and a liability measured at fair value for its obligation to return the collateral.

If a debtor defaults under the terms of its contract and is no longer entitled to the return of any collateral, the credit union recognizes the collateral as an asset initially measured at fair value or, if it has already sold the collateral, de-recognizes its obligation to return the collateral.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the credit union's cash management system.

*Investments*

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

*Impairment of non-financial assets*

At the end of each reporting period, the credit union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Impairment of non-financial assets (continued)*

extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the credit union estimates the recoverable amount of the cash-generating units (CGU) to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in comprehensive income.

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

*Securitization*

The credit union securitizes loan assets, generally through the sale of these assets to third parties. As the credit union remains exposed to residual risk and reward through the retention of items such as servicing requirements and the right to excess spread, these assets have not been de-recognized, as the de-recognition criteria have not been met and they continue to be reported on the statement of financial position. The residual risks associated with these assets are mitigated by the credit union’s risk policies.

*Syndication*

The credit union syndicates individual assets with various other financial institutions primarily to manage credit risk, create liquidity and manage regulatory capital for the credit union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are de-recognized from the credit union’s statement of financial position. All loans syndicated by the credit union are on a fully-serviced basis. The credit union receives fee income for services provided in the servicing of the transferred financial assets.

*Foreclosed assets*

Foreclosed assets held for sale are initially recorded at the lower of cost and fair value less costs to sell. Cost comprises the balance of the loan at the date on which the credit union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell.

*Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items of property, plant and equipment. All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is available for use.

| | |
|---|---|
| Buildings and improvements | 5 to 40 years |
| Furniture and equipment | 3 to 20 years |
| Automotive | 5 years |

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date. Gains or losses on the disposal of property, plant and equipment will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in comprehensive income as other operating income or other operating costs, respectively.

### *Intangible assets*

#### *Computer software*

The credit union's only intangible asset is computer software which is amortized to comprehensive income on a straight-line basis over its estimateduseful life of 3 - 10 years. The useful life of computer software will be reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

Gains or losses on the disposal of intangible assets will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in comprehensive income as other operating income or other operating costs, respectively.

### *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets transferred, liabilities assumed and equity instruments issued by the credit union in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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

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

### *Income taxes*

The credit union accounts for income taxes using the asset and liability method. Current and deferred taxes are recognized in comprehensive income except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination. Under this method, the provision for income taxes is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled.

Deferred tax asset and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

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

### *Leases*

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

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

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Leases (continued)*

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

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

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

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

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

The credit union has elected to not recognize right-of-use assets and lease liabilities for short-term leases and low value leases. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of $5,000 USD or less. The credit union recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

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

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

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

*Employee benefits*

The credit union's post-employment benefit programs consist of a defined contribution plan. Credit union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $954 (2021 - $954) were paid to the defined contribution retirement plan during the year.

*Membership shares*

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

*Borrowing costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, such as property, plant and equipment and intangible assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

*Government assistance*

The credit union recognizes government assistance when there is reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The credit union recognizes government assistance as other revenue.

*Standards issued but not yet effective*

The credit union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2022 but are not yet effective. Unless otherwise stated, the credit union does not plan to early adopt any of these new or amended standards and interpretations.

*IAS 1 Presentation of financial statements and IFRS practice statement 2 making material judgements*

Amendments to IAS 1 and IFRS Practice Statement 2, issued in February 2021, help entities provide accounting policy disclosures that are more useful to primary users of financial statements by replacing the requirement to disclose "significant" accounting policies with a requirement to disclose "material" accounting policies and providing guidance to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2023 and are required to be applied prospectively. The credit union does not expect these amendments to have a material impact on its financial statements.

*IAS 8 Accounting policies, changes in accounting estimates and errors*

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

The amendments are effective for annual periods beginning on or after January 1, 2023. The credit union does not expect these amendments to have a material impact on its financial statements.

*IAS 12 Income taxes*

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

The amendments are effective for annual periods beginning on or after January 1, 2023. The credit union does not expect these amendments to have a material impact on its financial statements.

## 5. CASH AND CASH EQUIVALENTS

| | 2022 | 2021 |
|---|---|---|
| Cash on hand | 3,596 | 4,147 |
| Deposits on demand | 64,670 | 71,810 |
| | **68,266** | **75,957** |

## 6. INVESTMENTS

| | 2022 | 2021 |
|---|---|---|
| **Amortized Cost** | | |
| SaskCentral liquidity deposits | 67,750 | 62,403 |
| SaskCentral liquidity term deposits | 83,250 | 85,597 |
| Non-redeemable term deposits | 125,000 | 153,750 |
| Marketable bonds and bank terms | 17,695 | 32,532 |
| Debentures | 1,042 | 1,111 |
| Accrued interest | 1,518 | 668 |
| **Total amortized cost** | **296,255** | **336,061** |
| **Fair Value Through Profit Loss (FVTPL)** | | |
| SaskCentral shares | 10,494 | 9,878 |
| Concentra Bank shares | 7,750 | 7,750 |
| Investment funds | 11,744 | 8,700 |
| Preferred shares | 13 | 13 |
| Accrued interest | 135 | 51 |
| **Total fair value through profit loss (FVTPL)** | **30,136** | **26,392** |
| **Total investments** | **326,391** | **362,453** |

Pursuant to Regulation 18(1)(a) of *The Credit Union Regulations, 1999*, Credit Union Central of Saskatchewan (SaskCentral) requires the credit union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits with SaskCentral. CUDGC requires the credit union adhere to these prescribed statutory liquidity deposit requirements. As of December 31, 2022 and 2021, the credit union met the requirements.

SaskCentral is owned by Saskatchewan credit unions acting as their liquidity manager and key consulting service provider. SaskCentral maintains business relationships with, and invests in, a number of co-operative entities on behalf of Saskatchewan credit unions, including Concentra Bank, CU CUMIS Wealth Holdings LP (CUC Wealth) and Celero Solutions. SaskCentral held up to 84.0% of the voting common shares of Concentra Bank up until November 1, 2022, when it was sold to Equitable Bank.

## 7. LOANS

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Performing | Impaired | Allowance Specific | Allowance for Expected Credit Losses | Net Loans |
| Mortgages | | | | | |
| Agriculture | 124,858 | 1,308 | - | (17) | 126,149 |
| Commercial | 263,522 | 1,363 | (141) | (1,919) | 262,825 |
| Residential | 602,951 | 4,586 | (919) | (379) | 606,239 |
| Consumer loans | 123,771 | 621 | (469) | (2,017) | 121,906 |
| Business loans | 141,319 | 1,549 | (168) | (1,714) | 140,986 |
| **Total loans** | **1,256,421** | **9,427** | **(1,697)** | **(6,046)** | **1,258,105** |

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Performing | Impaired | Allowance Specific | Allowance for Expected Credit Losses | Net Loans |
| Mortgages | | | | | |
| Agriculture | 120,860 | 1,308 | - | (17) | 122,151 |
| Commercial | 145,620 | 1,414 | (143) | (1,695) | 145,196 |
| Residential | 605,582 | 6,498 | (989) | (347) | 610,744 |
| Consumer loans | 117,099 | 1,005 | (768) | (2,127) | 115,209 |
| Business loans | 167,086 | 1,334 | (148) | (1,302) | 166,970 |
| Accrued interest | 2,945 | 603 | - | (4) | 3,544 |
| **Total loans** | **1,159,192** | **12,162** | **(2,048)** | **(5,492)** | **1,163,814** |

Included in the above balances are securitized residential mortgages amounting to $8,671 (2021 - $14,230). These residential mortgages have been pledged as collateral for secured borrowings of $8,594 (2021 - $14,024).

*Canada emergency business account program*

Under the Canada Emergency Business Account (CEBA) Program, with funding provided by the Government of Canada and Export Development Canada (EDC) as the Government of Canada's agent, the credit union provides loans to its business banking members. In June 2020, eligibility for the CEBA loan program was expanded to include businesses that did not meet the payroll requirements of the initial program but had other eligible non deferrable expenses. Under the CEBA Program, eligible businesses receive up to a $60,000 interest free loan until December 31, 2023, due to a 1-year extension provided by the Government of Canada on January 12, 2022. If $40,000 is repaid on or before December 31, 2023, the remaining amount of the loan is eligible for complete forgiveness. If the loan is not repaid by December 31, 2023, it will be extended for an additional 2-year term bearing an interest rate of 5% per annum.

The funding provided to the credit union by the Government of Canada in respect of the CEBA Program represents an obligation to pass through collections on the CEBA loans and is otherwise no recourse to the credit union. Accordingly, the credit union is required to remit all collections of principal and interest on the CEBA loans to the Government of Canada but is not required to repay amounts that its members fail to pay or that have been forgiven. The credit union receives an administration fee to recover the costs to administer the program for the Government of Canada.

Loans issued under the program are not recognized on the credit union's statement of financial position, as the credit union transfers substantially all risks and rewards in respect of the loans to the Government of Canada. As of December 31, 2021, the credit union had provided approximately 768 members with CEBA loans and had funded approximately $40.73 million in loans under the program. At December 31, 2022, there are 679 loans remaining with a balance of $35.89 million.

## 7. LOANS (continued)

| Changes in allowance for credit losses | 2022 | 2021 |
|---|---|---|
| Balance at beginning of year | 7,540 | 9,013 |
| Provision for credit losses | 1,208 | 194 |
| Amounts written-off | (1,005) | (1,667) |
| **Balance at end of year** | **7,743** | **7,540** |

*Loans past due but not impaired*

A loan is considered past due when a payment had not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

Loans that are past due but not impaired as at December 31, are as follows:

| | 2022 | | | |
|---|---|---|---|---|
| | 1 to 59 days | 60 to 90 days | More than 90 days | Total days |
| Mortgages | | | | |
| Agriculture | 1,075 | - | - | 1,075 |
| Commercial | 7,245 | - | - | 7,245 |
| Residential | 11,887 | 566 | - | 12,453 |
| Consumer loans | 2,269 | 53 | - | 2,322 |
| Business loans | 3,005 | 42 | - | 3,047 |
| **Total loans** | **25,481** | **661** | **-** | **26,142** |

| | 2021 | | | |
|---|---|---|---|---|
| | 1 to 59 days | 60 to 90 days | More than 90 days | Total days |
| Mortgages | | | | |
| Agriculture | 1,583 | 352 | - | 1,935 |
| Commercial | 788 | 1,232 | - | 2,020 |
| Residential | 15,057 | 1,810 | - | 16,867 |
| Consumer loans | 2,643 | 85 | - | 2,728 |
| Business loans | 882 | 1,281 | - | 2,163 |
| **Total loans** | **20,953** | **4,760** | **-** | **25,713** |

## 8. OTHER RECEIVABLES

| | 2022 | 2021 |
|---|---|---|
| SaskCentral dividend receivable | 16,868 | - |
| Other | 1,743 | 2,153 |
| | **18,611** | **2,153** |

## 9. PROPERTY, PLANT AND EQUIPMENT

| **Cost** | Land | Building and improvements | Furniture and equipment | Automotive | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2020 | 6,529 | 39,251 | 8,002 | 161 | 53,943 |
| Additions | - | 370 | 379 | - | 749 |
| Disposals | - | - | (848) | - | (848) |
| Balance at December 31, 2021 | 6,529 | 39,621 | 7,533 | 161 | 53,844 |
| Additions | - | 98 | 55 | - | 153 |
| Disposals | - | - | (445) | (25) | (470) |
| **Balance at December 31, 2022** | **6,529** | **39,719** | **7,143** | **136** | **53,527** |

| **Accumulated depreciation** | Land | Building and improvements | Furniture and equipment | Automotive | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2020 | - | 16,108 | 5,302 | 117 | 21,527 |
| Depreciation | - | 1,614 | 514 | 15 | 2,143 |
| Disposals | - | - | (848) | - | (848) |
| Balance at December 31, 2021 | - | 17,722 | 4,968 | 132 | 22,822 |
| Depreciation | - | 1,515 | 405 | 24 | 1,944 |
| Disposals | - | - | (355) | (25) | (380) |
| **Balance at December 31, 2022** | **-** | **19,237** | **5,018** | **131** | **24,386** |

| **Net book value** | Land | Building and improvements | Furniture and equipment | Automotive | Total |
|---|---|---|---|---|---|
| At December 31, 2021 | 6,529 | 21,899 | 2,565 | 29 | 31,022 |
| **At December 31, 2022** | **6,529** | **20,482** | **2,125** | **5** | **29,141** |

## 10. INTANGIBLE ASSETS

| **Cost** | Purchased software |
|---|---|
| Balance at December 31, 2020 | 2,839 |
| Additions | 820 |
| Disposals | (592) |
| Balance at December 31, 2021 | 3,067 |
| Additions | 180 |
| Disposals | (12) |
| **Balance at December 31, 2022** | **3,235** |

| **Accumulated amortization** | |
|---|---|
| Balance at December 31, 2020 | 2,576 |
| Amortization | 132 |
| Disposals | (548) |
| Balance at December 31, 2021 | 2,160 |
| Amortization | 106 |
| Disposals | (12) |
| **Balance at December 31, 2022** | **2,254** |

| **Net book value** | |
|---|---|
| At December 31, 2021 | 907 |
| **At December 31, 2022** | **981** |

## 11. DEPOSITS

| | **2022** | **2021** |
|---|---|---|
| Demand deposits | 967,380 | 956,585 |
| Term deposits | 530,253 | 493,654 |
| Accrued interest | 5,835 | 4,340 |
| | **1,503,468** | **1,454,579** |

## 12. LOANS PAYABLE

| | **2022** | **2021** |
|---|---|---|
| Financial liabilities from securitizations | **8,594** | **14,024** |

*Financial liabilities from securitizations*

During the year, the credit union securitized $0 (2021 - $0) in residential mortgages and recognized new related loans payable liabilities of $0 (2021 - $0). At December 31, 2022, the carrying amount of the secured borrowings was $8,671 (2021 - $14,230) with a weighted average interest rate of 2.03% (2021 – 2.09%). The credit union received 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 20.

*SaskCentral*

The credit union has an authorized line of credit bearing interest at prime less 0.50% in the amount of $16,400 (2021 - $16,400) from SaskCentral. Prime rate was 6.45% at December 31, 2022. At December 31, 2022 the credit union had $0 (2021 - $0) outstanding on this line of credit.

The credit union also has available through SaskCentral a commercial paper facility in the amount of $16,400 (2021 - $16,400). Under the program, the credit union may request drawings up to the established limit. The principal amount and interest are due on the maturity date of the commercial paper issued by SaskCentral. The interest rate payable is the commercial paper market term rate as established plus 0.375%. As of December 31, 2022 and 2021, the credit union had $0 drawn on this program, bearing nil interest. As at December 31, 2022 and 2021, the accrued interest on this commercial paper facility is $0.

All SaskCentral bank indebtedness agreements are secured by general security agreements registered against the assets of the credit union.

*Concentra Bank*

The credit union has a secured quick line (revolving credit facility) in the amount of $50,000 (2021 - $50,000) from Concentra Bank. The intended purpose of the credit facility is to support the credit union’s liquidity needs in extending loans to members and to finance any other operating requirements.

At December 31, 2022 and 2021, the credit union had no balance outstanding on this credit facility. The credit facility is secured by residential mortgages amounting to $30,000 equaling 110% of the credit limit insured by CMHC or Sagen Mortgage Insurance Company Canada (previously Genworth Canada), Concentra term deposits amounting to $20,000, as well as a second charge security interest against the assets of the credit union. The interest rate payable under the facility is the three-month CDOR rate plus 1.00% for funds secured by insured mortgages, and the three-month CDOR rate plus 0.65% for funds secured by Concentra term deposits. The annual standby fees are 0.20% per annum for funds secured by insured mortgages and 0.15% per annum for funds secured by Concentra term deposits.

## 13. OTHER LIABILITIES

| | 2022 | 2021 |
|---|---|---|
| Accounts payable and accrued liabilities | 5,661 | 7,657 |
| Corporate income taxes payable | - | 57 |
| Retained member capital for distribution | 255 | 229 |
| | **5,916** | **7,943** |

## 14. MEMBERSHIP SHARES AND ALLOCATION PAYABLE

Membership shares, including member ProfitShares, are as provided for by *The Credit Union Act 1998* and administered according to the credit union's Bylaws, which set out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC.

Membership share characteristics include freedom from mandatory charge and subordination to the rights of creditors and depositors.

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | 32,849 | 32,748 |
| Allocations to members | | |
| Interest rebate to borrowers | 953 | 315 |
| Bonus interest to investors | 898 | 697 |
| Share dividend | 644 | 322 |
| Macklin member legacy capital | - | 396 |
| Redemptions on member accounts | (2,255) | (1,755) |
| Allocated membership shares | 33,089 | 32,723 |
| Other membership shares | 125 | 126 |
| **Total membership shares** | **33,214** | **32,849** |

The Board of Directors declared a patronage allocation in the amount of $6,593 on December 31, 2022 (2021 - $3,122). The patronage allocation approved by the Board of Directors is based on the amount of loan interest paid, deposit interest earned, member rewards, bonus on sale of investment, and a dividend based on outstanding ProfitShare balances as of December 31, 2022.

| | 2022 | 2021 |
|---|---|---|
| Interest rebate to borrowers | 864 | 917 |
| Bonus interest to investors | 756 | 956 |
| Member account rewards | 431 | 594 |
| Bonus on sale of investment | 3,348 | - |
| Share dividend | 1,194 | 655 |
| | **6,593** | **3,122** |

## 15. OTHER REVENUE

| | 2022 | 2021 |
|---|---|---|
| Deposit fees and commissions | 3,177 | 3,050 |
| Wealth services | 3,838 | 3,672 |
| Insurance | 804 | 903 |
| Loan fees | 908 | 1,093 |
| Credit card | 851 | 239 |
| Lease | 379 | 453 |
| Government assistance | - | 915 |
| Other | 130 | 232 |
| | **10,087** | **10,557** |

*Canada Emergency Wage Subsidy*

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy (CEWS) program in April 2020. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. This subsidy is retroactive to March 15, 2020. The qualification and application of the CEWS is assessed over multiple four week application periods.

The credit union determined that it qualified for the CEWS for a number of periods in 2021. The credit union applied for and received government assistance related to the CEWS in the amount of $nil (2021- $915) which has been reflected in the statement of comprehensive income.

## 16. INCOME TAXES

| Income tax expense is comprised of: | 2022 | 2021 |
|---|---|---|
| Current tax expense | 1,296 | 2,037 |
| Deferred tax expense (recovery) | (17) | 731 |
| | **1,279** | **2,768** |

A reconciliation of income taxes at statutory rates with the reported income taxes is as follows:

| | 2022 | 2021 |
|---|---|---|
| Income before income taxes | 22,302 | 11,188 |
| Combined federal and provincial tax rate | 27.00% | 27.00% |
| Income tax expense at statutory rate | 6,022 | 3,021 |
| Adjusted for the net effect of: | | |
| Non-taxable and other items | (66) | 12 |
| Non-taxable dividends | (4,635) | (157) |
| Differences in expected income tax rates | (69) | (40) |
| Prior year adjustments to income tax provision | 27 | (68) |
| | **1,279** | **2,768** |

Deferred tax assets and liabilities recognized are attributable to the following:

| | 2022 | 2021 |
|---|---|---|
| **Deferred tax assets (liabilities)** | | |
| Property, plant and equipment | 316 | 232 |
| Loans | 1,678 | 1,538 |
| Unrealized gains on fair value through profit or loss investment funds | (610) | (403) |
| **Net deferred tax asset** | **1,384** | **1,367** |

## 17. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general.

The credit union follows the standardized approach to calculate risk-weighted assets for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 1250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirement for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 (CET1) capital and additional tier 1 capital. CET1 capital includes retained earnings, contributed surplus and AOCI. Deductions from CET1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own use property. Additional tier 1 capital consists of qualifying membership shares or other investment shares issued by the credit union that meet the criteria for inclusion in tier 1 capital and are not included in common equity tier 1 capital. At the current time, the credit union does not have any qualifying membership or investment shares that meet the criteria established for additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, subordinated indebtedness and qualifying membership shares or other investment shares issued by the credit union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the credit union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less certain deductions from capital plus specified off-statement of financial position exposures. Based on the type of off-statement of financial position exposure, a conversion factor is applied to the leverage ratio. All items deducted from capital are excluded from total assets.

The credit union has adopted a capital management framework that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors.

The following table compares CUDGC regulatory standards to the credit union’s board policy for 2022:

| | Regulatory standard | Board minimum |
|---|---|---|
| Total eligible capital to risk-weighted assets | 10.50% | 12.50% |
| Total tier 1 capital to risk-weighted assets | 8.50% | 9.50% |
| CET1 capital to risk-weighted assets | 7.00% | 9.50% |
| Leverage ratio | 5.00% | 6.00% |

During the years ended December 31, 2022 and 2021, the credit union complied with all internal and external capital requirements.

*Eligible capital*

| | 2022 | 2021 |
|---|---|---|
| **Risk-weighted assets** | **987,715** | **880,184** |
| CET1 capital comprises: | | |
| Retained earnings | 141,793 | 120,770 |
| Contributed surplus | 6,451 | 6,451 |
| Deductions from CET1 capital: | | |
| Intangible assets | (981) | (907) |
| Eligible CET1 capital | 147,263 | 126,314 |
| Total eligible tier 1 capital | 147,263 | 126,314 |
| Tier 2 capital comprises: | | |
| Membership capital | 39,807 | 35,971 |
| Collective allowance | 6,046 | 5,492 |
| Total tier 2 capital | 45,853 | 41,463 |
| **Total eligible capital** | **193,116** | **167,777** |

*Regulatory capital adequacy ratios*

| | 2022 | 2021 |
|---|---|---|
| Total eligible capital to risk-weighted assets | 19.55% | 19.06% |
| Total tier 1 capital to risk-weighted assets | 14.91% | 14.35% |
| CET1 capital to risk-weighted assets | 14.91% | 14.35% |
| Leverage ratio | 11.10% | 10.10% |

## 18. RELATED PARTY TRANSACTIONS

A related party exists when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other, or is a member, or close family member of a member of the key management personnel of the credit union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

The Board's Audit Committee reviews and monitors all related party transactions for compliance with legislation, standards of sound business practice and with credit union's policies and procedures. The Committee is charged with ensuring that all proposed related party transactions are fair to the credit union and that the best judgment of the credit union has not been compromised as a result of real or perceived conflict of interest.

Related parties are defined in *The Credit Union Act 1998* and include all directors or senior officers of the credit union, their spouses, their children under the age of 18, or any entity in which the director, senior officer, their spouse, or their children under the age of 18 has a substantial or controlling interest.

*Member loans*

The credit union, in accordance with its policy, grants loans to related parties at regular member rates or at preferred staff rates for senior officers. These loans are granted under the same lending policies applicable to other members. The credit union received interest from related parties in the amount of $126 (2021 - $134).

| | 2022 | 2021 |
|---|---|---|
| Loans outstanding at January 1 | 5,042 | 5,832 |
| Loans granted (repaid) during the year, net | 785 | (790) |
| | **5,827** | **5,042** |

## 18. RELATED PARTY TRANSACTIONS (continued)

*Deposit accounts*

Related parties may hold deposit accounts and have access to personal chequing accounts that do not incur service charges. Interest paid by the credit union to the related parties is $16 (2021 - $29).

| | 2022 | 2021 |
|---|---|---|
| Deposits at January 1 | 4,359 | 4,339 |
| Deposits received (matured) during the year, net | (1,859) | 20 |
| | **2,500** | **4,359** |

*Ordinary course of business transactions*

The credit union, in accordance with its policy and *The Credit Union Act 1998*, can enter into business transactions for the purchase of services with entities owned or significantly controlled by designated related parties. These transactions are in the credit union's ordinary course of business, are at market terms and conditions and are reviewed and reported to the Audit Committee. The value of such services purchased by the credit union to entities owned or significantly controlled by designated related parties in 2022 was $7 (2021 - $5).

*Key management compensation*

Key management persons (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly. Control is the power to govern the financial and operating policies of the credit union so as to obtain benefits from its activities. The KMP of the credit union includes the executive leadership team (ELT) and members of the board who held offices during the financial year. The ELT is comprised of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer and Chief Innovation & People Officer. Other key management personnel (OKMP) include the direct reports of Chief Operating Officer, as well as the Manager of Finance and Accounting, Manager of Human Resources, Manager of Governance and Internal Auditor.

The aggregate compensation of KMP during the year, comprising amounts paid or payable, was as follows:

| | 2022 | 2021 |
|---|---|---|
| **Directors** | | |
| Compensation and other short-term benefits | 160 | 174 |
| **Executive leadership team** | | |
| Salaries and other short-term benefits | 1,988 | 1,522 |
| Post-employment benefits | 72 | 69 |
| **Other key management personnel** | | |
| Salaries and other short-term benefits | 1,350 | 1,156 |
| Post-employment benefits | 67 | 67 |
| | **3,637** | **2,988** |

In the above table, remuneration shown as salaries and other short-term benefits include wages, salaries, statutory government contributions, paid annual leave and paid sick leave, performance-based incentive and the value of fringe benefits received, Director per diems, but excludes out-of-pocket expense reimbursements.

Members of the ELT receive a performance-based incentive in the form of variable compensation, which is included in salaries and other short-term benefits. Variable compensation is accrued in the fiscal year earned and paid in the following year. Figures in the above table represents the timing of when variable compensation amounts are accrued as a personnel expense as opposed to when they are paid. Variable compensation accrued for the ELT in 2022 is $788 (2021 - $364) and OKMP 2022 is $320 (2021 – $152). Travel and training costs to members of the board in 2022 were $27 (2021 - $33).

## 19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the credit union takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair values are determined where possible by reference to quoted bid or asking prices in an active market. In the absence of an active market, the credit union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The credit union classifies fair value measurements of financial instruments recognized in the statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

- *Level 1:* Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities;
- *Level 2:* Fair value measurements are derived from inputs other than quoted prices that are included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* Fair value measurements derived from valuation techniques that include significant unobservable inputs.

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

The following table summarizes the carrying amount and fair values of the credit union's financial instruments.

| **2022** | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **FINANCIAL ASSETS – Recurring measurements** | | | | |
| *Fair value through profit loss (FVTPL)* | | | | |
| Cash on hand | 3,596 | - | 3,596 | - |
| SaskCentral shares | 10,494 | - | - | 10,494 |
| Concentra Bank shares | 7,750 | - | - | 7,750 |
| Investment funds | 11,744 | - | - | 11,744 |
| Preferred shares | 13 | - | - | 13 |
| **Total financial assets – recurring measurements** | **33,597** | **-** | **3,596** | **30,001** |
| **FINANCIAL ASSETS – Fair values disclosed** | | | | |
| *Amortized cost* | | | | |
| Deposits on demand | 64,670 | - | 64,670 | - |
| SaskCentral liquidity term deposits | 83,250 | - | 83,250 | - |
| SaskCentral liquidity deposits | 67,750 | - | 67,750 | - |
| Non-redeemable term deposits | 125,000 | - | 125,000 | - |
| Marketable bonds and bank terms | 17,695 | - | 17,695 | - |
| Debentures | 1,042 | - | 1,042 | - |
| Loans | 1,258,105 | - | 1,216,868 | - |
| Other receivables | 18,611 | - | 18,611 | - |
| **Total financial assets - fair values disclosed** | **1,636,123** | **-** | **1,594,886** | **-** |
| **FINANCIAL LIABILITIES – Fair values disclosed** | | | | |
| *Other financial liabilities* | | | | |
| Deposits | 1,503,468 | - | 1,462,576 | - |
| Loans payable | 8,594 | - | 8,312 | - |
| Other liabilities | 5,916 | - | 5,916 | - |
| Member capital | 39,807 | - | - | 39,807 |
| **Total financial liabilities – fair values disclosed** | **1,557,785** | **-** | **1,476,804** | **39,807** |

## 19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| **2021** | Carrying amount | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **FINANCIAL ASSETS – Recurring measurements** | | | | |
| Cash on hand | 4,147 | - | 4,147 | - |
| SaskCentral shares | 9,878 | - | - | 9,878 |
| Concentra Bank shares | 7,750 | - | - | 7,750 |
| Investment funds | 8,700 | - | - | 8,700 |
| Preferred shares | 13 | - | - | 13 |
| **Total financial assets – recurring measurements** | **30,488** | **-** | **4,147** | **26,341** |
| **FINANCIAL ASSETS – Fair values disclosed** | | | | |
| *Amortized cost* | | | | |
| Deposits on demand | 71,810 | - | 71,810 | - |
| SaskCentral liquidity term deposits | 85,597 | - | 85,597 | - |
| SaskCentral liquidity deposits | 62,403 | - | 62,403 | - |
| Non-redeemable term deposits | 153,750 | - | 153,750 | - |
| Marketable bonds and bank terms | 32,532 | - | 32,532 | - |
| Debentures | 1,111 | - | 1,111 | - |
| Loans | 1,163,814 | - | 1,180,177 | - |
| Other receivables | 2,153 | - | 2,153 | - |
| **Total financial assets - fair values disclosed** | **1,573,170** | **-** | **1,589,533** | **-** |
| **FINANCIAL LIABILITIES – Fair values disclosed** | | | | |
| *Other financial liabilities* | | | | |
| Deposits | 1,454,579 | - | 1,455,892 | - |
| Loans payable | 14,024 | - | 14,221 | - |
| Other liabilities | 7,943 | - | 7,943 | - |
| Member capital | 35,971 | - | - | 35,971 |
| **Total financial liabilities – fair values disclosed** | **1,512,517** | **-** | **1,478,056** | **35,971** |

*Methods and assumptions*

- The fair values of short-term financial instruments including cash and cash equivalents, short-term investments, other receivables, other liabilities and certain other assets and liabilities are approximately equal to their carrying values.
- Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.
- For variable interest rate loans that reprice frequently, fair values approximate carrying values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.
- Carrying values approximate fair values for deposits with adjustable rates without specified maturity terms. Fair values for other deposits and loans payable with specified maturity terms are estimated using discounted cash flow calculations at market rates for similar deposits with similar terms.
- The fair values of derivative financial instruments are estimated by reference to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the credit union would receive or pay to terminate the contracts at the reporting date.
- The interest rates used to discount estimated cash flows, when applicable, are based on interest rates for identical products as at the reporting date.
- All recurring Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.
- For fair value measurements of Level 3 SaskCentral and Concentra Bank shares, the credit union has assessed that the fair value of the amounts is comparable to their amortized cost, which equals the par value of the shares. The shares are not quoted or traded, however, when new shares are offered the price remains the same as the par value of all currently available shares. There was no impact of the measurement on profit or loss for the year.

| Changes in recurring measurement level 3 assets | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | 26,341 | 23,329 |
| Gains recognized in comprehensive income | 1,118 | 1,907 |
| Additions | 3,343 | 1,463 |
| Disposals | (801) | (358) |
| **Balance, end of year** | **30,001** | **26,341** |

## 20. FINANCIAL INSTRUMENT RISK MANAGEMENT

The nature of the credit union's financial instruments creates exposure to credit, liquidity and market risk. Management of these risks is established in policies and procedures determined by the Board of Directors. In addition, CUDGC establishes standards to which the credit union must comply.

### *Credit risk*

Credit risk is the risk of loss to the credit union if a member or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans and receivables and principal and interest amounts due on investments.

Credit risk is managed in accordance with a governing policy established by the Board of Directors. The Board of Directors has delegated responsibility for the management of credit risk to the CEO. The CEO has in turn delegated responsibility for management of credit risk within the loan portfolio to the Retail Division, and for management of credit risk within the investment and derivatives portfolio to the Finance Division.

*Inputs, assumptions and techniques*

*Definition of default and assessments of credit risk*

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

The credit union considers loans and receivables to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the credit union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the credit union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the credit union. These loans are considered stage 3 loans.

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

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers. These loans are considered stage 2 loans. The credit union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming. Loans that are not determined to be stage 2 or stage 3 loans are considered stage 1 loans.

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been de-recognized, the credit union assesses for significant increases in credit risk by consideration of its ability to collect interest and principal payments on the modified financial asset, the reason for the modifications, the borrower's payment performance compared to the modified contractual terms and whether such modifications increase the borrower's ability to meet its contractual obligations.

## 20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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

*Measurement of expected credit losses*

The credit union measures expected credit losses for member loans on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (agriculture, commercial, residential, consumer and business loans). Otherwise, expected credit losses are measured on an individual basis.

The credit union will measure expected credit losses on an individual basis for the loans that are considered credit-impaired since it usually has information available to estimate the actual amounts that are expected to be recovered. The lifetime expected credit losses will be calculated as the difference between the carrying amount and the present value of expected recoveries (including the sale of collateral) for the individual loan. When measuring 12-month and lifetime expected credit losses, the credit union utilizes complex modelling, which uses current banking system loan data to assess probability of default, exposure at default, loss given default and present value calculations.

Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its members and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12- month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses. Management also makes judgment on how many years of data to utilize or whether to weigh more recent years more heavily in the analysis.

Management had to use judgment in several areas to assess if the estimate the model calculated was reasonable or if an overlay was needed to increase or decrease the allowance. The negative effects of rising inflation and interest rates, tight labor market, and supply chain pressures, had to be weighed against the more positive aspects of government support programs, improvement in oil prices and the oil sector, and previous deferred loans returning to performing status.

The credit union has run a number of simulations on its collective allowance, incorporating assumptions about the resulting macroeconomic impacts of rising interest rates and inflation, based on information and facts available at December 31, 2022. These scenarios are weighted, and the weighted average is used to build the estimate for expected credit losses. The three simulations included:

- *Model 1* - baseline approach where results are similar to this year with no improvement or further decline expected,
- *Model 2* - stressing consumer loans and mortgages by 10%, and decreasing beacon on all residential mortgage members by 10% suggesting a decline in these particular products due to rising rates and inflation pressures, and
- *Model 3* - stressing the commercial mortgages by 10%, and business loans by 5% suggesting a further decline in these particular products due to rising rates and inflation pressures.

The weightings chosen on December 31, 2022 were 50% for model 1, 25% for model 2 and 25% for model 3. This approach resulted in an increase of $214 to the collective provision at December 31, 2022.

*Write-offs*

Financial assets are written off when there is no reasonable expectation of recovery. The credit union assesses that there is no reasonable expectation of recovery when they have exhausted all attempts to obtain some of the loan back, including realizing on the security, if any, and disposing of related security. Where information becomes available indicating the credit union will receive funds, such amounts are recognized at their fair value.

*Exposure to credit risk*

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. The gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

| **December 31, 2022** | **Loans Outstanding** | | | | **Allowance for Credit Losses (ACL)** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Gross Loans** | Stage 1 | Stage 2 | Stage 3 | **ACL** | **Net Loans** |
| Mortgages | | | | | | | | | |
| Agriculture | 118,629 | 6,229 | 1,308 | **126,166** | 8 | 2 | 7 | **17** | **126,149** |
| Commercial | 214,374 | 50,244 | 267 | **264,885** | 253 | 1,711 | 96 | **2,060** | **262,825** |
| Residential | 508,688 | 96,549 | 2,300 | **607,537** | 139 | 578 | 581 | **1,298** | **606,239** |
| Consumer loans | 111,245 | 12,710 | 437 | **124,392** | 491 | 1,699 | 296 | **2,486** | **121,906** |
| Business loans | 114,282 | 27,030 | 1,556 | **142,868** | 109 | 1,500 | 273 | **1,882** | **140,986** |
| **Total** | **1,067,218** | **192,762** | **5,868** | **1,265,848** | 1,000 | 5,490 | 1,253 | **7,743** | **1,258,105** |

| **December 31, 2021** | **Loans Outstanding** | | | | **Allowance for Credit Losses (ACL)** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Gross Loans** | Stage 1 | Stage 2 | Stage 3 | **ACL** | **Net Loans** |
| Mortgages | | | | | | | | | |
| Agriculture | 113,448 | 7,412 | 1,308 | **122,168** | 10 | 7 | - | **17** | **122,151** |
| Commercial | 113,673 | 32,258 | 1,103 | **147,034** | 180 | 1,317 | 341 | **1,838** | **145,196** |
| Residential | 521,121 | 87,713 | 3,246 | **612,080** | 129 | 663 | 544 | **1,336** | **610,744** |
| Consumer loans | 104,353 | 13,355 | 396 | **118,104** | 469 | 2,055 | 371 | **2,895** | **115,209** |
| Business loans | 143,329 | 23,404 | 1,687 | **168,420** | 87 | 1,121 | 242 | **1,450** | **166,970** |
| Accrued interest | 2,384 | 556 | 608 | **3,548** | 4 | - | - | **4** | **3,544** |
| **Total** | **998,308** | **164,698** | **8,348** | **1,171,354** | 879 | 5,163 | 1,498 | **7,540** | **1,163,814** |

*Concentrations of credit risk*

Concentration of credit risk exists if a number of borrowers are exposed to similar economic risks by being engaged in similar economic activities or being located in the same geographical region, and indicate the relative sensitivity of the credit union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the credit union due to its primary service area being Lloydminster and Kindersley, Saskatchewan and surrounding areas.

## 20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

*Amounts arising from expected credit losses*

*Reconciliation of the loss allowance*

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

| **2022** | Allowance for Credit Losses (ACL) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Gross Loans** |
| Agriculture Mortgages | | | | |
| Balance at December 31, 2021 | 10 | 7 | - | **17** |
| Net remeasurement of loss allowance | (2) | (5) | 7 | **-** |
| Balance at December 31, 2022 | **8** | **2** | **7** | **17** |
| Commercial Mortgages | | | | |
| Balance at December 31, 2021 | 180 | 1,317 | 341 | **1,838** |
| Net remeasurement of loss allowance | 73 | 394 | (245) | **222** |
| Balance at December 31, 2022 | **253** | **1,711** | **96** | **2,060** |
| Residential Mortgages | | | | |
| Balance at December 31, 2021 | 129 | 663 | 544 | **1,336** |
| Net remeasurement of loss allowance | 10 | (85) | 37 | **(38)** |
| Balance at December 31, 2022 | **139** | **578** | **581** | **1,298** |
| Consumer loans | | | | |
| Balance at December 31, 2021 | 469 | 2,055 | 371 | **2,895** |
| Net remeasurement of loss allowance | 22 | (356) | (75) | **(409)** |
| Balance at December 31, 2022 | **491** | **1,699** | **296** | **2,486** |
| Business loans | | | | |
| Balance at December 31, 2021 | 87 | 1,121 | 242 | **1,450** |
| Net remeasurement of loss allowance | 22 | 379 | 31 | **432** |
| Balance at December 31, 2022 | **109** | **1,500** | **273** | **1,882** |
| Accrued Interest | | | | |
| Balance at December 31, 2021 | 4 | - | - | **4** |
| Net remeasurement of loss allowance | (4) | - | - | **(4)** |
| Balance at December 31, 2022 | **-** | **-** | **-** | **-** |
| **Total allowance for credit losses** | | | | **7,743** |

**2021**

| | Allowance for Credit Losses (ACL) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Gross Loans** |
| Agriculture Mortgages | | | | |
| Balance at December 31, 2020 | 17 | 6 | - | **23** |
| Net remeasurement of loss allowance | (7) | 1 | - | **(6)** |
| Balance at December 31, 2021 | **10** | **7** | **-** | **17** |
| Commercial Mortgages | | | | |
| Balance at December 31, 2020 | 282 | 1,391 | 199 | **1,872** |
| Net remeasurement of loss allowance | (102) | (74) | 142 | **(34)** |
| Balance at December 31, 2021 | **180** | **1,317** | **341** | **1,838** |
| Residential Mortgages | | | | |
| Balance at December 31, 2020 | 207 | 377 | 468 | **1,052** |
| Net remeasurement of loss allowance | (78) | 286 | 76 | **284** |
| Balance at December 31, 2021 | **129** | **663** | **544** | **1,336** |
| Consumer loans | | | | |
| Balance at December 31, 2020 | 593 | 2,427 | 842 | **3,862** |
| Net remeasurement of loss allowance | (124) | (372) | (471) | **(967)** |
| Balance at December 31, 2021 | **469** | **2,055** | **371** | **2,895** |
| Business loans | | | | |
| Balance at December 31, 2020 | 104 | 1,165 | 935 | **2,204** |
| Net remeasurement of loss allowance | (17) | (44) | (693) | **(754)** |
| Balance at December 31, 2021 | **87** | **1,121** | **242** | **1,450** |
| Accrued Interest | | | | |
| Balance at December 31, 2020 | - | - | - | **-** |
| Net remeasurement of loss allowance | 4 | - | - | **4** |
| Balance at December 31, 2021 | **4** | **-** | **-** | **4** |
| **Total allowance for credit losses** | | | | **7,540** |

*Investments*

The following table summarizes the credit exposure of the credit union's investment portfolio.

| | **2022** | **2021** |
|---|---|---|
| AA | 17,993 | 32,657 |
| A | - | 7,800 |
| R-1 | 178,285 | 313,268 |
| BBB | 118,340 | - |
| Unrated | 11,773 | 8,728 |
| **Total investments** | **326,391** | **362,453** |

## 20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

*Loan portfolio*

Please refer to Note 7 which summarizes credit risk exposures for the loan portfolio including performing loans, impaired loans, past due but not impaired loans and allowances for credit losses.

*Exposure to credit risk*

The credit union's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial asset (cash, investments, loans, securitized mortgages, other receivables and derivatives) is the carrying amount of those assets as indicated in the statement of financial position. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

In the normal course of business, the credit union has entered into various commitments to extend credit that may not be reported on the statement of financial position, as well as guarantees and standby letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. Commitments are included in Note 21.

### *Liquidity risk*

Liquidity risk is the risk that the credit union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due. Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the credit union must comply.

*Risk measurement*

The assessment of the credit union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective specific and market conditions and the related behavior of its members and counter parties. The credit union measures and manages the liquidity position from three risk perspectives.

- Short-term exposure (up to one month) based on historical changes in liquidity;
- Medium-term exposure (up to one year) based on forecasted cash flows; and
- Exposure to abnormal liquidity events based on various stress tests.

*Policies and processes*

The credit union manages liquidity by monitoring, forecasting and managing cash flows. The Finance Division manages day-to-day liquidity within board-approved policies, and reports to the ALCO quarterly to ensure compliance. Management provides quarterly reports on these matters to the Risk Committee. The acceptable amount of risk is defined by policies approved by the Board and monitored by the ALCO and Risk Committee. The credit union's liquidity policies and practices include:

- Measuring, monitoring and forecasting of cash flows;
- Maintaining a sufficient pool of high quality liquid assets to meet operating needs;
- Maintaining access to credit and commercial paper facilities;
- Managed growth of the credit union's loan and deposit portfolios;
- Established access to asset sale programs through capital markets and credit union partners;
- The establishment of a board approved liquidity plan and related liquidity contingency plans; and
- Participation in the mandatory statutory liquidity program.

The following are the contractual maturities of the credit union's financial liabilities.

| **2022** | Less than 1 year | 1 year to 3 years | 3 years to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Deposits | 1,322,094 | 147,810 | 33,252 | 312 | 1,503,468 |
| Loans payable | 5,678 | 2,916 | - | - | 8,594 |
| Other liabilities | 5,746 | 170 | - | - | 5,916 |
| Member capital | 6,593 | - | - | 33,214 | 39,807 |
| **Total** | **1,340,111** | **150,896** | **33,252** | **33,526** | **1,557,785** |

| 2021 | Less than 1 year | 1 year to 3 years | 3 years to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Deposits | 1,296,163 | 127,666 | 30,584 | 166 | 1,454,579 |
| Loans payable | 4,264 | 9,760 | - | - | 14,024 |
| Other liabilities | 7,791 | 152 | - | - | 7,943 |
| Member capital | 3,122 | - | - | 32,849 | 35,971 |
| **Total** | **1,311,340** | **137,578** | **30,584** | **33,015** | **1,512,517** |

*Liquidity coverage ratio*

The liquidity coverage ratio (LCR) is a regulatory requirement of CUDGC. The minimum LCR requirement of 100% was effective January 1, 2019. The objective of the LCR is to ensure the credit union has an adequate stock of unencumbered high quality liquid assets (HQLA) that:

- Consists of cash or assets that can be converted into cash at little or no loss of value: and;
- Meets its liquidity needs for a 30 calendar day stress scenario.

Inflow and outflow values are calculated as outstanding balances maturing or callable within 30 days of various types of liabilities, off-balance sheet items or contractual receivables. These items are weighted after the application of haircuts (for HQLA) and inflow and outflow rates are prescribed by CUDGC. The LCR is calculated as the weighted value of HQLA divided by the weighted value of total net cash outflows.

| | 2022 | |
|---|---|---|
| High quality liquid assets (HQLA) | Actual Value | Weighted Value |
| Level 1 HQLA | 112,328 | 112,328 |
| Level 2A HQLA | 13,171 | 11,196 |
| Level 2B HQLA | 33,598 | 16,799 |
| **Total HQLA** | 159,097 | **140,323** |
| Cash outflows | | |
| Stable retail deposits | 370,590 | 18,529 |
| Less stable retail deposits | 112,133 | 11,213 |
| Retail term deposits > 30 days | 369,791 | - |
| Unsecured wholesale funding | 645,120 | 57,296 |
| Secured wholesale funding | - | - |
| Other contractual funding obligations | 308,411 | 13,063 |
| Total cash outflows | 1,806,045 | 100,101 |
| Cash inflows | | |
| Inflows from loan repayments | 10,486 | 5,243 |
| Inflows from other counterparties not included in HQLA | 31,425 | 31,425 |
| Total cash inflows | 41,911 | 36,668 |
| Cash inflows after CUDGC maximum inflow cap applied, if required | | 36,668 |
| **Total net cash outflows** | | **63,433** |

## 20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

*Liquidity coverage ratio continued*

| | 2021 | |
|---|---|---|
| High quality liquid assets (HQLA) | Actual Value | Weighted Value |
| Level 1 HQLA | 101,924 | 101,924 |
| Level 2A HQLA | 9,615 | 8,172 |
| Level 2B HQLA | 24,370 | 12,185 |
| **Total HQLA** | 135,909 | **122,281** |
| Cash outflows | | |
| Stable retail deposits | 381,926 | 19,096 |
| Less stable retail deposits | 102,601 | 10,260 |
| Retail term deposits > 30 days | 355,047 | - |
| Unsecured wholesale funding | 610,665 | 56,373 |
| Secured wholesale funding | - | - |
| Other contractual funding obligations | 246,909 | 14,240 |
| Total cash outflows | 1,697,148 | 99,969 |
| Cash inflows | | |
| Inflows from loan repayments | 10,063 | 5,032 |
| Inflows from other counterparties not included in HQLA | 58,532 | 58,532 |
| Total cash inflows | 68,595 | 63,564 |
| Cash inflows after CUDGC maximum inflow cap applied, if required | | 63,564 |
| **Total net cash outflows** | | **36,405** |

*Quarterly LCR history*

| | 2022 | 2021 |
|---|---|---|
| At March 31 | 251% | 593% |
| At June 30 | 519% | 259% |
| At September 30 | 226% | 608% |
| At December 31 | 221% | 336% |

As the LCR is a CUDGC prescribed standard, when a credit union is not in compliance, CUDGC may take any necessary action. Necessary action may include, but is not limited to:

- Reducing or restricting the credit union's authorities and limits;
- Subjecting the credit union to preventive intervention;
- Issuing a compliance order;
- Placing the credit union under supervision or administration; and
- Issuing an amalgamation order.

The credit union has met and complied with its 2022 internal LCR limit of 100% and the CUDGC limit of 100% for 2022.

### Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors, such as interest rates, foreign currency risk, equity prices and credit spreads. The credit union's exposure changes depending on market conditions. The primary market risks that credit union is exposed to are interest rate risk and foreign currency risk.

The Finance Division manages day-to-day market risk within approved policies and reports quarterly to ALCO to ensure policy compliance. Management provides quarterly reports on these matters to the Risk Committee.

*Interest rate risk*

The most significant form of market risk to the credit union is interest rate risk. Interest rate risk is the potential adverse impact on profit due to changes in interest rates.

The credit union's exposure to interest rate risk arises due to timing differences in the repricing of assets and liabilities, as well as due to financial assets and liabilities with fixed and floating rates. The credit union's exposure to interest rate risk can be measured by the mismatch or gap between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time buckets.

The following table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing/maturity dates. Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The schedule does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

| **2022** | On demand | Within 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 64,670 | - | - | - | - | 3,596 | 68,266 |
| *Effective rate* | *4.23%* | - | - | - | - | - | *4.01%* |
| Investments | 44,403 | 55,250 | 94,200 | 101,495 | 1,055 | 29,988 | 326,391 |
| *Effective rate* | *4.39%* | *3.13%* | *2.72%* | *2.92%* | *3.28%* | - | *2.99%* |
| Loans | 245,435 | 36,923 | 174,011 | 749,058 | 52,678 | - | 1,258,105 |
| *Effective rate* | *6.84%* | *4.24%* | *3.93%* | *3.77%* | *4.73%* | - | *4.44%* |
| Other receivables | - | - | - | - | - | 18,611 | 18,611 |
| | **354,508** | **92,173** | **268,211** | **850,553** | **53,733** | **52,195** | **1,671,373** |
| **Liabilities** | | | | | | | |
| Deposits | 584,598 | 90,059 | 259,450 | 181,062 | 312 | 387,987 | 1,503,468 |
| *Effective rate* | *1.93%* | *1.44%* | *2.95%* | *2.85%* | *3.64%* | - | *1.69%* |
| Loans payable | - | 1,753 | 3,925 | 2,916 | - | - | 8,594 |
| *Effective rate* | - | *2.81%* | *2.63%* | *1.47%* | - | - | *2.27%* |
| Other liabilities | - | - | - | - | - | 5,916 | 5,916 |
| Member capital | - | - | - | - | - | 39,807 | 39,807 |
| | **584,598** | **91,812** | **263,375** | **183,978** | **312** | **433,710** | **1,557,785** |
| **Net mismatch** | **(230,090)** | **361** | **4,836** | **666,575** | **53,421** | **(381,515)** | **113,588** |

**20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**

*Interest rate risk continued*

| **2021** | On demand | Within 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 71,810 | - | - | - | - | 4,147 | 75,957 |
| *Effective rate* | *0.25%* | - | - | - | - | - | *0.25%* |
| Investments | 54,493 | 66,897 | 129,250 | 84,732 | 1,123 | 25,958 | 362,453 |
| *Effective rate* | *0.24%* | *0.84%* | *0.69%* | *1.17%* | *3.28%* | - | *0.66%* |
| Loans | 219,082 | 25,786 | 128,935 | 756,931 | 33,080 | - | 1,163,814 |
| *Effective rate* | *3.98%* | *4.09%* | *3.71%* | *3.54%* | *4.27%* | - | *3.67%* |
| Other receivables | - | - | - | - | 2,153 | - | 2,153 |
| | | | | | *3.50%* | | *3.50%* |
| | **345,385** | **92,683** | **258,185** | **841,663** | **36,356** | **30,105** | **1,604,377** |
| **Liabilities** | | | | | | | |
| Deposits | | | | | | | |
| *Effective rate* | 594,053 | 106,838 | 229,320 | 158,250 | 166 | 365,952 | 1,454,579 |
| Loans payable | *0.32%* | *1.26%* | *0.97%* | *2.30%* | *1.58%* | - | *0.63%* |
| *Effective rate* | - | 726 | 3,538 | 9,760 | - | - | 14,024 |
| Other liabilities | - | *2.13%* | *2.40%* | *2.32%* | - | - | *2.33%* |
| Member capital | - | - | - | - | - | 7,943 | 7,943 |
| | - | - | - | - | - | 35,971 | 35,971 |
| | **594,053** | **107,564** | **232,858** | **168,010** | **166** | **409,866** | **1,512,517** |
| **Net mismatch** | **(248,668)** | **(14,881)** | **25,327** | **673,653** | **36,190** | **(379,761)** | **91,860** |

The credit union estimates comprehensive income would be impacted by the following amounts given a +/- 1% change in interest rates. Given the non-linear relationship between broader market rates and rates on credit union deposits, the sensitivity of comprehensive income to interest rates is expected to decrease as market rates increase.

| Impact to comprehensive income | **2022** | **2021** |
|---|---|---|
| 1% rise in the prime interest rate | 903 | 1,077 |
| 1% decrease in the prime interest rate | (903) | (1,077) |

To manage its exposure to interest rate fluctuations and to manage the asset liability mismatch, the credit union enters into interest rate swaps. It minimizes the interest rate risk and cash required to liquidate the contracts by entering into counter balancing positions. The credit union does not have any existing swaps at December 31, 2022.

Board policy places limitations on exposure to interest rate risk by outlining maximum acceptable levels of asset-liability gap, maximum acceptable levels of margin sensitivity to interest rates, and by placing restrictions on the types and quantities of asset classes that may be held in the credit union's investment portfolio.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. It is not considered significant at this time as the credit union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period. As at December 31, 2022, the credit union had $6,575 (2021 - $7,329) in U.S. dollar financial assets. This is comprised of a $2,000 (2021 - $2,000) U.S. dollar bond and the remainder is in U.S. dollar accounts with SaskCentral. These assets were held to offset exposure of $6,607 (2021 -$7,384) in U.S. dollar financial liabilities, primarily in the form of deposits from members.

## 21. COMMITMENTS

*Operating leases*

The credit union currently has not entered into any agreements to lease equipment and property.

*Commitments subject to credit risk*

Standby letters of credit represent irrevocable assurances that the credit union will make payments in the event that a member cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members.

Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit. The credit union makes the following instruments available to its members:

- Standby letters of credit representing irrevocable assurances that the credit union will pay if a member cannot meet their obligations to a third party;
- Documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions;
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit), guarantees or letters of credit;
- Irrevocable commitments to venture capital investments that are subject to cash calls; and
- Credit card guarantees to Collabria MasterCard representing assurances that the credit union will assume the associated credit risk if a member cannot meet their obligations to Collabria.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. As at December 31, 2022, the credit union had the following other commitments subject to credit risk:

| | **2022** | **2021** |
|---|---:|---:|
| Undrawn lines of credit | 269,013 | 217,555 |
| Standby letters of credit | 2,117 | 2,010 |
| Commitments to extend credit | 32,626 | 19,655 |
| Venture Capital cash calls | 5,349 | 6,071 |
| Collabria MasterCard guarantees | 316 | 383 |
| | **309,421** | **245,674** |

*Other commitments*

The credit union has various other commitments that include community investments, banking system services and software contracts. Future estimated payments for these commitments are as follows.

| | Estimated payments |
|---|---:|
| 2023 | 1,031 |
| 2024 | 1,124 |
| 2025 | 923 |
| 2026 | 10 |
| 2027 | 10 |
| Thereafter | 30 |
| | 3,128 |

In the table above, property, plant and equipment commitments are nil and intangible asset commitments total $140.

## 22. OTHER LEGAL AND REGULATORY RISK

Legal and regulatory risk is the risk that the credit union has not complied with requirements set out in terms of compliance such as standards of sound business practice, anti-money laundering legislation or their code of conduct/conflict of interest requirements. In seeking to manage these risks, the credit union has established policies and procedures and monitors to ensure ongoing compliance.

## 23. EVENTS AFTER THE REPORTING PERIOD

On May 18, 2022, the membership of New Community Credit Union voted in favour of the amalgamation proposed by the Board of Directors of New Community Credit Union and Synergy Credit Union Ltd. The amalgamation was approved by the Credit Union Deposit Guarantee Corporation pursuant to subsection 307(2)(d) of the Act on September 21, 2022, with the newly amalgamated Credit Union operating as Synergy Credit Union Ltd. effective January 1, 2023.

The assets and liabilities of New Community Credit Union constitutes a business and will be accounted for using the acquisition method of accounting. The credit union has been identified as the acquirer, acquiring 100% of the voting equity interest of New Community Credit Union (the acquiree). The results of the acquired business will be included in the financial statements of the credit union from the date of acquisition.

The amalgamation is anticipated to increase the Credit Union trade area by providing increased access to the retail network. The merger provides an opportunity for increased efficiencies through the combination of front and back office functionality, as well as an opportunity for the members of the amalgamated credit union to have access to a more diverse product base.

There will be no consideration transferred in order to amalgamate the credit unions. In the absence of consideration transferred, the fair value of the interest in the acquired entity will be calculated using the amalgamation date fair value of the equity interest of the acquired entity. In addition, the fair value of the acquiree's net assets will be recognized as a direct addition to capital or equity on the statement of financial position.

Due to the timing of the issuance of these financial statements, the credit union has not completed their assessment of the acquisition date fair value of the total consideration transferred and the acquisition date fair value of each major class of consideration such as cash, investments, loans, property, plant and equipment, intangible assets, deposits, other liabilities acquired, and equity interests of the acquired Credit Union. As a result, no disclosure relating to these items has been provided in these financial statements.

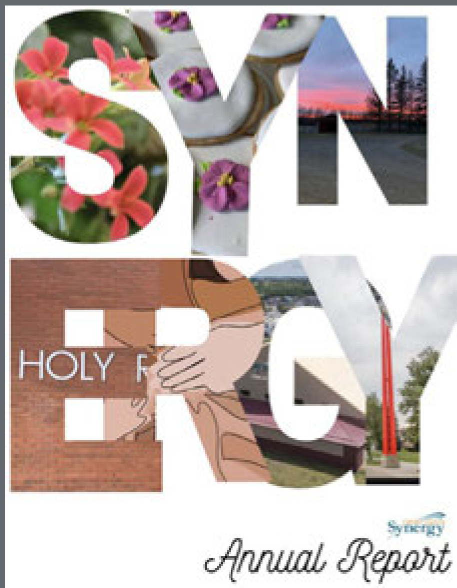
## 24. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year’s presentation.

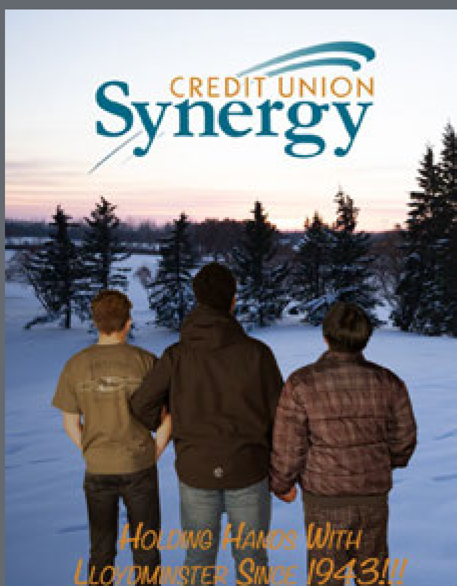
## SCHEDULE 1: NON-INTEREST EXPENSES

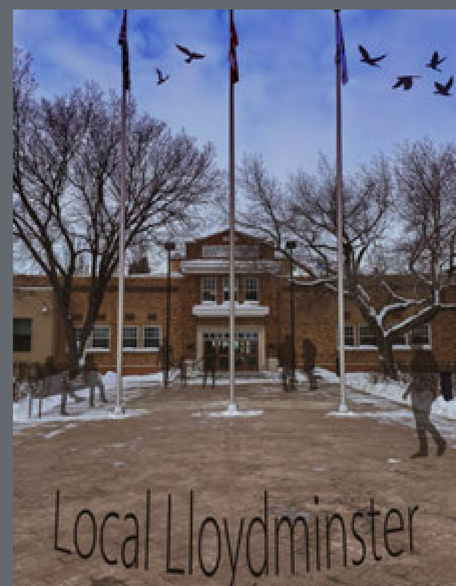
For the years ended December 31

| ($ thousands) | 2022 | 2021 |
|---|---|---|
| **PERSONNEL** | | |
| Salaries | 16,340 | 15,756 |
| Employee profit sharing | 3,297 | 1,561 |
| Employee benefits | 3,087 | 2,991 |
| Other | 558 | 360 |
| | **23,282** | **20,668** |
| **OCCUPANCY** | | |
| Building depreciation | 1,505 | 1,614 |
| Building and land taxes | 399 | 406 |
| Building fire insurance | 189 | 192 |
| Building maintenance | 578 | 497 |
| Heat, light and water | 392 | 122 |
| Janitorial services | 521 | 535 |
| Other | 219 | 218 |
| | **3,803** | **3,584** |
| **MEMBER SECURITY** | | |
| CUDGC deposit insurance assessment | 1,160 | 1,163 |
| Fidelity and burglary insurance | 151 | 155 |
| Life savings insurance | 23 | 8 |
| | **1,334** | **1,326** |
| **GENERAL BUSINESS** | | |
| Advertising and donations | 1,703 | 1,273 |
| Automotive | 45 | 28 |
| Computer costs | 3,984 | 3,956 |
| Equipment depreciation | 415 | 514 |
| External audit | 153 | 149 |
| Foreclosed property | 150 | 231 |
| Loan, search and legal fees | 500 | 343 |
| Overdraft and fraud losses | 77 | 48 |
| Card fees | 175 | 106 |
| Service, clearing and ATM charges | 1,391 | 1,399 |
| Stationary and supplies | 84 | 72 |
| Telephone and postage | 498 | 421 |
| Other | 590 | 440 |
| | **9,765** | **8,980** |
| **ORGANIZATION COSTS** | | |
| Annual meetings | 25 | 10 |
| Director compensation and expenses | 167 | 173 |
| SaskCentral dues | 65 | 85 |
| Other | 82 | 5 |
| | **339** | **273** |
| **TOTAL NON-INTEREST EXPENSES** | **38,523** | **34,831** |

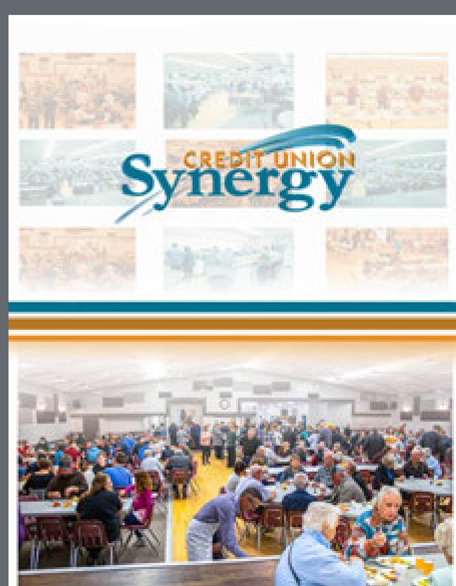


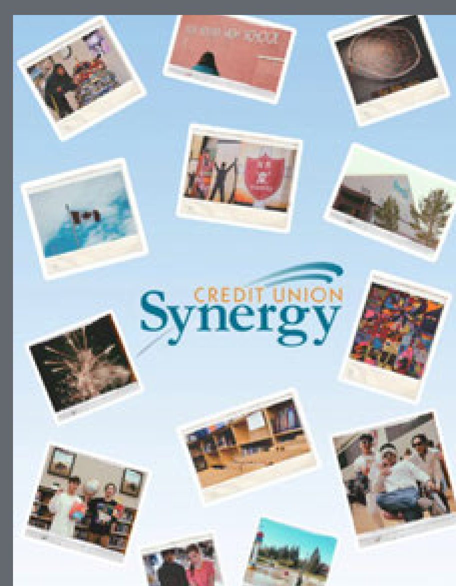




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