Affinity Credit Union Consolidated Financial Statements

December 31, 2022

Affinity
Credit Union

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying summary consolidated financial information for Affinity Credit Union has been prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments.

The summary consolidated financial information was prepared in accordance with financial reporting requirements prescribed by the Credit Union Act, 1998 of the Province of Saskatchewan, Credit Union Deposit Guarantee Corporation, and by statute. The accounting policies followed in the preparation of these financial statements conform to international financial reporting standards (IFRS).

Financial and operating data elsewhere in the annual report are consistent with this financial information. In discharging our responsibility for the integrity and fairness of the summary consolidated financial information and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with appropriate legislation and conflict of interest rules, and by an internal audit team, which conducts periodic audits of all aspects of our operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit and Finance Committee, which is composed entirely of independent directors. This Committee reviews our consolidated financial information and recommends them to the Board for approval. Other key responsibilities of the Audit and Finance Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. Our Compliance Manager and Chief Internal Auditor have full and unrestricted access to the Audit and Finance Committee.

Further monitoring of financial performance and reporting is carried out by the Credit Union Deposit Guarantee Corporation. It is given its responsibilities and powers by provincial statute through the Credit Union Act. Its purpose is to guarantee members' funds on deposit with Saskatchewan Credit Unions and provide preventative services. Preventative services include ongoing financial monitoring, regular reporting and consultation.

KPMG LLP, Chartered Professional Accountants appointed by the members of Affinity Credit Union upon the recommendation of the Audit and Finance Committee and Board, have performed an independent audit of the consolidated financial statements. The auditors have full and unrestricted access to the Audit and Finance Committee to discuss their audit and related findings.

Mark Lane	Nilesh Kavia
Chief Executive Officer	Chief Financial Officer

Saskatoon, Saskatchewan
March 13, 2023

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500, 475-2nd Avenue South
Saskatoon Saskatchewan S7K 1P4
Tel 306-934-6230
Fax 306-934-6233

INDEPENDENT AUDITOR'S REPORT

To the Members of Affinity Credit Union

Opinion

We have audited the consolidated financial statements of Affinity Credit Union (the Entity), which comprise:

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

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

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

KPMG LLP

Saskatoon, Canada

March 14, 2023

Affinity Credit Union
Consolidated Statement of Financial Position
As at December 31 (in thousands of CDN $)

	Note	**2022**	2021
Assets			
Cash		**34,413**	48,229
Financial investments	7	**1,365,000**	1,388,586
Loans	8	**5,638,782**	5,250,199
Other assets	9	**187,998**	111,414
Total Assets		**7,226,193**	6,798,428
Liabilities			
Deposits	12	**6,396,863**	6,092,599
Other liabilities	13	**63,654**	59,687
Total Liabilities		**6,460,517**	6,152,286
Equity			
Retained earnings		**765,676**	646,142
Total Equity		**765,676**	646,142
Total Liabilities and Equity		**7,226,193**	6,798,428

Commitments (Notes 7, 8, 10)

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

Approved by the Board

Mitchell Anderson
.... **Chair, Board of Directors**

Scott Flavel
.... **Chair, Audit and Finance Committee**

Affinity Credit Union
Consolidated Statement of Comprehensive Income
Year ended December 31 (in thousands of CDN $)

	Note	**2022**	2021
Interest income			
Loans		**197,912**	176,921
Investments		**26,892**	19,750
		224,804	196,671
Interest expense			
Deposits		**72,055**	46,052
Borrowings		**284**	130
		72,339	46,182
Net interest		**152,465**	150,489
Provision (recovery) for credit losses	20	**1,983**	(4,546)
Net interest income after provision for credit losses		**150,482**	155,035
Other income	17	**119,119**	56,569
Net interest and other income		**269,601**	211,604
Operating expenses			
Personnel		**80,679**	76,261
General business		**32,911**	30,886
Occupancy		**11,136**	10,583
Organizational		**2,762**	1,345
Security		**5,352**	5,138
		132,840	124,213
Income before income tax		**136,761**	87,391
Provision for income taxes	15	**17,227**	23,335
Net and comprehensive income		**119,534**	64,056

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

Affinity Credit Union
Consolidated Statement of Changes in Equity
Year ended December 31 (in thousands of CDN $)

	2022	2021
Retained earnings, beginning of year	**646,142**	582,086
Net income	**119,534**	64,056
Retained earnings, end of year	**765,676**	646,142

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

Affinity Credit Union
Consolidated Statement of Cash Flows
Year ended December 31 (in thousands of CDN $)

	Note	**2022**	2021
Cash flows from (used in) operating activities			
Net income		**119,534**	64,056
Adjustments to operating cash flows	18	**(194,554)**	(136,070)
Changes in operating assets and liabilities	18	**(177,542)**	(24,638)
Cash interest received		**220,801**	200,482
Cash interest paid		**(58,098)**	(56,024)
Cash income taxes paid		**(27,238)**	(17,494)
		(117,097)	30,312
Cash flows from (used in) investing activities			
Proceeds from investments		**444,945**	370,184
Purchases of investments		**(347,292)**	(404,978)
Purchase of non-financial assets		**(3,714)**	(4,714)
		93,939	(39,508)
Cash flows from (used in) financing activities			
Other liabilities		**15**	14
Loans under administration advanced	16	**8,642**	90
Repurchase of loans	16	**-**	(318)
		8,657	(214)
Net increase (decrease) in cash		**(14,501)**	(9,410)
Net foreign exchange difference on cash held		**685**	(604)
Cash, beginning of year		**48,229**	58,243
Cash, end of year		**34,413**	48,229

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

Note 1. Corporate Information

Affinity Credit Union was continued pursuant to The Credit Union Act, 1998 of the Province of Saskatchewan (the Act). It and its subsidiaries (Note 4(a)) (collectively the Credit Union) serve members and non-members through the provision of a broad range of financial services on-line and through numerous locations throughout Saskatchewan. Affinity's regulator, Credit Union Deposit Guarantee Corporation (the Corporation), a provincial corporation, guarantees the repayment of all deposits with Saskatchewan credit unions, including accrued interest. The Act provides that the Province of Saskatchewan will ensure that the Corporation carries out that obligation.

The controlling entity in the consolidated group is Affinity Credit Union. The registered office and principal place of business is:

Affinity Credit Union
902 7th Ave N
PO Box 1330
Saskatoon SK S7K 3P4

Note 2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements for the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors (Board) on March 13, 2023.

Details of the Credit Union's accounting policies, including changes during the year, are included in Notes 4 and 5.

The consolidated financial statements have been prepared on the historic cost basis except certain financial instruments (Note 4) and investment properties are measured at fair value.

The consolidated financial statements are presented in Canadian dollars (CDN $) which is the Credit Union's functional currency. All values are rounded to the nearest thousand dollars ($'000).

Note 3. Use of Estimates and Key Judgments

In preparing these consolidated financial statements, management has made estimates and judgments that affect the application of the Credit Union's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Assumptions underlying estimates and judgments are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The most significant uses of estimates and judgments relate to the Credit Union's assets as follows:

Note 4(c)(ii) – assessment of the business model impacting the classification of financial assets
Note 4(c)(iv) – estimates of fair value for financial instruments when there is no observable market price
Note 4(c)(v) – the measurement of expected credit losses

The credit loss amounts may be significantly different depending on the assumptions and estimates that are made and the ultimate outcome will be dependent on future events.

Note 4. Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of Affinity Credit Union and all of its controlled entities. A controlled entity is any entity over which Affinity Credit Union has the power to govern, has exposure to the rights and variable returns, and has the ability to exercise influence by exercising power in order to affect the returns.

All inter-company balances and transactions between the controlled entities, including any unrealized profits or losses, have been eliminated upon consolidation, and therefore have not been specifically disclosed. If necessary, adjustments are made to ensure consistency of accounting policies.

Included in the consolidated financial statements are the following 100% owned and controlled entities:

- ACU Insurance Services Inc.
- Affinity Holdings Inc.
- Affinity Employee Services Inc.
- Affinity Services Group Inc.
- Affinity Insurance Services Inc.
- Affinity Insurance Services Regina Inc.
- Affinity Insurance Services North Albert Inc.
- Affinity Insurance Services Meadow Lake Inc.
- Affinity Insurance Services Saskatoon Inc.
- Affinity Insurance Services Prince Albert Inc.
- Spectra Financial Inc.

All entities are incorporated in the Province of Saskatchewan and have a year-end of December 31.

(b) Cash

Cash includes notes and coins on hand as well as deposits with other deposit taking institutions that have an initial term to maturity of less than three months. Cash is carried at amortized cost (AC).

(c) Financial Instruments

The Credit Union's financial assets include loans and financial investments. Financial liabilities are comprised mainly of deposits. Risk management practices associated with financial instruments are disclosed in Note 20.

<u>Loans</u>

Loans include finance lease receivables, purchased loans, foreclosed assets, financial guarantees, financial commitments to advance on approved credit, and accrued interest on loans. Financial guarantees and financial commitments to advance on approved credit are reported to the extent that credit is funded.

Loans under administration are not recognized in the Credit Union's financial statements as the Credit Union does not retain the risks and rewards of the financial asset.

In the event the Credit Union takes possession of collateral held as security against loans, the Credit Union's policy is to pursue timely realization of the collateral in an orderly manner. The Credit Union does not generally use the non-cash collateral, such as foreclosed assets, for its own operations.

Note 4. Significant Accounting Policies – *continued*

(c) Financial Instruments - *continued*

Financial Investments

The Credit Union holds financial investments to meet liquidity requirements and interest rate risk management objectives. Financial investments are mainly comprised of interest bearing term deposits as well as government and corporate bonds.

The Credit Union does not participate in active trading of financial investments.

Deposits

Deposits are comprised of demand and term deposits, which includes any registered product offerings.

i. Recognition

The Credit Union initially recognizes loans and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recorded at fair value. Except for items at fair-value-through-profit-or-loss (FVTPL), amounts initially recorded are adjusted for directly attributable transaction costs.

ii. Classification

Financial Assets

On initial recognition, a financial asset is classified for subsequent measurement using one of three measurement models.

Loans and debt financial investments are measured at AC if it is not designated as FVTPL and the asset is held within a business model whose objective is to hold assets to collect contractual cash flows. The contractual terms of the financial asset must also give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt financial investments are measured at fair-value-through-other-comprehensive-income (FVOCI) if it is not designated as FVTPL and the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual terms of the financial asset must also give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. The Credit Union does not have any financial investments measured at FVOCI.

On initial recognition of equity financial investments that are not held for trading, the Credit Union may irrevocably elect FVOCI. This election is made on an investment-by-investment basis.

All other financial investments and derivatives are classified as FVTPL. Fair value adjustments are recorded within other income.

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

Business Model Assessment

The Credit Union makes an assessment of the objective of the business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes: the stated policies and objectives for the portfolio and the operation of those policies in practice, how the performance of the portfolio is evaluated, the risks that affect the performance of the business model and how those risks are managed, how managers of the business are compensated, and the frequency, volume, and timing of sales in prior periods as well as the reasons for such sales and its expectations about future sales activity.

Note 4. Significant Accounting Policies – *continued*

(c) Financial Instruments - *continued*

ii. Classification – *continued*

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment Whether Contractual Cash Flows are SPPI

For the purposes of this assessment, 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 and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs.

In assessing whether the contractual cash flows are SPPI, the Credit Union considers the contractual terms of the instrument including assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union's business models during the current year.

Financial Liabilities

The Credit Union classifies its financial liabilities, including deposits, as measured at AC, with the exception of derivatives, which are measured at FVTPL.

iii. Derecognition

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

On derecognition of the financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recorded in profit or loss.

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

iv. Fair Value Measurement

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices in an active market. In the absence of an active market, the Credit Union determines the fair value based on internal and external valuation models, such as observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles or discounted cash flow analysis.

The Credit Union classifies and discloses fair value measurements of financial instruments using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. See Note 22 for further discussion regarding the fair value of financial instruments.

Note 4. Significant Accounting Policies – *continued*

(c) Financial Instruments - *continued*

v. Allowance for Credit Losses

The Credit Union recognizes loss allowances for expected credit losses (ECL) on debt instruments (including loans, certain financial investments, and certain other financial assets) that are not measured at FVTPL. No impairment loss is recognized on equity investments. Under the ECL model, an allowance is recorded on financial assets regardless of whether there has been an actual loss event.

The Credit Union recognizes a loss allowance at an amount equal to 12 month ECL, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). A lifetime ECL is recorded on performing financial assets which are considered to have experienced a significant increase in credit risk (Stage 2) and on credit impaired financial assets (Stage 3).

The main factors considered in determining a significant increase in credit risk include relative changes in probability of default since origination and certain other criteria such as 30 day past due and watch-list status.

The Credit Union assesses that assets are credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event (a loan overdue for 90 days is considered credit impaired);
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security due to financial difficulties.

Borrowers who opt for payment deferral programs offered are not considered to be past due and would not be considered a significant increase in credit risk or impaired on this merit alone.

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information.

The PD represents the likelihood that a financial asset will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2.

EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur.

LGD is the amount that may not be recovered in the event of default and takes into consideration the amount and quality of any collateral held as security.

The Credit Union considers past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses. In assessing information about possible future economic conditions, multiple economic scenarios have been utilized.

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all estimated cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);

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

- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down to the amount likely to be funded and the cash flows that the Credit Union expects to receive; and

Note 4. Significant Accounting Policies – *continued*

(c) Financial Instruments – *continued*

v. Allowance for Credit Losses – continued

- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

See Note 20(a) for further discussion around credit risk and ECL.

Presentation of Allowance for ECL

In the Consolidated Statement of Financial Position, financial assets are presented on a net basis, where the loss allowances for ECL are deducted from the gross carrying amount of the assets.

Write-offs

Financial assets are written off when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or a source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

(d) Property and Equipment

Property includes land, land improvements, and buildings. Equipment includes furniture, automobiles, and technological hardware. Property and equipment are carried at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Costs for repairs and maintenance are recognized as expenses in profit or loss in the period in which they are incurred.

Depreciation is calculated using the straight-line method which allocates the cost to their residual values over their estimated useful lives, as follows:

Property	5 - 40 years
Equipment	2 - 10 years
Leaseholds	4 - 15 years

Land is not depreciated, although in common with all long lived assets, it is subject to impairment testing.

Gains and losses on disposals are determined as the difference between the net sales proceeds and the carrying amounts of the assets. Items are derecognized upon disposal or when no future economic benefits are expected from their use or disposal.

(e) Intangible Assets

Intangible assets are recognized and reported separately from goodwill and include certain computer software, banking system software, wealth management relationships, supplier contracts and other insurance related intangibles as well as preferred arrangements assessed on all business combinations where the Credit Union is considered the acquirer. All intangibles are initially recorded at cost or at their assessed fair value at the time of the business combination.

Intangible assets that have a finite useful life are amortized over the estimated useful economic life, as follows:

Software	3 - 24 years
Other intangibles	10 - 18 years

Insurance business related intangible assets pertain to the acquisition of insurance agencies where the purchase price exceeded the net working capital and share value of the agencies acquired. These license related intangible assets have an indefinite useful life and no amortization is recorded.

Amortization and impairment losses (if any) and gains and losses on the disposal of intangible assets are recorded in the year they are incurred in the Consolidated Statement of Comprehensive Income.

Note 4. Significant Accounting Policies – *continued*

(f) Impairment of Non-financial Assets

The Credit Union performs impairment testing on property and equipment and intangible assets annually to determine whether there is any indication that an item of property and equipment or an intangible asset may be impaired. If any such indication exists, an impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use.

If there is any indication that an impairment loss recognized for an asset in prior periods may no longer exist or may have decreased, the impairment loss is reversed to an amount not in excess of the initial carrying amount.

(g) Income Tax

Income tax expense comprises current and deferred tax and are recognized in profit or loss.

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

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantially enacted income tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for income tax purposes to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized through profit or loss in the period of change.

Deferred income taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities, but the Credit Union intends to settle its current tax assets and liabilities on a net basis or simultaneously.

(h) Membership Equity

Membership equity is classified as a liability in accordance with its terms. The authorized share capital is unlimited in amount and consists of membership shares with a par value equal to five dollars each.

In accordance with the Act, amounts allocated from retained earnings and held for the credit of members in membership equity accounts are ranked equally with membership shares.

Memberships and shares to become a member are voluntary. Redemption of member equity accounts shall be with the approval of the Board or in a manner approved by the Board and in accordance with the Act. Characteristics of membership shares and member equity accounts include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

Membership shares and membership equity accounts are not guaranteed by the Corporation.

(i) Interest

Interest revenue and expense is recognized on an accrual basis using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that discounts the estimated future cash receipts over the expected life of the financial asset.

When a loan is classified as impaired, a reserve is recorded against accrued interest. Accrued interest on impaired loans may be recovered as part of the recovery of the debt.

Note 4. Significant Accounting Policies – *continued*

(j) Fees, Commissions and Other Income

Fees, commissions and other income are recorded on an accrual basis over the period to which they relate, once a right to receive consideration has been attained. Financial service fees are recognized as revenue when the service is provided.

Where the Credit Union receives consideration prior to a service being substantially performed or before a right to receive consideration has been fully attained, a liability equal to the unearned consideration is recorded.

Fees and commission income and expenses that are integral to the effective interest rate on a financial instrument are included in the effective interest rate. Loan and financial investment fees that are recognized using the effective interest method are included in their respective category balances in the Consolidated Statement of Financial Position.

(k) Foreign Currency Transactions

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at the exchange rate prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date.

Translation gains and losses are recorded in other income.

(l) Employee Benefits

Employee benefits include all forms of consideration given by the Credit Union in exchange for services rendered by employees such as: salaries and wages, deductions at source, paid annual vacation or sick leave, employee recognition payments and variable compensation. Salaries and benefits are recognized as an expense and liability as they are earned by the employee and the obligation can be reasonably estimated. Employee benefits payable, in greater than one year's time, have been measured at the present value of the estimated future cash outflows.

The Credit Union contributes to a defined contribution superannuation fund, which provides benefits for employees upon retirement or death, whereby the Credit Union has no financial interest in the fund and is not liable for the performance or obligations of the fund. Credit Union contributions to the plan are charged as an expense as incurred.

(m) Leases

Leases, whereby the Credit Union is the lessee, are recorded on the commencement date by recognizing a right-of-use lease asset and lease liability. The right-of-use lease asset cost is measured at the initial amount of the lease liability and is subsequently depreciated using the straight-line method to the end of the lease term. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit to the lease, and is subsequently repaid using the effective interest rate method.

(n) Government Assistance

Government assistance is recorded in other income on an accrual basis over the period in which the Credit Union qualifies for assistance.

Note 5. Changes in Accounting Policies

The Credit Union has consistently applied the accounting policies as set out in Note 4 to all periods presented in these consolidated financial statements.

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 6. Future Accounting and Reporting Changes

As at December 31, 2022, a number of standards, interpretations, and amendments thereto have been issued by the IASB, which are not effective for these consolidated financial statements. None of these new standards are expected to have a significant effect on the consolidated financial statements of the Credit Union.

Note 7. Financial Investments

The net carrying values of financial investments by category are presented in the tables below:

Amortized cost	**2022**	2021
Government debt	**150,873**	136,277
Corporate debt	**169,094**	93,286
Liquidity reserve	**635,382**	608,209
Term deposits	**305,973**	467,363
	1,261,322	1,305,135
Fair-value-through-profit-or-loss		
Corporate debt	**490**	411
Co-operative shares	**50,071**	46,344
Venture capital funds	**48,383**	33,349
	98,944	80,104
	1,360,266	1,385,239
Accrued interest	**5,238**	3,839
ECL on investments	**(504)**	(492)
	1,365,000	1,388,586

As at December 31, 2022, the Credit Union has commitments to invest in venture capital units in the amount of $31,257 (2021 - $38,481) that have not been provided for in the Consolidated Statement of Financial Position.

The effective interest rate on financial investments as at December 31, 2022 is 2.19% (2021 – 1.94%).

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 8. Loans

	2022			2021		
	Gross carrying value	**ECL allowance**	**Net carrying value**	Gross carrying value	ECL allowance	Net carrying value
Consumer						
Mortgage guaranteed	**717,389**	**-**	**717,389**	724,664	-	724,664
Mortgage conventional	**1,673,989**	**3,569**	**1,670,420**	1,555,156	1,321	1,553,835
Non-mortgage	**489,872**	**5,175**	**484,697**	474,450	5,586	468,864
	2,881,250	**8,744**	**2,872,506**	2,754,270	6,907	2,747,363
Commercial						
Mortgage	**1,669,837**	**9,525**	**1,660,312**	1,491,033	13,131	1,477,902
Non-mortgage	**192,049**	**4,098**	**187,951**	163,062	6,001	157,061
	1,861,886	**13,623**	**1,848,263**	1,654,095	19,132	1,634,963
Agricultural						
Mortgage	**751,385**	**969**	**750,416**	719,740	483	719,257
Non-mortgage	**152,062**	**515**	**151,547**	134,831	448	134,383
	903,447	**1,484**	**901,963**	854,571	931	853,640
Foreclosed assets	**2,124**	**1,022**	**1,102**	3,765	1,825	1,940
Accrued interest	**15,265**	**317**	**14,948**	12,762	469	12,293
	5,663,972	**25,190**	**5,638,782**	5,279,463	29,264	5,250,199

As at December 31, 2022, the Credit Union has commitments to extend credit, including undrawn lines of credit, financial guarantees, and commercial letters of credit, in the amount of $1,153,452 (2021 - $1,107,353) that have not been provided for in the Consolidated Statement of Financial Position.

The expected credit loss provision on loan commitments issued at December 31, 2022 is $1,289 (2021 - $1,259).

The effective interest rate on loans as at December 31, 2022 is 4.09% (2021 – 3.44%).

Note 9. Other Assets

	2022	2021
Investment properties	**892**	925
Prepaid, receivables and other	**13,890**	8,814
SaskCentral dividend receivable	**68,347**	-
Right-of-use lease asset	**10,010**	7,058
Fair value of derivative assets (Note 14)	**2,735**	3,192
Property and equipment (Note 10)	**64,964**	67,053
Intangible assets (Note 11)	**15,071**	15,949
Current income tax receivable	**3,854**	-
Deferred income tax asset (Note 15)	**8,235**	8,423
	187,998	111,414

The SaskCentral dividend receivable relates to the Credit Union's proceeds resulting from SaskCentral's sale of Concentra Bank to Equitable Bank that occurred on November 1, 2022. The dividend is expected to be paid in early 2023. The dividend income has been recognized within Other income (Note 17).

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 10. Property and Equipment

	2022				2021			
	Property	**Equipment**	**Leaseholds**	**Total**	Property	Equipment	Leaseholds	Total
Cost								
Opening balance	**68,083**	**14,013**	**17,843**	**99,939**	68,061	12,439	16,818	97,318
Additions	**10**	**2,652**	**1,013**	**3,675**	22	2,518	1,025	3,565
Disposals	**-**	**(6)**	**-**	**(6)**	-	(81)	-	(81)
Fully depreciated assets written off	**(6)**	**(814)**	**(43)**	**(863)**	-	(863)	-	(863)
Closing balance	**68,087**	**15,845**	**18,813**	**102,745**	68,083	14,013	17,843	99,939
Accumulated depreciation & impairment								
Opening balance	**(16,980)**	**(6,170)**	**(9,736)**	**(32,886)**	(15,404)	(4,679)	(8,317)	(28,400)
Depreciation	**(1,561)**	**(2,717)**	**(1,485)**	**(5,763)**	(1,576)	(2,420)	(1,419)	(5,415)
Disposals	**-**	**5**	**-**	**5**	-	66	-	66
Fully depreciated assets written off	**6**	**814**	**43**	**863**	-	863	-	863
Closing balance	**(18,535)**	**(8,068)**	**(11,178)**	**(37,781)**	(16,980)	(6,170)	(9,736)	(32,886)
Net book value	**49,552**	**7,777**	**7,635**	**64,964**	51,103	7,843	8,107	67,053

As at December 31, 2022, the Credit Union has property and equipment capital expenditure commitments in the amount of $956 (2021 - $3,817) that have not been provided for in the Consolidated Statement of Financial Position.

Note 11. Intangible Assets

	2022			2021		
	Limited life	**Indefinite life**	**Total**	Limited life	Indefinite life	Total
Software	**2,338**	**-**	**2,338**	3,056	-	3,056
Other intangibles	**190**	**-**	**190**	350	-	350
Insurance related intangibles	**-**	**12,543**	**12,543**	-	12,543	12,543
	2,528	**12,543**	**15,071**	3,406	12,543	15,949

Note 12. Deposits

	2022	2021
Demand deposits	**3,045,206**	3,305,951
Term deposits	**3,315,974**	2,765,484
Accrued interest	**35,683**	21,164
	6,396,863	6,092,599

The effective interest rate on deposits as at December 31, 2022 is 1.81% (2021 – 0.68%).

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 13. Other Liabilities

	2022	2021
Accounts payable, accrued liabilities and other	**43,933**	38,048
Rewards loyalty program	**597**	51
Lease liability	**10,267**	7,311
Fair value of derivative liabilities (Note 14)	**3,245**	2,335
Membership equity	**2,091**	2,076
Current income tax liability	**-**	6,158
Deferred income tax liability (Note 15)	**3,521**	3,708
	63,654	59,687

Note 14. Derivative Financial Instruments

	Notional amounts by maturity					**Fair value**			
				2022	2021	**2022**		2021	
	Under 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**50,000**	**-**	**-**	**50,000**	100,000	**-**	**510**	857	-
Index-linked options	**4,153**	**52,956**	**-**	**57,109**	46,798	**2,735**	**2,735**	2,335	2,335
	54,153	**52,956**	**-**	**107,109**	146,798	**2,735**	**3,245**	3,192	2,335

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 15. Income Taxes

Reconciliation of the provision for income taxes:

	2022	2021
Income before income tax	**136,761**	87,391
Combined federal and provincial income tax rate	**27%**	27%
Income taxes at statutory rate	**36,925**	23,595
Provision for income taxes adjusted for the effect of:		
Non-taxable component of SaskCentral dividend	**(18,680)**	-
Non-deductible and non-taxable items	**(1,045)**	(652)
Differences in expected income tax rates	**227**	(115)
Prior year adjustments to income tax provision	**(143)**	562
Other	**(57)**	(55)
	17,227	23,335
Effective rate of income tax	**13%**	27%

Provision for income taxes consists of the following:	**2022**	2021
Current income tax	**17,226**	20,851
Deferred income tax	**1**	2,484
	17,227	23,335

The deferred income tax asset and liability is comprised of temporary differences attributable to the following:

Deferred income tax assets:	**2022**	2021
Loans	**5,374**	5,870
Leases	**492**	531
Loss carryforwards	**-**	390
Other	**2,369**	1,632
	8,235	8,423
Deferred income tax liabilities:		
Property and equipment	**3,521**	3,708
Net deferred income tax asset	**4,714**	4,715

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 16. Loans Under Administration

	2022	2021
Opening balance	**186,257**	150,378
Loans advanced	**8,642**	90
CEBA loans advanced	**-**	56,140
Less: loan repayment and government forgiveness	**(43,533)**	(20,033)
Less: loans repurchased	**-**	(318)
Closing balance	**151,366**	186,257

The December 31, 2022 balance includes $119,045 (2021 - $128,772) related to the CEBA program introduced in 2020 as a response to the COVID-19 pandemic. The Credit Union has no exposure to loss from any of these administered loans.

Note 17. Other Income

	2022	2021
Fees	**19,643**	20,187
Financial advisory services	**11,606**	11,415
Net investment gains on financial assets	**2,486**	6,617
Revenue from insurance agencies	**11,008**	10,866
Dividend income	**69,394**	1,823
Canada Emergency Wage Subsidy	**-**	1,429
Other	**4,982**	4,232
	119,119	56,569

Note 18. Cash Flow Information

Adjustments to operating cash flow	**2022**	2021
Provision (recovery) for credit losses	**1,983**	(4,546)
Depreciation of property and equipment (Note 10)	**5,763**	5,415
Amortization of lease assets	**2,392**	2,326
Amortization and impairment of intangible assets	**918**	1,119
Other income	**(70,372)**	(13,230)
Interest revenue	**(224,804)**	(196,671)
Interest expense	**72,339**	46,182
Income tax expense (Note 15)	**17,227**	23,335
	(194,554)	(136,070)
Changes in operating assets and liabilities (excluding cash)		
Loans	**(396,891)**	(256,184)
Deposits	**287,394**	240,806
Other assets	**(78,302)**	(1,831)
Other liabilities	**10,257**	(7,429)
	(177,542)	(24,638)

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 19. Related Party Transactions

(a) Key Management Personnel

Key management personnel (KMP) are those charged with the authority and responsibility for planning, directing and controlling the activities of the Credit Union. KMP includes the Board, the Chief Executive Officer and Executive Leadership Team.

Related parties of the Credit Union include KMP, close family members of KMP, and any corporations controlled by the above parties.

(b) Compensation of KMP

Compensation presented as short term benefits include wages and salaries, paid annual leave, paid sick leave, variable compensation and value of fringe benefits received, but excludes out of pocket expense reimbursements. The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for is as follows:

	2022	2021
Short term employee benefits	**3,630**	3,035
Post employment benefits	**229**	415
Director remuneration	**249**	227
	4,108	3,677

(c) Loans to Related Parties

The Credit Union's policy for lending to KMP is that all loans are approved under the same lending criteria applicable to members. Select KMP may receive concessional rates of interest on their loans and facilities, however, there are no benefits or concessional terms and conditions applicable to the Board or close family members of KMP. These benefits are included in the compensation figures above. Loans to KMP are included in loans on the Consolidated Statement of Financial Position.

There are no loans to KMP that are impaired.

Loans to Related Parties:	**2022**	2021
Aggregate value of loans	**4,195**	3,273
Aggregate value of negotiated revolving credit facilities	**1,525**	1,847
Less: amounts drawn down	**(851)**	(400)
Net balance available	**674**	1,447
Interest and other revenue earned on loans and revolving credit facilities	**91**	80

(d) Other Transactions with Related Parties

KMP and related parties have received interest on deposits with the Credit Union during the fiscal year as detailed below. Interest has been paid on terms and conditions similar to those available on comparable transactions to members of the Credit Union.

The Credit Union's policy for receiving deposits from other related parties and in respect of other related party transactions is that all transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit.

Deposits with Related Parties:	**2022**	2021
Aggregate value of term and savings deposits	**4,962**	6,088
Interest paid on deposits	**50**	51

Note 19. Related Party Transactions - *continued*

(d) Other Transactions with Related Parties – *continued*

As at December 31, 2022, there were no other known related party transactions conducted with the Credit Union that would be outside of normal market practices or pricing.

Note 20. Financial Instrument Risk Management

(a) Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on financial assets.

The Credit Union manages credit risk through adherence to internal policies and procedures. In addition, the Corporation establishes standards within which the Credit Union must comply. Credit risk management principles include:

i. Balancing risk and return through:
   - ensuring that credit quality is not compromised for growth;
   - diversifying credit risks in transactions, relationships, and portfolios;
   - using credit risk rating and scoring systems, policies and tools;
   - pricing appropriately for the credit risk taken;
   - mitigating credit risk through preventive and detective controls.

ii. Avoiding all business activities that are not consistent with the Credit Union's values, code of conduct or policies.

The following committees are involved in the management of credit risk: Credit Risk Committee (CRCo), Strategic Risk Committee (SRCo), Asset and Liability Committee (ALCo), Risk Committee of the Board (RCo) and a variety of other internal management committees. Working in combination, these committees oversee credit risk limit approvals, adequacy in the framework of policies, processes and procedures to manage credit risk, and compliance with these credit risk policies and procedures at the business and transaction levels.

Products and services, including proposals for new and amended credit products and services, are comprehensively reviewed and approved under a risk assessment framework.

All loans are subject to continuous management review to assess whether there is objective evidence that any loan or group of loans is impaired. At regularly scheduled meetings, RCo receives reports providing an overview of the Credit Union risk profile, including trending information, significant risk issues and analysis of significant changes in exposures.

At December 31, 2022, the Credit Union's loan delinquency over ninety days, as a percentage of total loans was 0.37% (2021 – 0.53%).

Note 20. Financial Instrument Risk Management - *continued*

(a) Credit Risk - *continued*

Credit Quality

As part of managing enterprise risk, the Credit Union employs risk rating models for agricultural and commercial loans. These models rate the strength of the individual borrower by assessing financial metrics and management capability. Borrower ratings are established prior to approving a new loan, are updated with each periodic credit review, and are re-evaluated in the event of credit arrears or other indications of borrower distress.

Risk ratings determine the level of approval required within the organization, with higher risk loans requiring an elevated level of approval. Consolidated risk ratings are tracked and reported to management at least quarterly, with target ranges for average risk ratings set by the Board annually.

For consumer loans and mortgages, Affinity obtains individual beacon scores as a tool in assessing borrower risk prior to granting a loan. These beacon scores are updated periodically for the purpose of assessing increased credit risk within the loan impairment model.

The following table describes how the risk ratings and beacon scores are grouped for internal classification:

Internal Ratings Map

	Beacon	**Risk Rating**
Low risk	> 750	1 - 3
Medium risk	600 - 750	4 - 5
High risk	< 600	6 - 8
Impaired	Stage 3	Stage 3

All ratings for financial investments are provided by independent, third-party credit rating agencies. Unrated financial investments include unrated liquidity deposits held at SaskCentral and non-debt (equity) instruments.

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 20. Financial Instrument Risk Management - *continued*

(a) Credit Risk – *continued*

The following tables show additional information about the credit quality of loans and investments:

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Consumer loans				
Low risk	**1,596,184**	**8,085**	**-**	**1,604,269**
Medium risk	**1,087,147**	**61,373**	**-**	**1,148,520**
High risk	**46,358**	**19,648**	**-**	**66,006**
Impaired	**-**	**-**	**21,815**	**21,815**
Not rated	**38,989**	**1,651**	**-**	**40,640**
	2,768,678	**90,757**	**21,815**	**2,881,250**
Allowance for credit losses	**2,566**	**3,661**	**2,517**	**8,744**
Net carrying value	**2,766,112**	**87,096**	**19,298**	**2,872,506**
Commercial loans				
Low risk	**567,650**	**4,163**	**-**	**571,813**
Medium risk	**989,093**	**66,215**	**-**	**1,055,308**
High risk	**109,919**	**26,510**	**-**	**136,429**
Impaired	**-**	**-**	**20,455**	**20,455**
Not rated	**75,575**	**2,306**	**-**	**77,881**
	1,742,237	**99,194**	**20,455**	**1,861,886**
Allowance for credit losses	**7,057**	**3,471**	**3,095**	**13,623**
Net carrying value	**1,735,180**	**95,723**	**17,360**	**1,848,263**
Agricultural loans				
Low risk	**528,162**	**21,142**	**-**	**549,304**
Medium risk	**221,198**	**36,277**	**-**	**257,475**
High risk	**33,767**	**17,998**	**-**	**51,765**
Impaired	**-**	**-**	**23,575**	**23,575**
Not rated	**20,958**	**370**	**-**	**21,328**
	804,085	**75,787**	**23,575**	**903,447**
Allowance for credit losses	**227**	**1,094**	**163**	**1,484**
Net carrying value	**803,858**	**74,693**	**23,412**	**901,963**
Financial investments				
AAA (R-1 high)	**-**	**-**	**-**	**-**
AA (R-1 mid)	**308,165**	**-**	**-**	**308,165**
A (R-1 low)	**139,504**	**-**	**-**	**139,504**
BBB (R-2 mid) and below	**132,729**	**-**	**-**	**132,729**
Unrated	**779,868**	**-**	**-**	**779,868**
	1,360,266	**-**	**-**	**1,360,266**
Allowance for credit losses	**504**	**-**	**-**	**504**
Net carrying value	**1,359,762**	**-**	**-**	**1,359,762**

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 20. Financial Instrument Risk Management - *continued*

(a) Credit Risk - *continued*

	2021			
	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Low risk	1,503,628	6,773	-	1,510,401
Medium risk	1,049,283	59,410	-	1,108,693
High risk	49,179	19,662	-	68,841
Impaired	-	-	23,552	23,552
Not rated	40,980	1,803	-	42,783
	2,643,070	87,648	23,552	2,754,270
Allowance for credit losses	2,475	1,899	2,533	6,907
Net carrying value	2,640,595	85,749	21,019	2,747,363
Commercial loans				
Low risk	362,115	9,003	-	371,118
Medium risk	903,137	51,899	-	955,036
High risk	128,411	47,845	-	176,256
Impaired	-	-	38,223	38,223
Not rated	107,409	6,053	-	113,462
	1,501,072	114,800	38,223	1,654,095
Allowance for credit losses	7,064	6,999	5,069	19,132
Net carrying value	1,494,008	107,801	33,154	1,634,963
Agricultural loans				
Low risk	469,839	18,810	-	488,649
Medium risk	223,597	41,468	-	265,065
High risk	40,621	11,078	-	51,699
Impaired	-	-	23,870	23,870
Not rated	25,111	177	-	25,288
	759,168	71,533	23,870	854,571
Allowance for credit losses	182	121	628	931
Net carrying value	758,986	71,412	23,242	853,640
Financial investments				
AAA (R-1 high)	-	-	-	-
AA (R-1 mid)	297,976	-	-	297,976
A (R-1 low)	258,918	-	-	258,918
BBB (R-2 mid) and below	40,000	-	-	40,000
Unrated	788,345	-	-	788,345
	1,385,239	-	-	1,385,239
Allowance for credit losses	492	-	-	492
Net carrying value	1,384,747	-	-	1,384,747

Note 20. Financial Instrument Risk Management - *continued*

(a) Credit Risk - *continued*

Collateral Held and Other Credit Enhancements

The Credit Union routinely obtains collateral and security, such as in the case of residential or commercial mortgages with a charge on lands or a commercial loan with a floating charge over receivables and inventories. The Credit Union ensures that any collateral held is sufficiently liquid, legally effective and enforceable.

Valuation of the collateral and security taken is in accordance with policy, procedure and industry standards. Security structures and legal covenants are subject to regular review to ensure that they remain fit for the purpose and remain consistent with legislation and accepted local market practice.

Residential Mortgage Security Values

Credit Union lending practices are governed by the Standards of Sound Business Practice (SSBP) issued by the Corporation. All mortgage loans granted by the Credit Union have been subject to the limitations of these standards which (in part) read as follows:

A loan made by a credit union on residential property cannot exceed 80% of fair market value; and a loan made by a credit union on real property other than residential, cannot exceed 75% of fair market value, unless the loan:

- is insured by Canada Mortgage and Housing Corporation or another insurance company authorized to carry on the business of mortgage insurance in Canada and licensed in the province of Saskatchewan;
- is secured by a specific charge on additional properties or securities; or
- is guaranteed by a government agency.

As a result, at inception of each conventional mortgage loan, the maximum loan to value (LTV) is 80%. For amortizing mortgages, this loan to value improves over time, subject to fluctuation of market values.

Since August 2015, any new non-amortizing mortgage loans and lines of credit secured by residential real estate properties have been limited to a maximum LTV of 65%.

Amounts Arising from ECL

The Credit Union assigns a credit risk grade that reflects our exposure to a default event (PD) based on available information about the borrower. This information is in the form of external data from credit reference agencies (beacon scores) and internally generated risk ratings based on information obtained during periodic reviews of customer files.

A comparison between the PD at recognition and the PD at the end of the reporting period, factoring in macro-economic variables, is completed to assess whether a significant increase in credit risk has occurred for each instrument. As a backstop, the Credit Union typically considers that a significant increase in credit risk occurs when an asset is more than 30 days past due. If an instrument is deemed to have significantly increased in credit risk, it will be categorized as Stage 2 and is subject to lifetime ECL.

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Credit Union has identified key drivers of credit risk and credit losses for each category of loans and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The macro-economic variables employed by the Credit Union include: forecasts for prime rate, unemployment rate, real GDP, and the home price index (HPI).

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 20. Financial Instrument Risk Management - *continued*

(a) Credit Risk - *continued*

Allowance for Impairment

The following table shows the continuity in the loss allowance by product type:

	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Consumer loans	**2,768,678**	**90,757**	**21,815**	**2,881,250**	2,643,070	87,648	23,552	2,754,270
Loss allowance reconciliation:								
Balance, beginning of year	**2,475**	**1,899**	**2,533**	**6,907**	2,991	2,759	3,717	9,467
Transfer to Stage 1	**784**	**(516)**	**(268)**	**-**	1,767	(1,087)	(680)	-
Transfer to Stage 2	**(43)**	**90**	**(47)**	**-**	(47)	100	(53)	-
Transfer to Stage 3	**(7)**	**(45)**	**52**	**-**	(6)	(83)	89	-
Net remeasurement of loss allowance	**(1,015)**	**2,258**	**966**	**2,209**	(2,388)	441	629	(1,318)
Loans originations	**777**	**217**	**78**	**1,072**	668	94	369	1,131
Derecognitions and maturities	**(405)**	**(242)**	**(797)**	**(1,444)**	(510)	(325)	(1,538)	(2,373)
Balance, end of year	**2,566**	**3,661**	**2,517**	**8,744**	2,475	1,899	2,533	6,907
Net carrying value	**2,766,112**	**87,096**	**19,298**	**2,872,506**	2,640,595	85,749	21,019	2,747,363

	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Commercial loans	**1,742,237**	**99,194**	**20,455**	**1,861,886**	1,501,072	114,800	38,223	1,654,095
Loss allowance reconciliation:								
Balance, beginning of year	**7,064**	**6,999**	**5,069**	**19,132**	9,226	9,787	6,279	25,292
Transfer to Stage 1	**168**	**(40)**	**(128)**	**-**	1,998	(895)	(1,103)	-
Transfer to Stage 2	**(46)**	**46**	**-**	**-**	(140)	975	(835)	-
Transfer to Stage 3	**(47)**	**(63)**	**110**	**-**	(108)	(667)	775	-
Net remeasurement of loss allowance	**(1,306)**	**(3,378)**	**790**	**(3,894)**	(4,723)	(2,109)	1,124	(5,708)
Loans originations	**2,315**	**115**	**293**	**2,723**	2,375	41	122	2,538
Derecognitions and maturities	**(1,091)**	**(208)**	**(3,039)**	**(4,338)**	(1,564)	(133)	(1,293)	(2,990)
Balance, end of year	**7,057**	**3,471**	**3,095**	**13,623**	7,064	6,999	5,069	19,132
Net carrying value	**1,735,180**	**95,723**	**17,360**	**1,848,263**	1,494,008	107,801	33,154	1,634,963

	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Agriculture loans	**804,085**	**75,787**	**23,575**	**903,447**	759,168	71,533	23,870	854,571
Loss allowance reconciliation:								
Balance, beginning of year	**182**	**121**	**628**	**931**	214	239	569	1,022
Transfer to Stage 1	**68**	**(67)**	**(1)**	**-**	168	(127)	(41)	-
Transfer to Stage 2	**(6)**	**187**	**(181)**	**-**	(6)	6	-	-
Transfer to Stage 3	**(1)**	**(3)**	**4**	**-**	(2)	(3)	5	-
Net remeasurement of loss allowance	**(62)**	**837**	**26**	**801**	(222)	20	202	-
Loans originations	**68**	**23**	**-**	**91**	59	7	-	66
Derecognitions and maturities	**(22)**	**(4)**	**(313)**	**(339)**	(29)	(21)	(107)	(157)
Balance, end of year	**227**	**1,094**	**163**	**1,484**	182	121	628	931
Net carrying value	**803,858**	**74,693**	**23,412**	**901,963**	758,986	71,412	23,242	853,640

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 20. Financial Instrument Risk Management - *continued*

(a) Credit Risk – *continued*

Provision for Credit Losses

The following table shows the reconciliation of provision of credit losses:

	2022	2021
Change in loan allowances	**(3,119)**	(8,811)
Change in foreclosed property allowances	**(803)**	1,205
Change in investment allowances	**12**	19
Change in other allowances	**24**	16
Loan write-offs	**6,424**	3,794
Loan recoveries	**(555)**	(769)
Provision for credit losses	**1,983**	(4,546)

The contractual amount outstanding on financial assets that have been written off as at December 31, 2022 and that are still subject to enforcement activity is $8,211 (2021 - $7,278).

(b) Concentration Risk

Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. Therefore, a single variable or event may beneficially or detrimentally impact the performance of a significant portion of the Credit Union's assets, thereby introducing volatility to the Credit Union's net income. To mitigate and manage concentration risk, the Credit Union tracks concentrations of risk to individual borrowers and in a variety of portfolios and assesses the aggregate risk against pre-determined regulations, policies and/or targeted levels.

i. Borrower Concentration

Aggregation of credit risk is conducted by monitoring the amount of debt provided to any one member, directly or indirectly through connected parties. The regulatory maximum credit provided to any one member must be less than 25% of eligible capital. As at December 31, 2022 this limit was $192,624 (2021 - $162,689). The Credit Union's maximum exposure as at December 31, 2022 was $85,317 (2021 - $88,046).

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 20. Financial Instrument Risk Management - *continued*

(b) Concentration Risk – *continued*

ii. Loan Industry Concentration

To mitigate loan concentration risk, the Credit Union has developed preferred loan type and loan industry concentration ranges. The development of loan concentration ranges balances risk with satisfying needs of the Credit Union membership, and is periodically reviewed and approved by CRCo and RCo. By internal policy, the combined agriculture and commercial portfolio as a percentage of all outstanding loans cannot exceed 50%.

The following chart depicts the loan type concentration:

	CRCo Target	**2022**	2021
Consumer loans	**50-70%**	**51%**	53%
Commercial loans	**30-40%**	**33%**	31%
Agricultural loans	**10-20%**	**16%**	16%

iii. Investment Concentration

All investments are categorized at the time of purchase into a pre-determined investment category. Current exposure in each category is reported to ALCo and RCo on a quarterly basis. The following chart depicts investment concentration, including accrued interest, as at December 31:

	Policy limit 2022	**2022**	2021
Statutory liquidity	**No limit**	**637,202**	610,214
SaskCentral shares	**77,049**	**43,522**	39,023
Concentra shares	**38,525**	**6,549**	7,321
Concentra, interest based	**385,247**	**137,863**	151,293
Central One, interest based	**385,247**	**84,390**	104,244
Provincial government, interest based	**385,247**	**151,001**	166,568
Schedule 1 chartered bank, interest based	**770,495**	**245,443**	233,712
Corporate issuers, interest based	**192,624**	**11,151**	43,351
Non-interest based investments	**77,049**	**49,554**	34,528
		1,366,675	1,390,254

As at December 31, 2022, non-interest based investments include $1,171 (2021 - $1,176) of Other assets (Note 9).

(c) Market Risk

Market risk is the risk of loss on the value of a financial instrument that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices and credit spreads. The Credit Union is exposed, in varying degrees, to market risk in asset/liability management activities.

Short term interest rate risk or Earnings at Risk (EaR) measures the sensitivity of the Credit Union's net interest margin over the next 12 months. Long term interest rate risk or Economic Value at Risk (EVaR) measures how changes in interest rates will impact the Credit Union's market value of equity.

Note 20. Financial Instrument Risk Management - *continued*

(c) Market Risk – *continued*

The Credit Union utilizes stress testing and scenario analysis to measure both EaR and EVaR in relation to policy limits as part of the monthly interest rate risk simulation process. This includes the effects of a most likely interest rate scenario in addition to the impact of stressed movements in interest rates on both EaR and EVaR.

Prior to 2022, the Credit Union utilized a simulation model that included stress testing of changes in interest rates within the context of different interest rate scenarios as the primary measure for EaR and EVaR. The limitations of this sensitivity analysis were the presence of extreme outlier results that were generated by the interest rate scenarios. To address these limitations, the Credit Union also utilized rate shock analysis to simulate an immediate and sustained impact of a movement in interest rates by 0.50%; 1.00% and 2.00%. The shock simulations measure the impact each scenario has on both the Credit Union’s EaR and EVaR.

During the year, the Corporation’s regulatory guidelines for interest rate risk came into effect. In part, these guidelines require a 100 basis points interest rate shock be included as part of the Credit Union’s stress testing and scenario analysis. As a result, the Credit Union adopted the 100 basis points shock analysis as the primary interest rate risk measure for EaR and EVaR during 2022.

The maximum tolerance for EaR, expressed as a percentage change in the expected 12-month net interest margin, is 8%. The maximum tolerance for EVaR, expressed as a percentage change in the current market value of equity is 7%. As at December 31, 2022 the actual result for EaR was 4.36% (2021 - 4.64%) and EVaR was 1.11% (2021 - 3.79%).

At regularly scheduled meetings, ALCo, SRCo and RCo receive a market risk report which includes a trending analysis, a report on significant changes and a comparison to policy.

The Credit Union enters into interest rate swap derivative contracts to manage exposure to both short-term and long-term interest rate risk. The exposure is managed through the exchange of fixed and floating interest rate payments based on the notional amount described in Note 14.

Foreign exchange risk is the potential adverse impact on the Credit Union’s earnings and economic value due to changes in foreign currency exchange rates. Risk arises from holding financial assets and liabilities denominated in a foreign currency, whereby the values of those assets and liabilities fluctuate as a result of changes in the value of the Canadian dollar relative to the value of the underlying foreign currency.

Due to limited exposure to foreign currencies other than the US dollar, the Credit Union’s foreign exchange risk management practices only address foreign exchange risk related to the US dollar.

In order to mitigate the exchange risk on US dollar denominated deposit accounts, term deposits and lines of credit, the Credit Union maintains US dollar denominated investments and deposit accounts to offset fluctuations in the US dollar exchange rate. Credit Union policy has established the limit for the total aggregate foreign exchange exposure to be a maximum of 2% of eligible capital.

The Credit Union manages the net foreign exchange position by acquiring or selling US dollar denominated assets in order to be in compliance with policy.

(d) Liquidity Risk

Liquidity risk is the potential for loss if the Credit Union is unable to meet financial commitments in a timely manner at reasonable prices as they become due. Financial commitments include liabilities to depositors and suppliers as well as commitments to fund new loans and investments. Managing liquidity risk is essential to maintaining depositor confidence and it is the Credit Union’s policy to ensure that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress.

The Credit Union’s enterprise risk management framework includes Board approved risk appetite statements and policies for liquidity risk. Board policies establish prudent limits to ensure the Credit Union maintains the minimum liquidity requirements prescribed by the Act and the Corporation’s SSBP. The Credit Union maintains a documented liquidity risk management framework to monitor compliance with regulatory requirements, Board policy and operating procedures that establish limits and restrictions for the liquidity management function. Under this framework ALCo and RCo receive reports to monitor liquidity risk and the Credit Union’s liquidity position.

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 20. Financial Instrument Risk Management - *continued*

(d) Liquidity Risk - *continued*

The Credit Union's assessment of liquidity risk reflects management's judgment, estimates and assumptions pertaining to current and prospective market conditions as well as member behavior. Wherever possible, these estimates and assumptions are based on trend analysis and other historical data. This includes volatility in demand account balances derived from historical transactional patterns, renewal rates on term deposits and typical usage of revolving credit facilities by members.

The Act requires the Credit Union to maintain a liquidity reserve equal to 10% of its total liabilities in specified liquidity deposits with SaskCentral. The Credit Union complied with this requirement throughout 2022.

The Corporation also has prescribed liquidity adequacy requirements the Credit Union must comply with. These requirements outline the guiding principles for an effective liquidity management framework and establish the minimum requirements for the quantity and quality of liquid assets that the Credit Union is required to hold.

Under these requirements the Credit Union must maintain a minimum liquidity coverage ratio (LCR). This is a ratio of high quality liquid assets (HQLA) to net cash outflows under a prescribed 30-day stressed liquidity scenario. The Credit Union policy limit establishes an additional buffer over the minimum regulatory requirement. This policy requires the Credit Union to maintain a minimum LCR of 120%. During the year, the Credit Union was in compliance with the internal policy limits that exceed the minimum regulatory LCR. As at December 31, 2022 the LCR is 191.24% (2021 – 166.29%).

Credit Union policy also includes minimum levels for operating liquidity over a one year time frame. The policy defines risk tolerance parameters and establishes trigger events that will require management to initiate an action plan to restore the required level of liquid assets. Operating liquidity is monitored by assessing day-to-day and seasonal funding requirements under a normal operating environment using a financial model that combines contractual cash flows over a one year time horizon with a contingency for an unusual stress event. Available liquid assets and authorized borrowing facilities are assessed against the estimated cash outflows from contractual maturities, including an increased deposit run-off rate to simulate a stress event. Policy limits use an operating liquidity ratio calculated as available liquidity to total potential cash outflows across multiple time frames. The following is the result as at December 31, 2022:

	1 month	**2 months**	**3 months**	**6 months**	**1 year**
Net cash source	**3.75 times**	**3.66 times**	**3.31 times**	**2.94 times**	**2.20 times**
Minimum target	1.50 times	1.50 times	1.50 times	1.25 times	1.25 times
Policy limit	1.40 times	1.30 times	1.20 times	1.00 times	0.75 times

ALCo and RCo review operating liquidity results at all regularly scheduled meetings. The minimum target level acts as a trigger event and management must present a plan for remediation for each time interval that falls outside of the minimum target level.

The Credit Union's key funding strategy is to continue to expand its membership base and attract retail deposits. The Credit Union has a diverse portfolio of consumer, commercial and agricultural deposit accounts. This strategy is supported through increased depositor confidence knowing their deposits are 100% guaranteed by the Corporation.

Even with continued success in growing the member deposit base, the Credit Union has developed a diverse source of alternative funding programs to support the liquidity management function. These include:

- maintaining external credit facilities, including a line of credit, to support daily liquidity needs and unforeseen liquidity events;
- access to brokered deposit networks;
- approved issuer under the National Housing Act mortgage-backed securities program that provides the Credit Union with the ability to securitize residential insured mortgages;
- an established loan syndication program to facilitate the sale of other loans and mortgages.

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 20. Financial Instrument Risk Management - *continued*

(d) Liquidity Risk - *continued*

The liquidity management framework includes limits and restrictions in relation to alternative funding sources which include needing Board approval prior to pledging assets for collateral; policy limits on the aggregate amount of stand-by debt facilities management can negotiate and deposit concentration limits for both brokered deposits and large deposits.

The Credit Union has $236,000 of authorized credit facilities available. This includes a $68,000 operating line of credit and $68,000 of committed short term funding facilities with SaskCentral. Both agreements are secured by general security agreements registered against the Credit Union's assets. The Credit Union also has a committed revolving loan facility with a Canadian financial institution for $100,000 which is fully secured by collateral in the form of residential mortgages.

The Credit Union has the capacity to negotiate an additional $1,304,990 in debt facilities under Board policy and regulatory limits, if required. As at December 31, 2022, the Credit Union has no outstanding balances under these credit facilities (2021 - $0). Any interest costs associated with these facilities are expensed as incurred.

The Credit Union also has a documented liquidity contingency funding plan which clearly outlines strategies to address liquidity shortfalls in emergency situations. This includes procedures and action plans to respond to a severe liquidity event that would disrupt the Credit Union's ability to fund its operations under a range of various stress scenarios. The plan defines a number of trigger events that would require a management response if liquidity metrics fall below the minimum thresholds outlined in the liquidity crisis management plan. The plan is regularly reviewed by ALCo and approved by the Board.

The following table outlines the Credit Union's maturity schedule at December 31 with all liabilities and demand deposits being drawn at the earliest date permitted by contract.

	2022				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Financial assets	**625,723**	**676,983**	**1,434,806**	**4,276,138**	**103,771**
Total deposits	**3,973,013**	**317,538**	**1,336,822**	**769,490**	**-**
Other financial liabilities	**49,762**	**-**	**-**	**-**	**-**
Financial liabilities	**4,022,775**	**317,538**	**1,336,822**	**769,490**	**-**

	2021				
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Financial assets	636,340	524,997	1,371,540	4,081,230	81,076
Total deposits	3,779,393	423,641	1,253,014	636,551	-
Other financial liabilities	42,486	-	-	-	-
Financial liabilities	3,821,879	423,641	1,253,014	636,551	-

Note 21. Capital Management

The minimum capital requirements for the Credit Union are prescribed by the Corporation's SSBP – Capital Adequacy Requirements. Those requirements are based on the Basel III framework which encompasses the recommendations issued by the Basel Committee on banking supervision. The objective of this framework is to create international standards that regulators can use when creating regulations as to how much capital financial institutions need to put aside to guard against a wide variety of financial and operational risks.

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 21. Capital Management - *continued*

The Credit Union is required to measure capital adequacy using a standard approach 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 250% is assigned. The minimum regulatory standards the Credit Union is required to maintain are as follows: (i) common equity Tier 1 capital to risk-weighted assets of 8.0%; (ii) Tier 1 capital to risk-weighted assets of 9.5%; and (iii) total eligible capital to risk-weighted assets of 11.5%. The Credit Union is also required to maintain a minimum leverage ratio of 5%, calculated as eligible capital to leveraged assets.

Tier 1 capital is considered the highest quality of capital due to its permanent nature. Tier 2 capital is secondary capital as it falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charges. The Credit Union's tier 1 capital is comprised primarily of retained earnings.

Eligible Tier 2 capital includes any impairment allowance for credit losses to a maximum of 1.25% of risk-weighted assets and qualifying membership shares that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital.

Leveraged assets equals total on-balance sheet assets adjusted for any deductions from eligible capital plus specified off-balance sheet exposures.

During the year, the Credit Union was in compliance with all regulatory capital standards.

The Credit Union's capital plan, which is reviewed and approved by the Board on an annual basis, conforms to this regulatory framework and is used to establish internal targets for capital adequacy. These internal targets are established primarily in consideration of the minimum regulatory capital requirements and the Board's risk appetite. As such, the Credit Union has established minimum capital requirements that exceed the prescribed regulatory minimum.

A number of other key performance metrics are also developed in conjunction with, and to support, the Credit Union's capital targets. These metrics include asset growth, return on capital and efficiency ratios.

The following table summarizes the Credit Union's key capital information.

Eligible capital	**2022**	2021
Total Tier 1 capital	**750,327**	629,941
Total Tier 2 capital	**20,168**	20,816
	770,495	650,757
Risk weighted assets	**4,623,882**	4,206,722

	Regulatory Standard	**Internal Target**	**2022**	2021
Tier 1 common equity to risk-weighted assets	**Min. 8.0%**	**-**	**16.23%**	14.97%
Total Tier 1 capital to risk-weighted assets	**Min. 9.5%**	**-**	**16.23%**	14.97%
Total capital to risk-weighted assets	**Min. 11.5%**	**12.50%**	**16.66%**	15.47%
Leverage (total capital / leveraged assets)	**Min. 5.0%**	**6.00%**	**9.92%**	8.89%

In addition to the minimum regulatory capital requirements, the Credit Union's capital plan includes an ongoing assessment of the Credit Union's economic capital requirements which takes into account the Credit Union's unique risk profile and the Board's appetite for risk. This internal capital adequacy assessment process (ICAAP) provides a framework to evaluate the Credit Union's overall capital adequacy in relation to its own risk profile. The primary components of the ICAAP methodology include: Board oversight, sound assessment and planning, a comprehensive assessment of risks, stress testing, monitoring and reporting, and internal control review.

Note 21. Capital Management - *continued*

Within the Credit Union's enterprise risk management (ERM) framework, management and the Board review risk appetite and related tolerances regularly. Management then uses the risk appetite framework to develop supporting policies and procedures for ongoing risk monitoring and review. This includes the use of cross functional committees to review key risks, develop risk mitigation strategies and to recommend changes to Board policy. Within this context, the Credit Union's key risk categories have been defined as: strategic, credit, customer, operational, market, liquidity, and regulatory and legal. Economic capital requirements are determined by quantifying the Credit Union's residual risks identified through the ERM framework. Each residual risk is then subjected to stress testing to determine the total aggregate economic capital requirement for the Credit Union.

The Credit Union's target for total eligible capital to risk-weighted assets has been established as 2% plus the greater of (i) the regulatory minimum requirement or (ii) the economic capital requirement as determined by the Credit Union's ICAAP model. This ensures the minimum regulatory capital requirements are met and the Credit Union's aggregate capital is adequate in relation to the Credit Union's unique risk profile. At December 31, 2022, the Credit Union's economic capital requirement, as a percentage of risk weighted assets was 8.46% (2021 – 7.83%).

Note 22. Fair Value of Financial Instruments

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings.

Methods and Assumptions

The following methods and assumptions were used to estimate fair values of financial instruments:

- The carrying values for cash, short-term investments, other financial assets and liabilities, accrued revenue and expenses and certain other assets and liabilities approximate their fair value due to their short term nature.

- Estimated fair values of remaining investments are based on quoted market prices when available (Level 1), quoted market prices of similar investments, the market price of the last transaction for that instrument in an active market or the proportionate net assets of associates, as applicable (Level 2). Venture capital funds are carried at the last disclosed net asset value (Level 3).

- For variable interest rate loans that re-price frequently, carrying values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations on the contractual repayment of the loans. The discount rates applied were based on the market rate for equitable classes or groupings as at December 31, 2022 (Level 2). Market rates are determined by employing posted lending rates plus or minus standard industry bonusing or discounting for each month of cash flow. The comparative carrying value of loans and other receivables is net of ECL.

- Fair value of deposits without a specified maturity term is the carrying value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits. Market rates are determined by employing posted guaranteed investment certificate rates plus or minus standard industry bonusing for each month of cash flow.

- For loans and borrowings at variable interest rates that re-price frequently, carrying values are assumed to be fair values.

- The fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity or the calculated value of the derivative contract using the current value of the applicable index (Level 2). The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

For the years ended December 31, 2022 and December 31, 2021 (in thousands of CDN $)

Note 22. Fair Value of Financial Instruments – *continued*

The fair value of financial instruments, their related carrying values and fair value hierarchy levels have been summarized in the tables that follow:

	2022				
	Carrying value	Level 1	Level 2	Level 3	Fair value
Financial assets					
Amortized cost					
Cash	34,413	-	34,413	-	34,413
Financial investments	1,266,056	-	1,231,746	-	1,231,746
Loans	5,638,782	-	5,370,859	-	5,370,859
Other financial assets	76,491	-	76,491	-	76,491
Fair-Value-Through-Profit-or-Loss					
Financial investments	98,944	-	50,561	48,383	98,944
Other financial assets	2,735	-	2,735	-	2,735
	7,117,421	-	6,766,805	48,383	6,815,188
Financial liabilities					
Amortized cost					
Deposits	6,396,863	-	6,355,794	-	6,355,794
Other financial liabilities	46,517	-	46,517	-	46,517
Fair-Value-Through-Profit-or-Loss					
Other financial liabilities	3,245	-	3,245	-	3,245
	6,446,625	-	6,405,556	-	6,405,556