Lloydminster Credit Union
SYNERGY CREDIT UNION
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LLOYD-BORDER CREDIT UNION

Synergy
CREDIT UNION

ANNUAL REPORT 2023

MANAGEMENT'S DISCUSSION & ANALYSIS // FINANCIAL STATEMENTS

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ABOUT THE COVER

This cover represents the rich tapestry of our history where the past meets the present. On our captivating cover, a visual journey unfolds as vintage photographs seamlessly blend with contemporary snapshots, illustrating the evolution of our financial institution. Each image tells a story, showcasing the enduring values, community spirit, and growth that define Synergy Credit Union. Join us in celebrating our heritage while embracing the exciting prospects of the future – a testament to the synergy between tradition and progress that fuels our commitment to members and community alike.

MANAGEMENT'S DISCUSSION & ANALYSIS

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, 2023. 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 gives Synergy the opportunity 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 are the responsibility of management and is current as of March 18, 2024.

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 have a significant impact on 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 AND STRATEGY

As national and global inflation rates continued to decrease from their peak highs in 2022, Canadians and the financial system are learning to adjust to a higher interest rate environment. We continued to see interest rates rise in 2023 to levels not seen in decades. As debt servicing costs increased for consumers and businesses, the pressure of higher rates weighed on consumer spending and business investment. As rate increases took time to work through the economy, we started seeing signs of economic slowdown both nationally and globally. It is anticipated that Canada is heading into a period of slower job growth where consumers will pare back on spending creating the potential for an economic slowdown. As interest rates remain higher, they will continue to place pressure on households, businesses, and on the loan growth of financial institutions. Financial institutions will need healthy provisions for credit losses in order to buffer for a potential increase in loan delinquencies and consumer insolvencies.

As digital innovation continues to accelerate and alter the way financial products and services are delivered, financial institutions continue to advance investments in automation and artificial intelligence (AI) to meet consumer needs and support increased productivity. The costs to keep pace with technological changes, innovation, cyber security, and the regulatory environment require scale resulting in more consolidation within the credit union system.

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 vision. We know we can get there, but "how" to get there is informed by the need to adapt to the current environment.

In 2024 and beyond, we will leverage what makes us stand out as Synergy, focus on enhancing our strengths even further, and continue to modernize in order to accomplish our strategic imperative and ultimately, our vision. Our strong culture and engagement are not only key to thriving as Synergy, but also integral to merger partners and progressing in changes a merger brings. Our people are our strength and strengthening their competency while bringing together the "digital plus human" experience for all aspects of our member value proposition is a winning combination. Our technology roadmap is to strengthen our current platforms and use AI to increase efficiency and enhance service to our members. Our community value proposition is exceptionally unique and amplifying it supports all of our other initiatives.

CORPORATE COMMITMENTS

- We are committed to providing members with relevant financial products that fit with our demonstrated areas of expertise, chosen markets, and within the channel the member prefers.
- We are committed to developing a leading service culture that provides members with best-in-class experience. We encourage our employees to promote financial solutions that are responsive, resourceful, and realistic to fulfill our members' full-service needs and help contribute to Synergy's growth plans in banking, protection planning, and wealth management.
- We are committed to building a constructive learning corporate culture that offers employees progressive career opportunities that are engaging, educational, and rewarding.
- We are committed to creating a wonderful place to work that is healthy and diverse. We will do this in a manner that respects employee's responsibilities to their family, friends, and communities.
- We are committed to providing meaningful contributions to the communities where we operate and live. We are also committed to enlisting community partners to stabilize and improve the regional economic condition.
- We are committed to leading by example and using our resources and expertise to effect positive change in our communities and create solutions to social, environmental, and economic issues in our 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 AND NATIONAL BUSINESS ENVIRONMENT

- Inflation and high interest rates remained the dominant theme for the global economy in 2023 as many central banks continued to raise rates in their fight to control inflation. With borrowing rates in many countries currently at their highest levels in decades, economic growth has started to slow. The Conference Board of Canada expects global economic growth in the 2% range over the near term[1].
- While Canada's inflation rate dropped from its national peak of 8.1% in June 2022 to 3.4% in December 2023, the high cost of living for Canadians continues to remain a national

[1] The Conference Board of Canada, Battery Low: Canada's Three-Year Outlook, July 18, 2023

challenge. The Bank of Canada (BoC) remains committed to stabilizing inflation at its 2% target and continues to hold its benchmark overnight rate currently at 5%. The BoC has recently indicated that it will not need to increase rates if the economy evolves in line with its forecasts. It is anticipated that the BoC will begin to cut interest rates in the second half of 2024 with a gradual reduction.

- As oil prices face upward pressure amid tight supply and surging demand, the Conference Board of Canada forecasts that the price of West Texas Intermediate crude oil will average USD$80.30 per barrel in 2024[2].
- While natural gas prices stumbled in 2023, demand over the medium term will be supported by electricity generation, industrial production, and LNG exports. AECO prices are expected to improve to CAD $3.50/MMBtu on average in 2024[3].
- The Conference Board of Canada expects that Canada's economic growth will expand by 0.6% in 2024[4]. However, recent economic data indicates that Canadian economic activity is slowing as consumers pull back on spending. The national unemployment rate has begun to rise as the number of job openings began to decrease indicating a softening labour market.
- It is anticipated that this slowing job growth will continue into 2024 and place pressure on consumer spending. With the potential for both job growth and consumer spending to slow in a high interest rate environment, Canada remains at risk of a recession in 2024. However, it is anticipated that the Canadian economy will avoid a major recession suggesting that a soft-landing or an economic stall is more likely.
- Financial markets continue to expect deterioration in economic growth for Canada and the U.S. as the spread between longer and shorter duration bond yields (a commonly used recession indicator) remains inverted.

POLITICAL LANDSCAPE

- The federal Liberal minority government is poised to remain in power until 2025. In the 2023 federal budget, the government announced its aim to address gaps in Canada's anti-money laundering/anti-terrorist financing (AML/ATF) regime by introducing legislative amendments to strengthen the investigative, enforcement, and information sharing tools of Canada's AML/ATF regime. The 2023 budget also outlined the federal government's intention to introduce legislative amendments to modernize the federal financial framework in order to address emerging risks to Canada's financial sector.
- The province of Saskatchewan will see a provincial election in October 2024. With the election date later in the year, we expect to see political stability in the province for the majority of 2024.
- The U.S. presidential election will take place in November 2024 and its outcome may heighten geopolitical risks depending on who is elected and their political agenda.
- Geopolitical uncertainty continues to remain high due to various crises in different parts of the world. Political tensions between the Canadian government and other countries could have an impact on Canadian trade and/or economic consequences. Consequently, these geopolitical risks continue to contribute to volatility in the financial markets.

FINANCIAL SERVICES SECTOR

- The financial strain on Canadian households and businesses will continue as high interest rates increase debt servicing costs and consume a larger share of individual income. While borrowers with variable-rate loans have seen the impact of higher rates, the rate shock increase will be most prominent for borrowers with fixed-rate mortgages renewing in 2024. The financial pressure on households has the potential for higher rates of delinquency especially if coupled with an economic slowdown. This will require financial institutions

[2] The Conference Board of Canada, Battery Low: Canada's Three-Year Outlook, July 18, 2023

[3] ATB Financial, Alberta Economic Outlook, September 19, 2023

[4] The Conference Board of Canada, Long-term Letdown: Canada's Economic Outlook to 2045, July 17, 2023

to maintain healthy provisions for credit losses. The BoC has indicated that Canadians will need to adapt to higher borrowing costs as interest rates may not return to the low rates borrowers grew accustomed to before the COVID-19 pandemic.

- Despite the higher debt-servicing costs, the Canada Mortgage and Housing Corporation (CMHC) reported[5] that the national mortgage delinquency rate for Q3/2023 held steady at the "historically low" rate of 0.15%. Saskatchewan's mortgage delinquency rate was 0.44% making it the highest amongst other provinces. While the overall share of mortgages in arrears remains low, CMHC noted that delinquency rates are increasing among other credit products such as auto loans, credit cards, and lines of credit.
- The higher interest rate environment has also spurred the migration of deposits from demand to term accounts which will continue to increase funding costs and create pressure on financial margins.
- Non-financial risks also remain a key concern for the sector as reliance on third party providers continues to expand and become more complex. Greater dependence on third-party technology providers and evolving technology have increased both the attack surface and cyber risk as cyber-attacks continue to increase in frequency and sophistication.
- In today's financial landscape, scale is a competitive advantage. The credit union system continues to see amalgamation through mergers as a means to drive scale and innovation while satisfying demands of cybersecurity and regulatory compliance.
- Our provincial regulator has outlined its priorities for 2024 which[6] include enhancing regulatory guidance on technology and cyber risk management, updating expectations and best practices for third party risk management, and beginning consultative discussions with credit unions on climate change and culture risks.
- While the federal government expected federally regulated financial institutions to implement open banking by the end of 2023, the open banking framework continues to experience delays. The federal government plans to include legislation for the open banking framework in the 2024 budget with an aim to fully implement the legislation and governance framework by 2025.

PROVINCIAL & REGIONAL

- The Conference Board of Canada expects that the Saskatchewan economy will continue its current momentum into the coming years with GDP growth forecasted to expand by 2.0% in 2024 and 2.1% in 2025[7]. It is expected that metal mining, oil and gas, and agriculture will contribute to this growth in the coming years. However, agriculture forecasts have been reduced from previous forecasts due to the unpredictability of seasonal weather patterns as climate change continues to create challenges during the growing season.
- Although mineral prices have come down substantially from their 2022 highs, they continue to float above pre-pandemic levels which maintains a favourable environment for capital investment to flow into Saskatchewan.
- While Alberta saw robust economic growth in 2023, the Conference Board of Canada anticipates that this growth will moderate in 2024 anticipating that GDP will expand by 1.9% but will improve to 2.6% in 2025[8].
- Saskatchewan housing prices remain stable as price gains in certain regions offset price declines in others. According to Zolo's real estate trends[9], the Lloydminster area shows a year-over-year real estate price increase of approximately 15%.

[5] Mortgage Delinquency Rate: Canada, Provinces, CMAs | CMHC (cmhc-schl.gc.ca); Figures are based on Q2/2023 reporting

[6] CUDGC Regulatory Roadmap 2023-2025, Bulletin 2023-04

[7] The Conference Board of Canada, Picking Up Steam: Saskatchewan's Three-Year Outlook, October 2023

[8] The Conference Board of Canada, Flames and Gains: Alberta's Three-Year Outlook, September 2023

[9] https://www.zolo.ca/lloydminster-real-estate/trends

2023 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 2023 budget and previous year financials.

$ thousands	2023 Results	2023 Budget	2022 Actual
Assets, Deposits and Loans			
Total assets - on balance sheet	1,926,308	1,918,947	1,706,029
Annual asset growth - on balance sheet	12.9%	12.5%	4.0%
Total assets - under administration	2,526,361	2,476,989	2,200,016
Annual asset growth - under administration	14.2%	12.6%	1.5%
Total deposits	1,709,793	1,697,056	1,503,468
Annual deposit growth	13.7%	12.9%	3.4%
Net loans	1,389,282	1,442,671	1,258,105
Annual loan growth	10.4%	14.7%	8.1%
Asset Quality			
Delinquency greater than 90 days	0.9%	< 3.0%	0.4%
Gross impaired loans	16,269	9,426	9,427
Allowance for expected credit losses (excluding specific allowances)	4,996	6,267	6,046
Specific allowances	5,921	1,697	1,697
Average net loan to average assets	72.9%	71.1%	72.4%
Capital			
Common equity tier 1 to risk-weighted assets	15.1%	14.5%	14.9%
Tier 1 capital to risk-weighted assets	15.1%	14.5%	14.9%
Total eligible capital to risk-weighted assets	19.0%	18.6%	19.6%
Leverage ratio	10.7%	10.6%	11.1%
Profitability			
Comprehensive income	7,662	3,488	21,023
Operating income before taxes and member allocations	12,359	7,351	28,748
Return on average assets before taxes and member allocations	0.7%	0.4%	1.7%
Efficiency ratio	71.9%	82.4%	54.9%
Allocation payable to members	2,796	1,470	6,593

In 2023, Synergy commemorated its 80th anniversary by:

- facilitating the redemption of 5% of ProfitShare balances that exceeded $1,600 totaling over $1 million,
- paid overlimit ProfitShares and seniors paydowns of over $1.7 million,
- cash payout from proceeds of our long-term investment sale in 2022 of over $3 million,
- Summer of Smiles contest that paid $281.6 thousand in prizes,
- In addition, we also shared our profits by way of allocation to ProfitShare accounts of over $2.7 million.

A total of $11.7 million in cash and allocations were received by our members in 2023.

We welcomed New Community Credit Union (NCCU) into the Synergy family, increasing our assets under administration by $178 million expanding our service area to Saskatoon, the largest city in Saskatchewan. We are excited for the opportunity to leverage the expertise of the New Community team in Saskatoon and capture additional market share. Saskatoon has a relatively young population and rising immigration which further enhances its economic prospects.

Synergy exceeded budgeted growth in assets on balance sheet as well as assets under administration by 0.5% to end 2023 at $1.9 billion and 1.6% or $2.5 billion respectively. In addition, deposit growth exceeded budget by 0.8% finishing at $1.7 billion however loan growth lagged budget by 4.3% to end the year at $1.4 billion.

Loan growth within our region has been relatively flat, prompting us to collaborate with other institutions for the purpose of growing our loan portfolio through syndication purchases. This strategic approach serves to enhance profitability, achieve expanded diversification, and, ultimately, increase member allocation to our members and communities.

Synergy's loan delinquency was up slightly compared to 2022 by 0.5%, however remains less than 3.0% of our maximum target for delinquency as a percentage of average assets. Gross impaired loans increased in 2023 by $6.8 million more than both budget and 2022 results, resulting in an increase to specific allowance in the amount of $4.2 million.

We did expect to see a rise in delinquency and specific allowances in 2023 and had budgeted 17 basis points for provisions, which we exceeded by 2 basis points.

Our average net loan to average assets ended at 72.9%, 0.5% higher than 2022-year end and 1.8% higher than budget. Increasing this ratio to 82 – 84% will generally improve profitability and remains a focus for Synergy.

Anticipated through 2024 is elevated delinquency, driven by the compounding impact of higher interest rates and continued higher than normal inflation. This combination may pose challenges for members in meeting their contractual obligations, potentially leading to increased bankruptcies for both consumer and commercial members. We will continue to support high-quality borrowers within our region focusing on loans that offer a fair and appropriate return and risk profile.

Financial fraud continues to be a concern, which could increase write-offs and requires Synergy, businesses, and consumers alike to remain vigilant to ensure that potential losses are avoided. Synergy continues to evolve data-driven solutions and fraud protection measures to safeguard our members.

Our capital ended 2023 at 19.0%, which exceeds regulatory requirements of 10.5% and Synergy board set minimum of 12.5%. Regulatory policy that came into effect on January 1, 2024, in regard to the calculation of risk-weighted assets is expected to put near term modest downward pressure on our tier 1 capital levels, currently 15.08%. We expect the changes to impact us less than 1% which is still significantly stronger than board and regulatory limits.

We will strategically deploy our capital by leveraging both current and future investments in technology and investments, with the objective of elevating the overall experience for our members. Committing resources to our teams and fostering ongoing professional development will play a pivotal role in delivering exceptional member service and delight our members.

Synergy's profitability before taxes and member allocation exceeded budget by over $5 million finishing at $12.4 million and comprehensive income exceeded budget by $4.2 million. Comparing our 2023 results to 2022 profitability before member allocations and taxes, income is down by 57%, and comprehensive income is 64% less than 2022. The majority of the decrease can be attributed to our long-term investment sale in 2022 that will not be repeated in future years. Adjusting for the sale of our investment would result in a decrease of $1.4 million of income before all allocations and tax.

Return on average assets (ROAA) of 0.7% before allocation and tax would have exceeded 2022 by 0.05% neutralizing the revenue from our long-term investment sale in that year. In addition, we exceeded our budgeted ROAA by 0.3%, higher-than-expected interest accomplished this margin, a result of the higher interest rate environment and non-interest expense being less than budgeted. We had several expenses included in our 2023 budget that related to technology that did not move forward in 2023, and have been carried over into 2024.

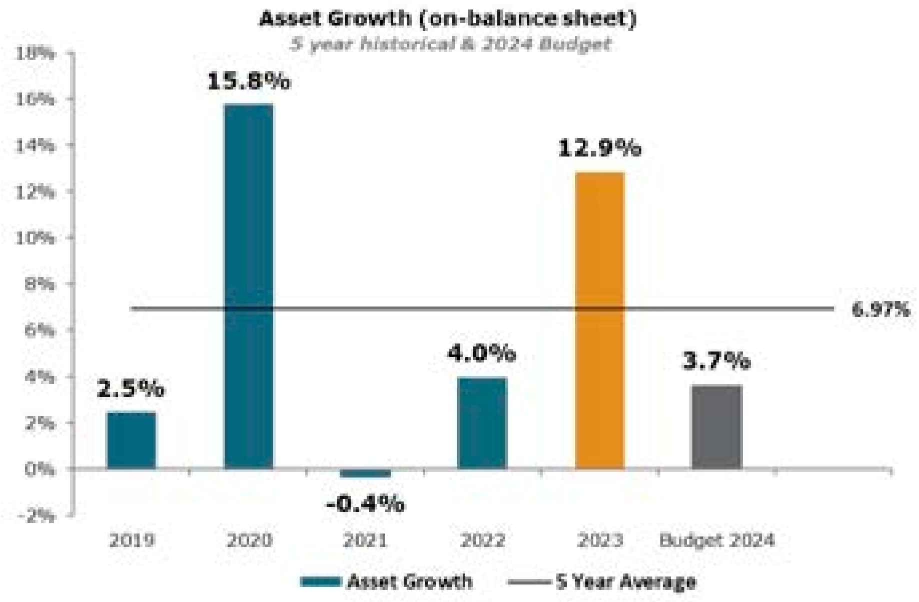
Staying true to our cooperative principles, we continue to allocate our profits before all allocation and taxes; accordingly, 20% to members, 10% to our employees and 5% to Synergy shares.

ASSETS

Our assets on balance sheet finished the year at $1.9 billion (2022 – $1.7) a 12.9% increase year over year. $134 million of this growth was contributed by the amalgamation of NCCU, organic growth totaled 4.7% matching our 2023 forecast.

See asset growth chart for Synergy's asset growth visualizing our 5 year historical & 2024 forecasted growth rate along with our 5-year trendline. (*Note:* When Macklin Credit Union amalgamated with Synergy in 2020, they contributed approximately 8% of the 15.8% growth shown in the graph).

Adjusted five-year average asset growth would be 3.72%.



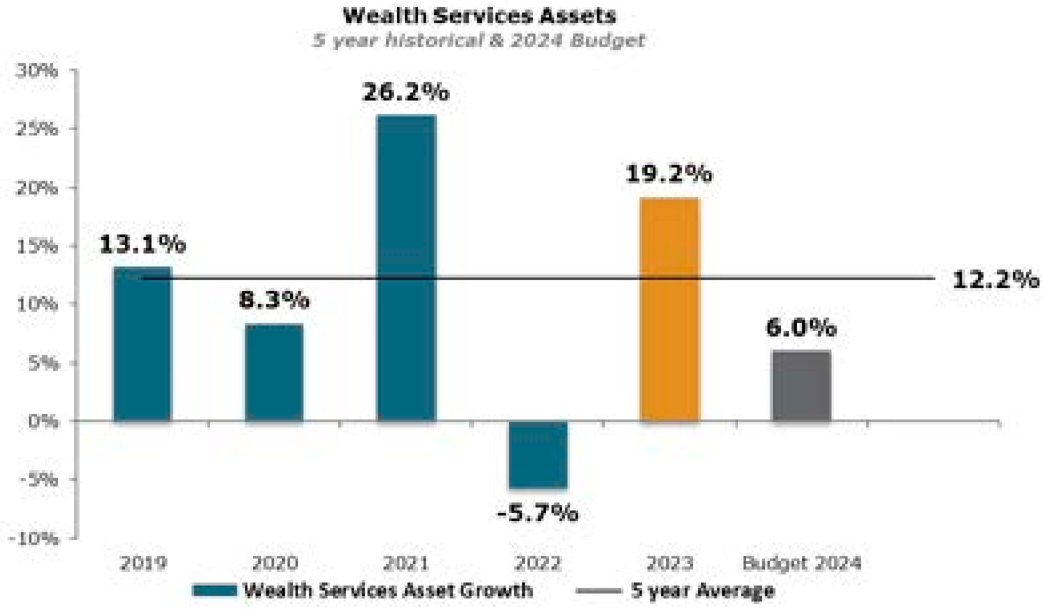
During the budgetary planning for 2024, our Board and Management carefully considered the projected growth rates, according to the Conference Board of Canada's October 2023 three-year outlook, which anticipates a GDP growth of 2.0% for Saskatchewan and 1.9% for Alberta. We have established a more ambitious growth rate of 3.7% for 2024. This decision reflects our confidence in seizing opportunities within the Saskatoon market and our legacy Synergy geographical region.

In the event of prolonged inflationary pressure, sustained high-interest rates and an economic downturn becoming worse than expected, there is a possibility that our ambitious growth goals will not be met.

Other assets under administration include off-balance sheet assets managed by our wealth services division totaling $584.6 million (2022 - $490.6 million), an increase of 18% year over year and off-balance sheet loans of $15.5 million (2022 - $3.4) in loans sold or syndicated to other credit union partners but serviced by Synergy.

NCCU contributed $23.0 million in wealth assets and $20.9 million in off-balance sheet loans on January 1, 2023.

The following chart shows our 5-year historical growth in wealth assets under administration.



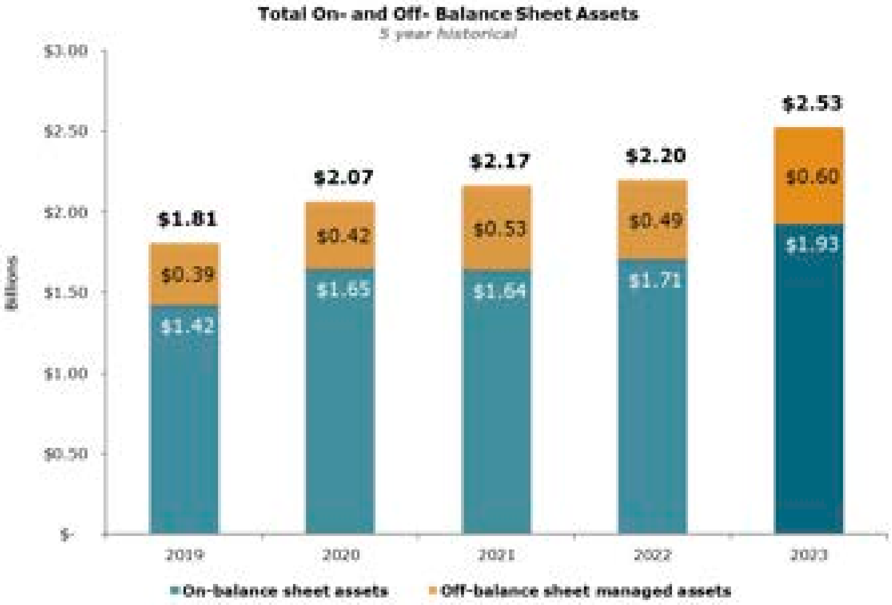
A key strategic focus for Synergy for the past ten plus years has been to grow our wealth assets. Our 10-year historical average growth rate is 13.7%. After a slight dip in 2022 due to equity market volatility we are experiencing growth above our 5-year historical average of 12.2%.

Our staff complement in our wealth area continues to grow with an additional advisor in Saskatoon in 2024 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,' and we are forecasting for 6.0% growth in 2024.

Along with normal paydowns of the loans sold to other credit union partners, the addition of $20.9 million in off-balance sheet loans from NCCU on January 1, 2023, increased our off-balance sheet book. At the end of 2023 our off-balance sheet loans ended at $15.5. million. Synergy will be looking to re-purchase these loans and bring them on balance sheet at the point of renewal or refinance. Synergy is not requiring additional liquidity and not expected to, in the near term, and as a result loans sold or syndicated to other credit union partners will pay down and we will not be selling loans to replace them in 2024.

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

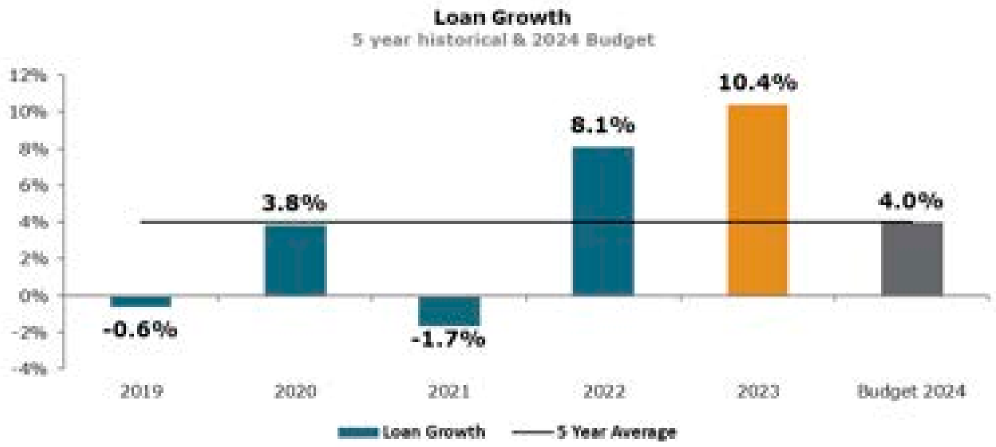
As a result, our assets under administration finished at $2.5 billion (2022 – $2.2) resulting in 14% growth year over year.



LOANS

We experienced 10.4% (2022 – 8.1%) growth in our loan portfolio in 2023, 8.3% of the above growth can be attributed to the addition of the NCCU loan portfolio on January 1, 2023, adjusting for this we achieved 2.1% loan growth, which was below our budgeted forecast of 6.6%.

The chart below illustrates our five-year historical and 2024 forecasted loan growth. Forecasted growth for 2024 is 4%, double expected GDP growth for both Saskatchewan and Alberta and set at our 5-year average growth.



Gross loans (on balance sheet) totaled $1.4 billion (2022 - $1.3), an increase of $100 million. Net loans (gross loans less allowances) totaled $1.4 billion (2022 - $1.3), an increase of $100 million over 2022.

As shared in past years we believe we are past the peak of the credit cycle and that loan demand locally will be muted.

We aspire to leverage the opportunities our Saskatoon market is expected to provide in 2024 as the city continues to grow. Between October 2022 and October 2023 Saskatoon added 14,400 people, has a diverse economy, low unemployment rates, a healthy real estate market and rising incomes according to Saskatoon.ca.

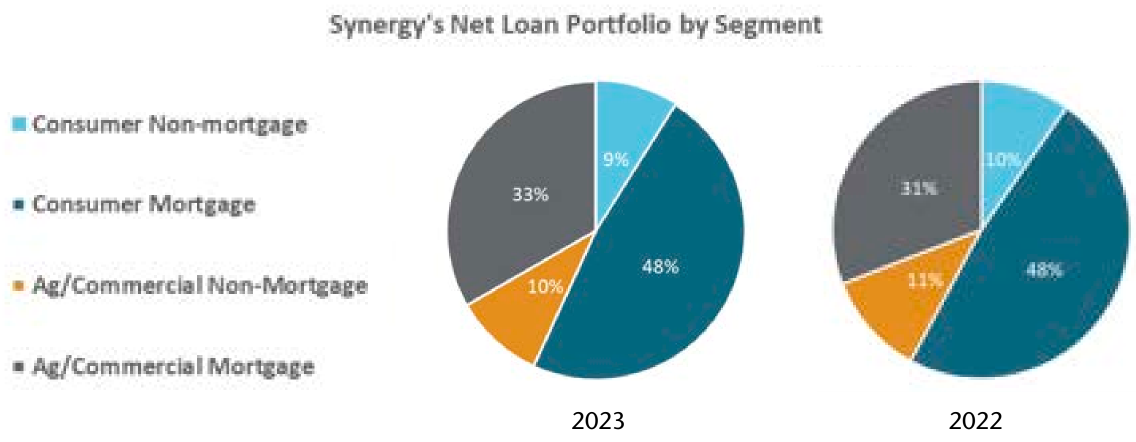
In addition to organic growth, we plan to achieve our forecasted loan growth of 4% by continuing to collaborate with other credit union partners and other institutions to purchase syndicated loans.

Average net loans reached 72.9% (2022 – 72.4%) of average assets; below our optimal range of 82%-84% which helps to maximize our overall profitability. A higher loan-to-asset ratio will generally enhance net interest income by placing assets into comparatively higher-yielding loans.

Higher interest rates continue to affect business and consumer spending however we do anticipate our members to navigate our current economic environment successfully.

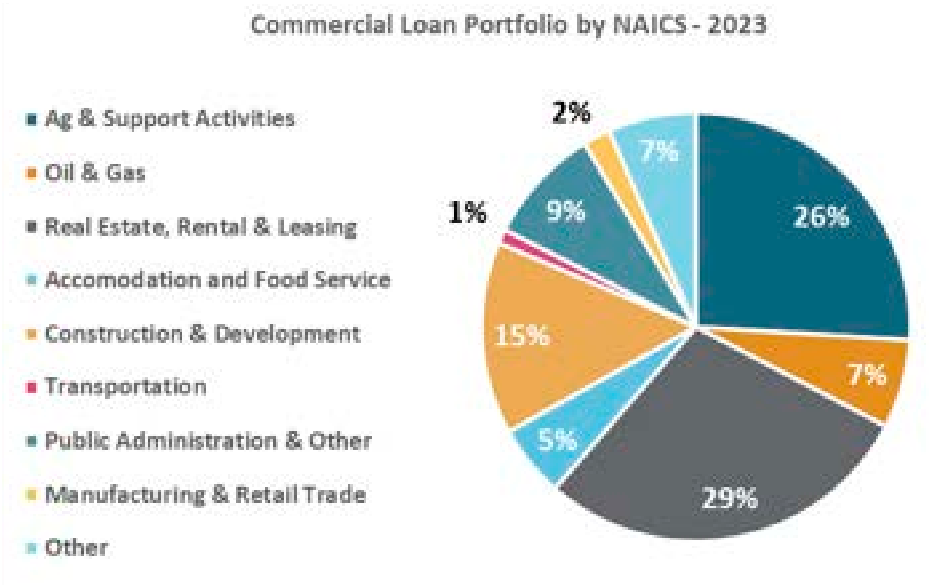
As part of our strategic plan, we aspire to change our portfolio mix from 60% consumer and 40% Commercial and Ag Business to 50% in each of the above categories to bolster our margin.

The pie chart below illustrates the subtle shift of our loan portfolio with a 1% increase to ag and commercial from consumer from 2022 to 2023. A shift of 5% from consumer to our commercial portfolio occurred since 2021.



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. The pie chart on the following page shows our current exposure to various industries.

In 2024 we will continue to cultivate opportunities to partner with peers to achieve growth, a higher return for our depositors and minimize the negative impact on profitability based on a lower than optimal leverage position. Having said that, we will be constrained on what opportunities we will be able to act on based on industry limits we have set, to manage our overall credit risk concentration.



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 and work diligently to minimize actual write-offs.

Loan allowances increased by $3.2 million (2022 - $203 thousand) year-over-year. Collective allowance reduced by $1.1 million (2022 – increased $554 thousand) and specific increased by $4.2 million (2022 – decreased $351 thousand). The increase to our specific provisions in 2023 is primarily due to one specific allowance in our commercial portfolio.

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 has decreased primarily for two reasons: our portfolio risk metrics have improved, and we have individually evaluated some larger exposures and when necessary added specific allowances which in turn removed these individual exposures from our collection provision.

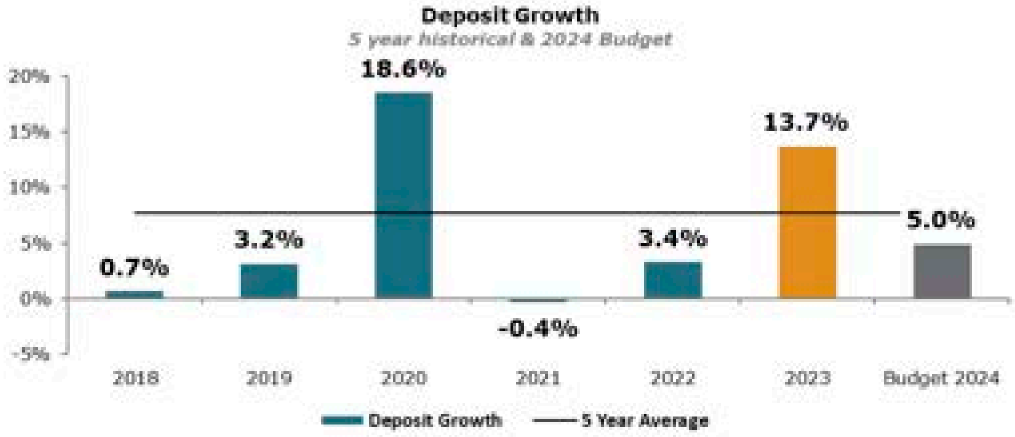
Actual write-offs were $484 thousand (2022 - $1.0 million). Approximately half of these write-offs had been allowed for in previous years.

Our overall delinquency remains at less than 1% of average assets due to prudent credit underwriting practices and early intervention by our loan loss and prevention team.

In 2024, we have returned our forecast for provision for credit losses to 15 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 interest rates decrease.

DEPOSITS

We ended 2023 at $1.7 billion (2022 - $1.5 billion) resulting in a growth of 13.7% (2022 – 3.4%) or an increase of $206 million (2022 – $50 million). NCCU contributed $122 million of deposits on January 1, 2023, resulting in organic growth of 5.2% for our combined entity, finishing close to forecasted growth of 5%.



Demand deposits, which account for 55.0% (2022 – 64.3%) of our deposit base, decreased by $30.2 million (2022 - increased $10.8) or contraction of 3.1% (2022 – 1.1%) year-over-year.

Term deposits, which make up the remaining 45.0% (2022 – 35.7%) of our deposit base, increased $236.5 million (2022 - $38 million), an increase of 44.1% (2022 – 7.6%) year-over-year.

Our mix of demand and term deposits shifted significantly in 2023 due to our depositors taking advantage of higher term deposit interest rates. This has put downward pressure on our interest margin.

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

In 2024 we are forecasting to grow our deposits by 5%.

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 decreased by $10.2 million, or 17.9%, to $46.9 million (2022 –$57.2), representing 2.6% (2022 – 3.4%) of average assets.

In 2022 due to the sale of our investment and the interest income received as a result, if removed from 2022 income would result in 2.4% of average assets. In 2023 we achieved 2.6% of average assets or a 0.2% increase year over year. Interest income was achieved primarily due to the steep rising rates of 2022 and early 2023 where new loans were booked at higher rates quicker than deposits repriced.

In 2024 we expect our net interest margin to compress to 2.2% of average assets as deposits reprice quicker than loans. This margin pressure is expected to continue as increased competition and changing consumer behavior disrupts our core business.

Net interest margin (net of loan provisions) decreased by $12.5 million (2022 – increased $19.2) to $43.5 (2022 - $56.0) million, representing 2.4% (2022 –3.4%) of average assets. Adjusting for the one-time sale on investment in 2022 the result would be 2.3% average assets or $4.1 million more in net interest margin than 2022.

Provisions expense increased to $3.4 million or nineteen basis points of average assets in 2023 versus $1.2 million in 2022 or seven basis points. Provisions increased $2.2 million in 2023 compared to 2022 primarily because of increased specific allowance in our commercial portfolio.

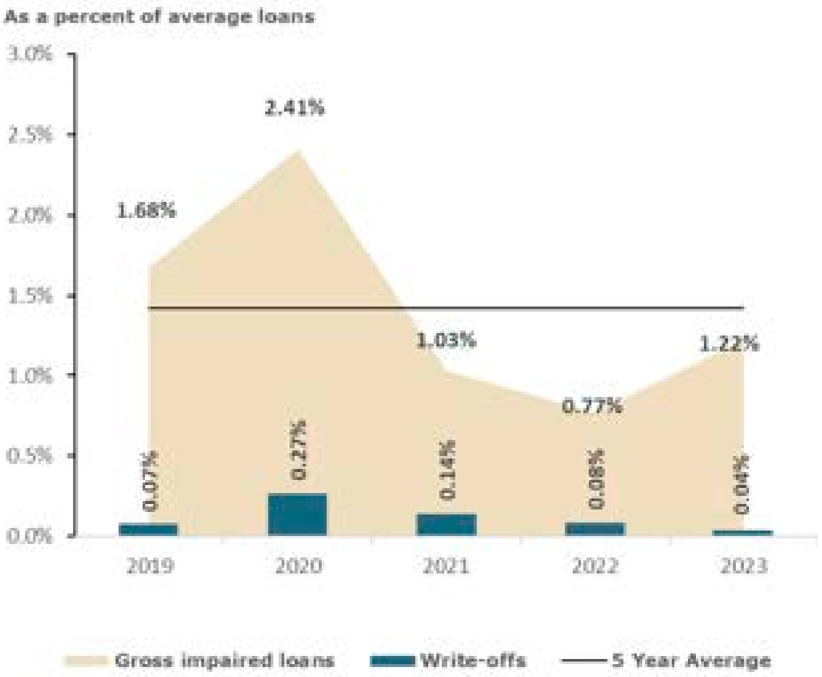
The table below shows our average portfolio year over year with a calculated yield we earned on our assets versus the average yield we pay on our liabilities.

	2023				Changes in Rates	2022			
$thousands	**Average Balances**	**Mix**	**Interest**	**Rate**		**Average Balances**	**Mix**	**Interest**	**Rate**
ASSETS									
Cash and investments	449,128	25%	20,267	4.51%	-1.41%	416,534	25%	24,640	5.92%
Loans	1,323,694	73%	66,315	5.01%	1.08%	1,210,960	72%	47,537	3.93%
Other assets	43,348	2%	-	0.00%	0.00%	45,391	3%	-	0.00%
LIABILITIES AND EQUITY									
Deposits	1,606,631	88%	39,521	2.46%	1.47%	1,479,024	88%	14,705	0.99%
Loans payable	5,521	0%	129	2.34%	-0.16%	11,309	1%	283	2.50%
Other liabilities	8,239	0%	-	-	-	6,930	0%	-	-
Equity & membership shares	195,779	12%	-	-	-	175,622	11%	-	-
NET INTEREST INCOME			**46,932**	**2.58%**	**-0.84%**			57,189	3.42%
Provision for credit losses			3,437	0.19%	0.12%			1,208	0.07%
NET INTEREST MARGIN			**43,495**	**2.39%**	**-0.96%**			55,981	3.35%

Average yield on our loan portfolio increased to 5.01% when compared to 2022 average yield of 3.93%, an increase of 1.08%. Average yield on our deposit portfolio increased from 0.99% to 2.46% an increase of 1.47% year over year. This has a negative 0.4% drag on margin.

If the 2022 revenue from the sale of our investment is removed the net interest income would have increased 0.2% year over year and net interest margin would have decreased 0.05% instead of the 0.96% in the chart above.

The following chart outlines Synergy's 5-year gross impaired loans and write-off history for its loan portfolio. Gross impaired loans (greater than 90 days delinquent) increased to 0.9% of average loans (2022 – 0.7%) because of our early engagement and focused collection activities. Write-offs in 2023 were approximately 50% of 2022.



In 2024 we anticipate continued margin compression due to increased competition from traditional as well as non-traditional financial institutions that will be looking for growth.

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.

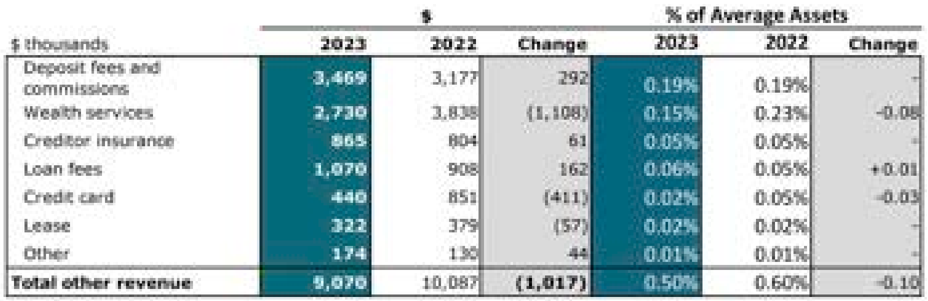
NON-INTEREST INCOME

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

In 2023, Synergy experienced a $63 thousand unrealized gain (2022 - $1.0 million) on investments, and a $69 thousand gain (2022 - $185) on foreclosed properties. The remainder of our non-interest income is comprised of other revenue.

Synergy's other revenue ended the year at $9.1 million (2022 - $10.1), a decrease of $1.0 million or 10 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 2022.



	$			% of Average Assets		
$ thousands	2023	2022	Change	2023	2022	Change
Deposit fees and commissions	3,469	3,177	292	0.19%	0.19%	-
Wealth services	2,730	3,838	(1,108)	0.15%	0.23%	-0.08
Creditor insurance	865	804	61	0.05%	0.05%	-
Loan fees	1,070	908	162	0.06%	0.05%	+0.01
Credit card	440	851	(411)	0.02%	0.05%	-0.03
Lease	322	379	(57)	0.02%	0.02%	-
Other	174	130	44	0.01%	0.01%	-
Total other revenue	**9,070**	10,087	**(1,017)**	0.50%	0.60%	-0.10

Wealth services income reduced by $1.1 million as a result of wealth personnel expenses being netted against revenue to align to our peers, resulting in a 0.08% drop as a percentage of average assets.

In 2022 we received a one-time revenue guarantee, a result of our credit card portfolio switching to Collabria. When we switched to Collabria a minimum revenue threshold was negotiated and guaranteed in the first five years of our contract, but will not be repeated in future years. Adjusting this revenue would have resulted in a $89 thousand increase to our credit card revenue year over year.

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.

Loan fees increased in 2023, we are experiencing 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 flowed into income in the year received.

In 2024 we expect other revenue to increase by $500 thousand with modest growth in all categories.

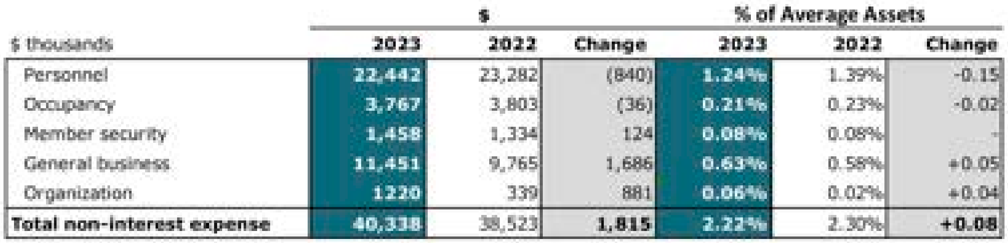
We are actively working on either selling or leasing our excess office space not needed for our own use in 2024.

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	2023	2022	Change	2023	2022	Change
Personnel	22,442	23,282	(840)	1.24%	1.39%	-0.15
Occupancy	3,767	3,803	(36)	0.21%	0.23%	-0.02
Member security	1,458	1,334	124	0.08%	0.08%	-
General business	11,451	9,765	1,686	0.63%	0.58%	+0.05
Organization	1220	339	881	0.06%	0.02%	+0.04
Total non-interest expense	40,338	38,523	**1,815**	2.22%	2.30%	**+0.08**

Non-interest expense increased $1.8 million (2022 - $3.7), or 4.7% (2022 – 10.6%), to $40.3 million (2022 - $38.5).

Included in advertising and donations was $226 thousand (2021 - $921) that was funded from Synergy Shares. We allocate 5% of of income before allocations and taxes each year to the fund however the expense flows through in the year it is funded.

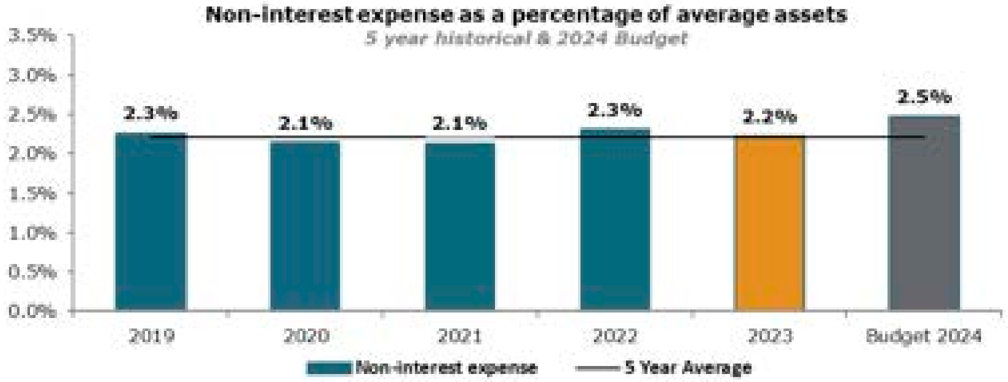
Personnel expense reduced by $840 thousand year-over-year however due to the sale of our investment in 2022 there was a one-time increase to personnel expense in that year due to employee profit share. If this was adjusted for this expense there would have been an increase of $860 thousand in personnel expenses or 4% year-over-year.

The increase in non-interest expenses includes $850 thousand in one-time merger expenses with the majority attributed to banking system and digital banking conversion of NCCU systems to Synergy's platform.

Occupancy decreased by $36 thousand due to lower utilities being recaptured by our investment in a building management system in Synergy Centre, our largest facility. This is an excellent result as we added NCCU's building in Saskatoon which would have increased this expense.

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 expense as a percentage of average assets along with our forecasted percentage for 2024.



As a percentage of average assets, non-interest expense decreased from 2.3% in 2022 to 2.2% in 2023. The comparison of percentage of average asset, a better comparison, as to the efficiencies gained by combining NCCU and Synergy and are expected to improve further in 2024 as we stabilize. Typical non-interest expenses for NCCU in the past were approximately $1.7 million which is included in 2023 expenses but not 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 it 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.

Implementing technology solutions that enhance member experiences and facilitate frictionless payments clearing can be costly. To manage our overall expenses effectively it is crucial to distribute these costs across as many accounts as possible and makes size and scale important to Synergy's long-term sustainability.

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.

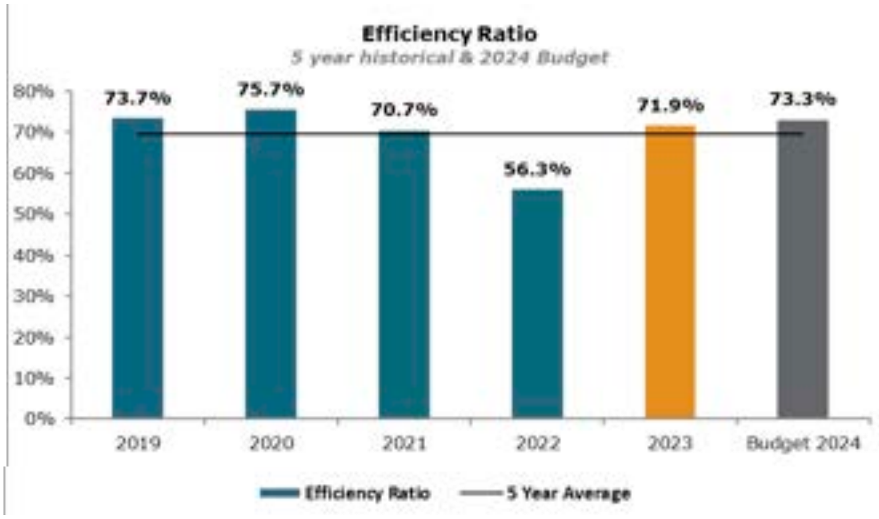
We budget to include all costs that we believe will be required to achieve our goals for the year. Due to constraints such as time, resources, or third-party readiness, we are not always able to complete everything we budget for in the current year. In 2024 we have added additional expense lines to support expansion of our wealth division 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 originally anticipated to be implemented by the end of 2023, and now expected in late 2024.

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, ending 2023 at 71.9% versus forecasted of 87.3% (2022 – 56.3%) including unrealized gains on investments.

Our 2023 results are significantly better than 2024 forecasted budget efficiency ratio of 83.1%. Today's inflationary environment as well as increased costs from our suppliers and partners have us expecting to grow expenses by 6%. A result of compressing margins and larger percentage increase of expenses than revenue have us forecasting an efficiency ratio of 73.3%.

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

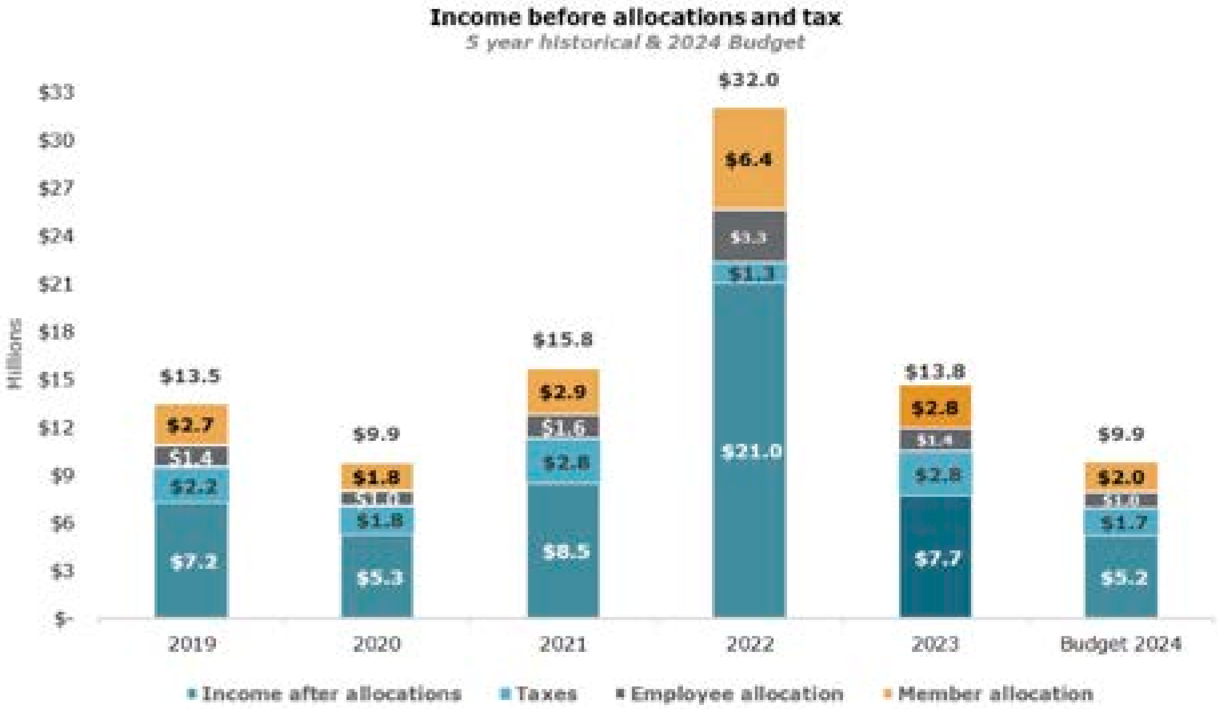


INCOME BEFORE ALLOCATIONS AND TAX

Income before employee profit shares, member profit shares and tax were $13.8 million (2022 - $32.0), a decrease of $18.2 million or 57%. If the 2022 investment sale was removed the decrease would have been $1.4 million or 9% decrease.

Allocations to employees (employee profit sharing) was $1.4 million (2022 - $3.3), representing a decrease of $1.9 million or 57.4% year-over-year. Most of the decrease in employee profit share can be attributed to the sale of long-term investment in 2022.

The chart below shows how our income has been distributed over the past 5 years as well as our budget for 2024.



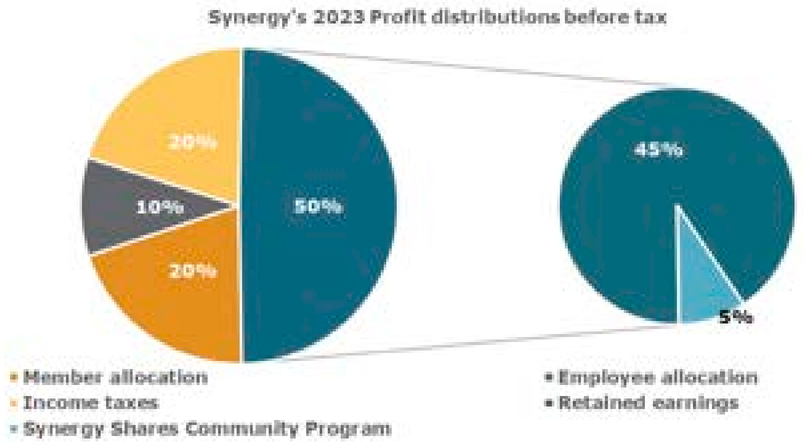
COMPREHENSIVE INCOME

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) from profits in 2023 and will be distributed in 2024 total $1.9 million (2022 - $6.4), representing a decrease of $4.5 million or 71% year-over-year. Adjusting for the one-time revenue from sale of investment in 2022 there has been a decrease of $800 thousand.



Income tax expense was $2.8 million (2022 - $1.3), an increase of $1.5 million or 121.4%. Although our income was significantly higher, in 2022 our sale of investment was distributed in a way that did not attract tax. 2023 income has been taxed normally and closer to what we paid in 2021.

Comprehensive income after taxes and allocations was $7.7 million (2022 - $21.0), down $13.4 million or 63.6% over 2022. Comprehensive income adjusted for the one-time investment sale would have been approximately $1.7 million higher than our 2023-year end finish.

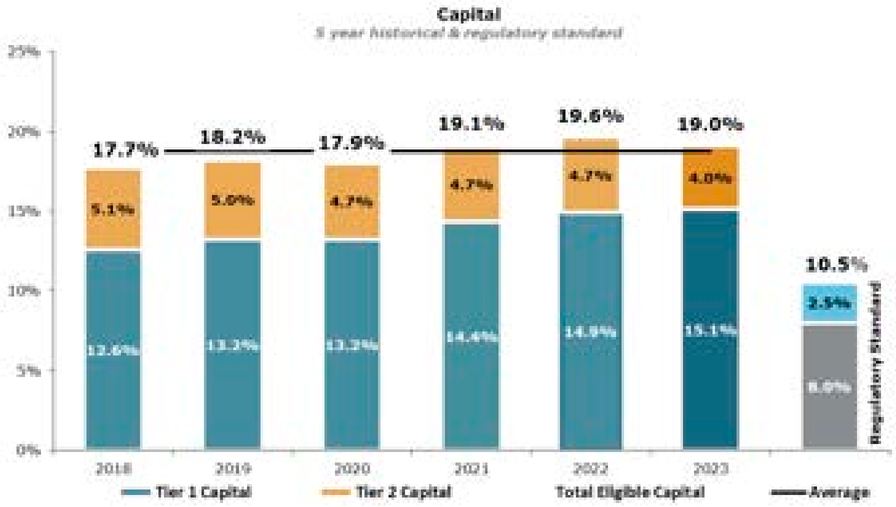
In 2024, we expect comprehensive income to be approximately $2.5 million less than 2023 due to downward pressure on interest margin, flat non-interest income and growth of expenses, including additional investment for open banking and enhancements to our digital platforms as well as additional clearing costs.

CAPITAL MANAGEMENT

Equity grew by 11.8% to $165.8 million (2022 - $148.2) and made up 79.4% (2022 – 76.7%) of Synergy's eligible capital. In 2024, we are planning to introduce some changes to our ProfitShare program which will further increase the percentage of our retained earnings to total capital.

Eligible capital grew by 7.5% to $207.6 million (2022 - $193.1), and Tier I capital rose by 12.0% to $164.9 million (2022 - $147.3). The chart below depicts Synergy's capital history over the past 5 years.

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



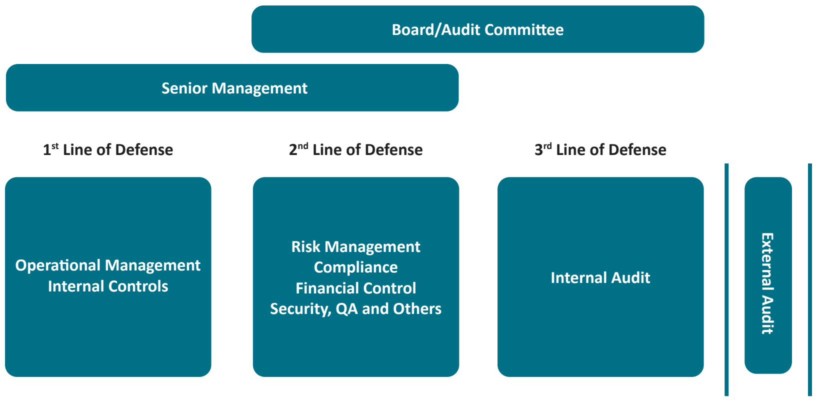
Target capital ratios under Basel III, including any appropriate capital buffers over the prescribed CUDGC minimums, are reconfirmed through the credit union's comprehensive internal capital adequacy assessment program (ICAAP) and annual stress-testing results. Stress testing simulations include three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

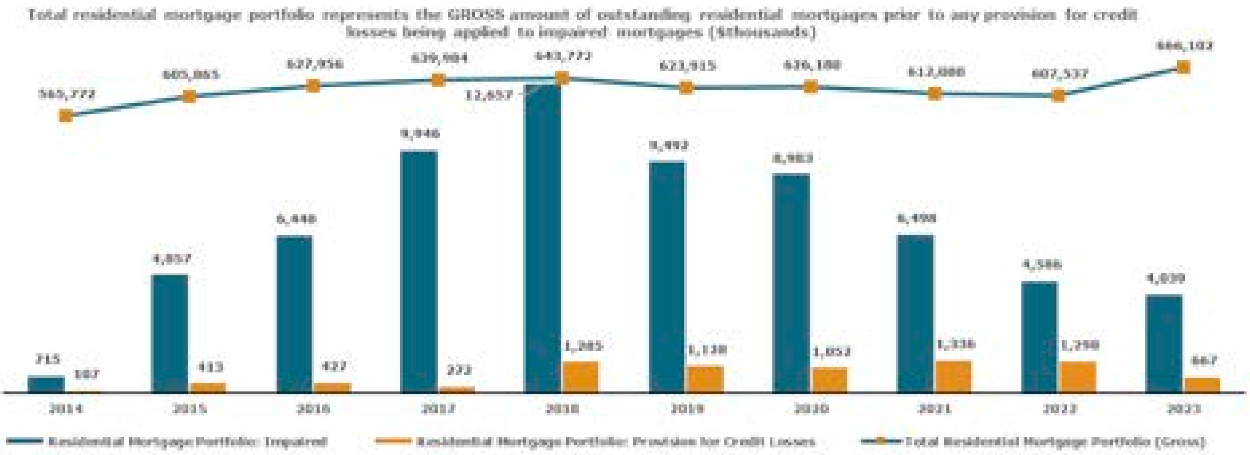
- The clear communication of delegated lending authorities to employees engaged in the credit granting process, which is complemented by a defined approval process for loans more than those limits and includes making recommendations to the Credit Department or Credit Committee for credit adjudication
- 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
- The detailed and quarterly review of accounts rated less than satisfactory. 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.

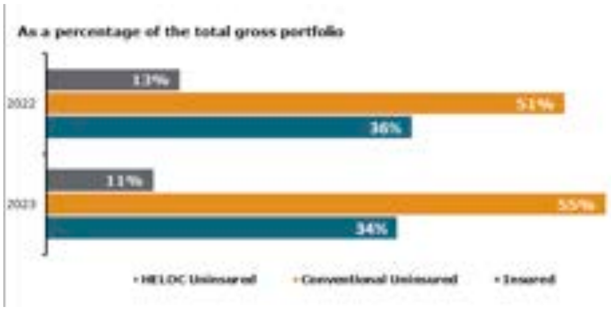
Synergy regularly performs stress tests to determine the impact of a significant decline in housing prices on the residential mortgage portfolio. The IFRS 9 accounting standard requires the use of expected loss model which calculates the shortfalls that would be incurred in various default scenarios and multiplies 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.



As at December 31, 2023
$ thousands

Amortization Range	Insured	Uninsured	HELOC	TOTAL
Less than 10 years	9,143	26,917	13,391	49,451
11 - 15 years	33,259	55,204	17,478	105,941
16 - 20 years	86,208	130,958	28,567	245,733
21 - 25 years	100,500	143,799	10,865	255,164
Greater than 25 years	664	9,149	-	9,813
2023 TOTAL	**229,774**	**366,027**	**70,301**	**666,102**
2022 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 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 strategy. 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 19 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.

It is management's intention 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 19 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, who serves as the provincial liquidity manager for Saskatchewan credit unions, requires Synergy to maintain a minimum of 8.65% 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 2023. 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 average gross net interest income and gross non-interest income for the previous three years.

Based on this formula, Synergy has allocated $7.8 million (2022 - $6.9 million) in capital as of December 31, 2023, to cover operational risks.

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 increases 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, information systems and technology (including cyber risk), 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.

LLOYDMINSTER CREDIT UNION
CREDIT UNION BUILDING
TOP savings value

GOVERNANCE

NTRODUCING TELE
Sign up for
leService

GOVERNANCE

Synergy Credit Union's leadership steers the credit union towards success as a responsible, values-aligned financial co-operative. We emphasize practicality, transparency, and ethics in business and sustainability aspects.

MEMBER INVOLVEMENT

Members play a vital role in shaping the future of Synergy Credit Union through democratic participation. The Board of Directors encourages attendance at the annual general meeting, voting in director elections, and participating in special resolutions. Members in good standing can also run for a seat on the Board.

Additionally, specific risk oversight and accountability have been delegated to Board committees, which study, discuss, and propose risk policies and management recommendations to the Board of Directors.

CORPORATE GOVERNANCE STRUCTURE

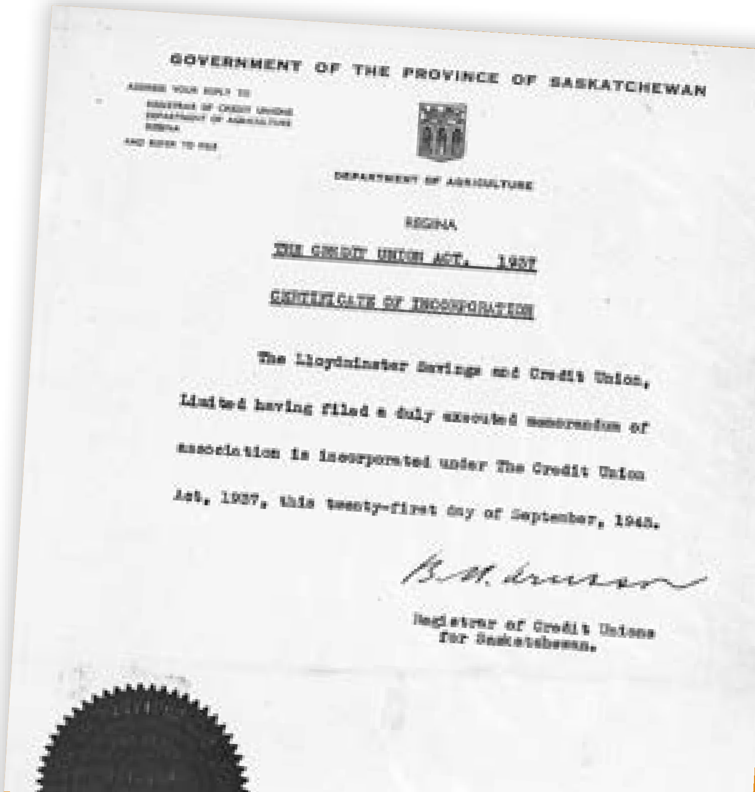
Synergy Credit Union, a member-owned co-operative financial institution, operates under the governance of an elected Board of Directors. This Board holds a fiduciary duty to safeguard members' interests and assets, shape the institution's strategic direction, and oversee risk management processes.

The Board is responsible for appointing the CEO, defining their responsibilities, and assessing their performance. Additionally, it communicates with members and stakeholders through channels such as this annual report, the annual general meeting, and other means.

BOARD GOVERNANCE STRUCTURE

On April 4th, 2023, Synergy Credit Union held its Board of Directors election. Faith Graham, Ashley Lilly, Melanie Mari, and Don Wheler were elected for a three-year term. Directors play a crucial role in upholding the credit union's values, ensuring honesty and integrity, and contributing their knowledge and experience while understanding its principles and community values.

To maintain independence, directors must have no conflicts of interest with Synergy Credit Union or the financial services industry as a whole. The Board's corporate governance committee annually reviews compliance with this independence requirement.



GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN

ADDRESS YOUR REPLY TO
REGISTRAR OF CREDIT UNIONS
DEPARTMENT OF AGRICULTURE
REGINA
AND REFER TO FILE

DEPARTMENT OF AGRICULTURE

REGINA

THE CREDIT UNION ACT, 1937

CERTIFICATE OF INCORPORATION

The Lloydminster Savings and Credit Union, Limited having filed a duly executed memorandum of association is incorporated under The Credit Union Act, 1937, this twenty-first day of September, 1945.

B.M. [illegible]

Registrar of Credit Unions
for Saskatchewan.

MEET OUR TEAM: BOARD OF DIRECTORS

BOARD MEMBER	Neil Carruthers	Don Wheler	Brent Baier	Rick Graff	Faith Graham	Linda McKinnon
Year First Elected	2009	1998	2012	1996	2020	2020
Year Current Term Ends	2024	2026	Resigned	2025	2026	2025
Committee Assignments (Jan-April 2023)	Ex-offico member of all committees	Human Resources & Risk	Corporate Governance	Audit	Human Resources & Audit	Risk
Committee Assignments (April-Dec 2023)	Ex-officio member of all committees	Human Resources & Risk	N/A	Audit	Risk	Human Resources & Risk
Meeting Attendance Board & Committee (Jan-Dec 2023)	30/31	19/19	7/7	14/14	15/15	18/19
Remuneration[1]	$30,150	$20,150	$5,040	$10,400	$12,400	$16,050
Expenses[2]	$ 2,078	$ 7,192	-	-	$ 1,545	$ 1,995
Total Compensation	$32,228	$27,342	$5,040	$10,400	$13,945	$18,045

[1] per diems, honorariums, long service
[2] mileage, training, expense reports, out of pocket

membership No. 90
SHARES
Date
Part
Dr.
Cr.
Bal.
DEPOSITS

Board of Directors, circa 1968

11 Directors

7 Accredited Canadian Credit Union Director designations

41 Development Training Courses

BOARD MEMBER	Melanie Mari	Ashley Lilly	Tom Schinold	Carolyn Young	Jay Walker
Year First Elected	2016	2023	2015	2016	2023
Year Current Term Ends	2026	2026	2024	2025	2025
Committee Assignments (Jan-April 2023)	Corporate Governance & Risk	-	Corporate Governance & Human Resources	Audit & Risk	Audit
Committee Assignments (April-Dec 2023)	Corporate Governance & Risk	Human Resources	Human Resources & Audit	Corporate Governance & Audit	Audit
Meeting Attendance Board & Committee (Jan-Dec 2023)	22/22	11/11	22/23	18/19	18/18
Remuneration[1]	$17,900	$11,100	$18,750	$15,350	$15,200
Expenses[2]	$ 1,983	$ 1,768	$ 6,750	$ 898	$ 2,391
Total Compensation	$19,883	$12,868	$25,500	$16,248	$17,591
				2023 TOTAL	**$199,090**
				2022 TOTAL	**$176,790**

[1] per diems, honorariums, long service
[2] mileage, training, expense reports, out of pocket

To view full bios go to synergycu.ca.

syn·er·gy
(sĭn'ər-jē)
n., pl. -gies.
The cooperative interaction of two or more agents or forces so that their combined effect is greater than the sum of their individual effects.
CREDIT UNION
Synergy
Together, we will.

GOVERNANCE COMMITTEES

AUDIT COMMITTEE

The Audit Committee oversees the internal audit function and reviews the effectiveness of internal control and risk management practices. The committee is accountable to the Board for ensuring that risks are adequately managed, our exposures are within regulatory constraints, and the approved risk appetite. The committee further serves as the Conduct Review Committee as specified under The Credit Union Act, 1998. The Audit Committee held four meetings in 2023.

AUDIT COMMITTEE CORE RESPONSIBILITIES

- Monitoring financial performance
- Oversight of internal audit
- Monitoring of credit portfolio
- Compliance with anti-money laundering and privacy legislation
- Oversight of the annual operating budget
- Compliance with Standards of Sound Business Practice and Synergy Credit Union's code of conduct
- Monitoring of related party transactions and conflicts of interest

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for facilitating effective governance of the credit union, ensuring governance practices evolve with the needs of Synergy. The committee ensures the credit union develops and pursues objectives that maximize member engagement in the credit union, foster self-reliant, sustainable communities, and provide appropriate processes in place to communicate with members and other stakeholders effectively.

The committee also serves as the Nominating Committee, whose responsibilities include facilitating the identification of qualified candidates for election to the Board of Directors. The committee's role is to ensure director elections' proper conduct, including overseeing an orderly, open, transparent, and democratic election process. The intent is to encourage participation in the election process, including achieving broad-based, informed, active and influential member engagement. The Corporate Governance Committee held seven meetings in 2023.

CORPORATE GOVERNANCE COMMITTEE CORE RESPONSIBILITIES

- Business conduct for directors
- Board committee structure
- Bylaw maintenance and recommended changes
- Board development and succession planning
- Director election process
- Director compensation
- Member engagement and satisfaction
- Community investment
- Stakeholder communications

HUMAN RESOURCES COMMITTEE

The Human Resource Committee oversees governing human resource policies implemented by management to ensure Synergy's employees are provided with fair and meaningful employment in a safe and respectful workplace. The committee has specific responsibilities concerning the appointment, monitoring and compensation of executive management.

The committee also oversees the development and monitoring of policies that provide for the desired ethical conduct by employees. The Human Resource Committee held five meetings in 2023.

HUMAN RESOURCES COMMITTEE CORE RESPONSIBILITIES

- CEO contract, compensation, and evaluation
- CEO succession plan
- Reviews
- Executive management appointments and succession
- Employment principles and compensation philosophy
- Employee satisfaction
- Business conduct for employees

RISK COMMITTEE

The Risk Committee oversees activities related to Synergy's risk appetite and Enterprise Risk Management (ERM) framework, including its liquidity and capital stress testing practices. This includes ensuring the appropriate governing policies are developed that include the context for risks to be taken, the level of risks, and the monitoring of adherence to those risk policy parameters. The Risk Committee held five meetings in 2023.

RISK COMMITTEE CORE RESPONSIBILITIES

- Overisght of enterprise risk management framework
- Monitoring of corporate risk profile
- Monitoring of internal capital adequacy assessment program (ICAAP) and stress testing results
- Oversight of liquidity, interest rate, and credit risk

EXECUTIVE TEAM

GLENN STANG
Chief Executive Officer

Glenn Stang's background within the credit union system spans more than 42 years, with 26 of those years spent with Synergy Credit Union. He joined Synergy in August 1997 as Branch Manager of the 50th Street Lloydminster location and held this position until July 2003, when he was promoted to Executive Manager of Retail Services (renamed the Chief Operating Officer). Synergy's Board of Directors voted unanimously to appoint Glenn as its new CEO, effective January 2, 2013.

Glenn believes in lifelong learning and in 2015 completed an extensive three-year program to obtain his Certified Chief Executive (CCE) designation, he is also a certified professional director holding a Pro.Dir designation.

Glenn is a passionate advocate of the credit union system and leverages his expertise and leadership skills in many system-wide initiatives. He completed a three-year term on the Canadian Credit Union Association (CCUA) board and a second three-year term on a tri-provincial technology board. Glenn believes in building stronger communities as demonstrated by his involvement with many organizations and volunteer activities such as Lloydminster Economic Development Corp., Kinsmen, KidSport, Lloydminster Interval Home, Olive Tree, Chamber of Commerce, 100 Men Lloydminster, and 17 years coaching hockey, to name a few.

Glenn's strong leadership attributes and his ability to get people to work together towards a common goal are one of the reasons Glenn is often nominated to chair the boards he sits on.

BRENT BERGEN
Chief Operating Officer

Brent Bergen's background within the credit union system spans more than 34 years in seven different credit unions across Saskatchewan and Alberta. Brent joined Synergy Credit Union in September 2007 as a Regional Manager. He was promoted to the Manager of Retail and was selected as the Chief Operating Officer in January 2013. Brent has completed all modules of the Leadership Foundations program with the Smith School of Business at Queen's University and has received his certification from the Queen's Executive Development Centre. Brent is a member of the advisory council for the Credit Union national credit card program and past vice-chair of the Lloydminster Region Health Foundation.

CHRISTINE TUCKER
Chief Financial Officer

Christine Tucker has worked in the credit union system for over two decades. She started her career at Synergy Credit Union in Lashburn in 1999. She then progressed through various positions, such as Branch Manager, Regional Manager, and Manager of Retail. In 2018, she became the Chief Financial Officer of Synergy. Christine holds a CPA, CMA, and ACUIC designation from Dalhousie University. She is also a certified facilitator of Synergy's internal cultural training programs. Christine is a board member and the Finance chair of Midwest Family Connections, a local non-profit organization.

TREVOR BEATON
Chief Innovation & People Officer

Trevor Beaton was promoted to the Chief Innovation & People Officer role in September 2016. Trevor leads Synergy's teams with responsibilities in Marketing, Human Resources, Information Technology, and Project Management. Trevor has been in the financial industry for over 25 years, with the last 24 being at Synergy Credit Union. Trevor holds a Master of Business Administration from Royal Roads University and a Bachelor of Commerce degree from the University of Saskatchewan, and in 2023, he achieved the Professional Director Designation from Governance Solutions Inc. Trevor was recognized as a National Young Leader in 2012 and served three years on the National Young Leader Committee. Trevor is an active coach of youth sports and has served on various community boards and committees in the area.

HARMOLK BRAR
Chief Risk Officer

Harmolk Brar's background in the financial services sector spans 20 years across different financial institutions in Canada including 5 years within the credit union system. His experience includes roles in risk management, compliance, internal audit, and regulating financial institutions.

Harmolk joined Synergy Credit Union in August 2023. As Chief Risk Officer, he leads a team responsible for enterprise risk management, compliance, and privacy.

Harmolk holds a Bachelor of Commerce degree from the University of Manitoba.

MIRANDA REID
Corporate Secretary & Executive Assistant

Prior to joining Synergy Credit Union in 2022, **Miranda Reid** spent almost 30 years in Administrative, project management, leadership, and accounting roles. Miranda's role with Synergy CU as Corporate Secretary and Executive Administrator provides support to the Board of Directors, CEO and Executive Team as well as housing several governance functions in support of Synergy. Miranda is a volunteer with the Lloydminster Interval Home Society and the Lloydminster Public Library.

EXECUTIVE COMPENSATION

The Board of Directors, specifically through the Human Resource Committee, oversees the credit union's compensation program and directly approves CEO compensation. The Board aims to design team member compensation to attract, motivate, and retain individuals with the necessary skills. Salaries and benefits are structured to maintain internal fairness and competitiveness within the local community, interprovincial public corporations, and financial service providers.

The total compensation, including short-term incentives and company-funded benefits paid to Executive Management in 2023, amounted to $1.51 million compared to $2.06 million in 2022.

MANAGEMENT'S ROLE IN RISK GOVERNANCE

The **Chief Executive Officer** is accountable to the Board for managing all material risks across the organization. This includes the development and execution of strategic and business plans and developing, implementing, and monitoring the risk management strategy.

The executive leadership team supports the Chief Executive Officer, and comprises of department heads and direct reports. The executive leadership team members manage all risks generated in their respective business lines and supporting units, including ensuring they have adequate systems and tools for effective risk management.

The **Asset-Liability Committee (ALCO)** is a management committee responsible for overseeing asset-liability strategies, which includes actively managing the balance sheet, overseeing capital and profitability management, and ensuring adequate funding and liquidity to support operations and growth.

The **Credit Committee** is a management committee responsible for approving Synergy Credit Union's more extensive credit risk exposures.

The **Information Technology (IT) Governance Committee** is a management committee accountable for establishing and overseeing the credit union's IT strategic plan. This includes setting IT-related strategic and funding priorities based on future member needs, the lifecycle of our IT infrastructure and supporting applications, and providing maximum functionality and value to the business.

The goal of the IT Governance Committee is to ensure Synergy's IT assets and the IT assets of our service providers are strategically aligned and integrated in such a way that our IT systems are secure, stable, and reliable.

The **Cyber Security Governance Committee** is a management committee accountable for Synergy's cyber security operational risk.

The **Risk & Compliance Committee (RCCO)** is a management committee whose primary purpose is to oversee the integrity of the Enterprise Risk Management and compliance framework. The framework will ensure: the organization stays current on regulatory changes, various departments are aware of and trained on applicable policies and procedures related to compliance, risks are identified and mitigated, etc. This Committee is an important driver of the ongoing collaboration between the first and second lines of defense. The scope of this Committee encompasses the management of privacy risk.

Individual business lines and support units have ownership and accountability for the risk management processes relating to their functions. This includes identifying, assessing, managing, and monitoring their units' risks (with executive leadership's assistance).

The **Chief Risk Officer** is responsible for managing the overall Enterprise Risk Management (ERM) framework to ensure risk items identified as needing action or attention are discussed and dealt with in strategic or tactical plans.

The **Chief Financial Officer** is responsible for managing the overall financial operations of the credit union.

Internal Audit is accountable for independently assessing the effectiveness of our risk management processes, practices, and internal controls by providing objective assurance on management's approach to controlling and managing risk.

FINANCIAL STATEMENTS 2023

2023 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 18, 2024
Lloydminster, Saskatchewan

INDEPENDENT AUDITOR’S REPORT

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, 2023, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 2023, 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 18, 2024
Saskatoon, Saskatchewan

STATEMENT OF FINANCIAL POSITION

As at December 31

($ thousands)	NOTE	2023	2022
ASSETS			
Cash and cash equivalents	5	66,635	68,266
Investments	6	436,963	326,391
Loans	7	1,389,282	1,258,105
Foreclosed property		214	777
Other receivables	8	512	18,611
Other assets		2,218	2,373
Property, plant and equipment	9	28,215	29,141
Intangible assets		901	981
Deferred tax assets	15	1,368	1,384
		1,926,308	**1,706,029**
LIABILITIES			
Deposits	10	1,709,793	1,503,468
Loans payable	11	2,447	8,594
Other liabilities	12	10,562	5,916
Membership shares	13	34,940	33,214
Allocation payable to members	13	2,796	6,593
		1,760,538	**1,557,785**
Commitments (Note 20)			
EQUITY			
Retained earnings		149,455	141,793
Contributed surplus		16,315	6,451
		165,770	148,244
		1,926,308	**1,706,029**

The accompanying notes are an integral part of these financial statements

On behalf of the Board of Directors:

Neil Carruthers, President
Board of Directors

Tom Schinold, Chair
Audit Committee

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

($ thousands)	NOTE	2023	2022
INTEREST INCOME			
Loans		66,315	47,537
Investments		20,267	24,640
		86,582	72,177
INTEREST EXPENSE			
Deposits		39,521	14,705
Loans		129	283
		39,650	14,988
NET INTEREST INCOME		**46,932**	**57,189**
Provision for credit losses	7	3,437	1,208
NET INTEREST MARGIN		**43,495**	**55,981**
NON-INTEREST INCOME			
Unrealized gains on investments		63	1,018
Gains on foreclosed property		69	185
Other revenue	14	9,070	10,087
		9,202	11,290
NON-INTEREST EXPENSES (Schedule 1)			
Personnel		22,442	23,282
Occupancy		3,767	3,803
Member security		1,458	1,334
General business		11,451	9,765
Organization costs		1,220	339
		40,338	38,523
INCOME BEFORE ALLOCATIONS AND INCOME TAX		**12,359**	**28,748**
Patronage allocation		1,865	6,446
Income tax expense	15	2,832	1,279
COMPREHENSIVE INCOME FOR THE YEAR		**7,662**	**21,023**

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, 2021	120,770	6,451	127,221
Comprehensive income	21,023	-	21,023
Balance at December 31, 2022	**141,793**	**6,451**	**148,244**
Comprehensive income	7,662	-	7,662
Contributed surplus from business combination (Note 21)	-	9,864	9,864
Balance at December 31, 2023	**149,455**	**16,315**	**165,770**

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the years ended December 31

($ thousands)	2023	2022
OPERATING ACTIVITIES		
Loan interest received	66,163	47,274
Investment interest received	18,061	6,365
Dividends received	18,625	473
Non-interest revenue received	9,599	11,629
Interest paid	(30,692)	(13,493)
Patronage paid to members	(5,662)	(2,975)
Payments to vendors and employees	(36,111)	(39,312)
Income taxes paid	(722)	(2,191)
Net increase in loans and foreclosed property	(30,905)	(94,478)
Net increase in deposits	74,867	47,394
Net cash from (used in) operating activities	**83,223**	**(39,314)**
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets purchased	(1,254)	(333)
Purchases of investments	(131,606)	(9,703)
Proceeds on sale and maturities of investments	36,112	46,698
Cash received from business combination	16,257	-
Net cash from (used in) investing activities	**(80,491)**	**36,662**
FINANCING ACTIVITIES		
Membership shares redeemed and distributions (net)	1,783	391
Repayment of securitization liabilities	(6,146)	(5,430)
Net cash used in financing activities	**(4,363)**	**(5,039)**
Decrease in cash and cash equivalents	(1,631)	(7,691)
Cash and cash equivalents, beginning of year	68,266	75,957
Cash and cash equivalents, end of year	**66,635**	**68,266**

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023
($ 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 twelve credit union branches. The credit union serves members in Lloydminster, Kindersley, Saskatoon 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 18, 2024.

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, 2023. Adoption of these amendments resulted in the Credit Union disclosing material accounting policy information instead of significant accounting policy information.

- IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* and
- IAS 8 *Accounting Policies, Changes in Accounting Estimates*

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.

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

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 significant.

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
- Estimates of effective interest rates used in incorporating the time value of money
- Effects of the economic changes, such as inflation and interest rate changes, 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.

3. BASIS OF PREPARATION (continued)

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.

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. MATERIAL ACCOUNTING POLICIES

The material 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.

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:

- 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.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and derivative financial assets (which are index-linked derivatives).

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.

4. MATERIAL ACCOUNTING POLICIES (continued)

Impairment (continued)

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 19 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 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.

4. MATERIAL ACCOUNTING POLICIES (continued)

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 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.

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.

4. MATERIAL ACCOUNTING POLICIES (continued)

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.

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*.

5. CASH AND CASH EQUIVALENTS

	2023	**2022**
Cash on hand	4,021	3,596
Deposits on demand	62,614	64,670
	66,635	**68,266**

6. INVESTMENTS

	2023	2022
Amortized Cost		
SaskCentral liquidity deposits	94,018	67,750
SaskCentral liquidity term deposits	53,982	83,250
Non-redeemable term deposits	223,500	125,000
Marketable bonds and bank terms	32,796	17,695
Debentures	971	1,042
Accrued interest	3,488	1,518
Total amortized cost	**408,755**	**296,255**
Fair Value Through Profit Loss (FVTPL)		
SaskCentral shares	5,886	10,494
Concentra Bank shares	8,000	7,750
Investment funds	14,237	11,744
Preferred shares	13	13
Accrued interest	72	135
Total fair value through profit loss (FVTPL)	**28,208**	**30,136**
Total investments	**436,963**	**326,391**

Effective January 1, 2024, the Standards of Sound Business Practices (SSBP) requires that the credit union maintain 8.65% of its total liabilities in specified liquidity deposits, with early adoption permitted. The credit union has adopted this change during the 2023 year, therefore maintains 8.65% (2022 - 10%) of its total liabilities in specified liquidity deposits. CUDGC requires the credit union adhere to these prescribed statutory liquidity deposit requirements. As of December 31, 2023 and 2022, 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

	2023				
	Performing	Impaired	Allowance Specific	Allowance for Expected Credit Losses	Net Loans
Mortgages					
Agriculture	134,639	-	-	(8)	134,631
Commercial	325,179	9,723	(4,785)	(1,545)	328,572
Residential	662,063	4,039	(397)	(270)	665,435
Consumer loans	126,245	966	(599)	(2,102)	124,510
Business loans	135,804	1,541	(140)	(1,071)	136,134
Total loans	**1,383,930**	**16,269**	**(5,921)**	**(4,996)**	**1,389,282**

7. LOANS (continued)

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**

Included in the above balances are securitized residential mortgages amounting to $2,475 (2022 - $8,671). These residential mortgages have been pledged as collateral for secured borrowings of $2,447 (2022 - $8,594).

Changes in allowance for credit losses	2023	2022
Balance at beginning of year	7,743	7,540
Acquired through business combination	221	-
Provision for credit losses	3,437	1,208
Amounts written-off	(484)	(1,005)
Balance at end of year	**10,917**	**7,743**

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:

2023	1 to 59 days	60 to 90 days	More than 90 days	Total days
Mortgages				
Agriculture	1,095	-	-	1,095
Commercial	1,623	-	-	1,623
Residential	13,111	989	-	14,100
Consumer loans	2,686	152	-	2,838
Business loans	1,221	37	-	1,258
Total loans	**19,736**	**1,178**	**-**	**20,914**

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**

8. OTHER RECEIVABLES

	2023	2022
SaskCentral dividend receivable	-	16,868
Other	512	1,743
	512	**18,611**

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings and improvements	Furniture and equipment	Automotive	Total
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
Additions	-	945	280	-	1,225
Disposals	-	-	(1,164)	-	(1,164)
Acquisitions through business combination	35	810	128	-	973
Balance at December 31, 2023	**6,564**	**41,474**	**6,387**	**136**	**54,561**

Accumulated depreciation	Land	Buildings and improvements	Furniture and equipment	Automotive	Total
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
Depreciation	-	1,593	601	5	2,199
Disposals	-	-	(1,164)	-	(1,164)
Acquisitions through business combination	-	797	128	-	925
Balance at December 31, 2023	**-**	**21,627**	**4,583**	**136**	**26,346**

Net book value	Land	Buildings and improvements	Furniture and equipment	Automotive	Total
At December 31, 2022	6,529	20,482	2,125	5	29,141
At December 31, 2023	**6,564**	**19,847**	**1,804**	**-**	**28,215**

10. DEPOSITS

	2023	2022
Demand deposits	937,227	967,380
Term deposits	756,884	530,253
Accrued interest	15,682	5,835
	1,709,793	**1,503,468**

11. LOANS PAYABLE

	2023	2022
Financial liabilities from securitizations	**2,447**	**8,594**

Financial liabilities from securitizations

At December 31, 2023, the carrying amount of the secured borrowings was $2,475 (2022 - $8,671) with a weighted average interest rate of 1.15% (2022 – 2.03%). 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 19.

SaskCentral

The credit union has an authorized line of credit bearing interest at prime less 0.50% in the amount of $18,300 (2022 - $16,400) from SaskCentral. Prime rate was 7.20% at December 31, 2023. At December 31, 2023 the credit union had $0 (2022 - $0) outstanding on this line of credit.

The credit union also has available through SaskCentral a commercial paper facility in the amount of $18,300 (2022 - $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, 2023 and 2022, the credit union had $0 drawn on this program, bearing nil interest. As at December 31, 2023 and 2022, 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 (2022 - $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, 2023 and 2022, 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.

12. OTHER LIABILITIES

	2023	2022
Accounts payable and accrued liabilities	9,736	5,661
Corporate income taxes payable	492	-
Retained member capital for distribution	334	255
	10,562	**5,916**

13. 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 to $10 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.

	2023	2022
Balance, beginning of year	33,214	32,849
Allocations to members		
Interest rebate to borrowers	875	953
Bonus interest to investors	772	898
Share dividend	1,014	644
New Community member legacy capital	2,688	-
Redemptions on member accounts	(3,768)	(2,255)
Allocated membership shares	34,795	33,089
Other membership shares	145	125
Total membership shares	**34,940**	**33,214**

The Board of Directors declared a patronage allocation in the amount of $2,796 on December 31, 2023 (2022 - $6,593). The patronage allocation approved by the Board of Directors is based on the amount of loan interest paid, deposit interest earned, and a dividend based on outstanding ProfitShare balances as of December 31, 2023.

	2023	2022
Interest rebate to borrowers	884	864
Bonus interest to investors	863	756
Member account rewards	-	431
Bonus on sale of investment	-	3,348
Share dividend	1,049	1,194
	2,796	**6,593**

14. OTHER REVENUE

	2023	2022
Deposit fees and commissions	3,469	3,177
Wealth services	2,730	3,838
Insurance	865	804
Loan fees	1,070	908
Credit card	440	851
Lease	322	379
Other	174	130
	9,070	**10,087**

15. INCOME TAXES

Income tax expense is comprised of:	2023	2022
Current tax expense	2,261	1,296
Deferred tax expense (recovery)	571	(17)
	2,832	**1,279**

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

	2023	2022
Income before income taxes	10,494	22,302
Combined federal and provincial tax rate	27.00%	27.00%
Income tax expense at statutory rate	2,833	6,022
Adjusted for the net effect of:		
Non-taxable and other items	-	(66)
Non-deductible and other items	13	-
Non-taxable dividends	(104)	(4,635)
Differences in expected income tax rates	(4)	(69)
Refundable taxes	(74)	-
Prior year adjustments to income tax provision	168	27
	2,832	**1,279**

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

	2023	2022
Deferred tax assets (liabilities)		
Property, plant and equipment	498	316
Loans	1,509	1,678
Unrealized gains on fair value through profit or loss investment funds	(639)	(610)
Net deferred tax asset	**1,368**	**1,384**

A net deferred tax asset of $555 was received during the year ended December 31, 2023 as a result of a business combination. See Note 21.

16. 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 2023:

	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, 2023 and 2022, the credit union complied with all internal and external capital requirements.

16. CAPITAL MANAGEMENT (continued)

Eligible capital

	2023	2022
Risk-weighted assets	**1,093,505**	**987,715**
CET1 capital comprises:		
Retained earnings	149,455	141,793
Contributed surplus	16,315	6,451
Deductions from CET1 capital:		
Intangible assets	(901)	(981)
Total eligible tier 1 capital	164,869	147,263
Tier 2 capital comprises:		
Membership capital	37,736	39,807
Collective allowance	4,996	6,046
Total tier 2 capital	42,732	45,853
Total eligible capital	**207,601**	**193,116**

Regulatory capital adequacy ratios

	2023	2022
Total eligible capital to risk-weighted assets	18.98%	19.55%
Total tier 1 capital to risk-weighted assets	15.08%	14.91%
CET1 capital to risk-weighted assets	15.08%	14.91%
Leverage ratio	10.65%	11.10%

17. 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 $319 (2022 - $126).

	2023	2022
Loans outstanding at January 1	5,827	5,042
Loans granted during the year, net	3,738	785
	9,565	**5,827**

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 $48 (2022 - $16).

	2023	2022
Deposits at January 1	2,500	4,359
Deposits received (matured) during the year, net	1,281	(1,859)
	3,781	**2,500**

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 2023 was $9 (2022 - $7).

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, Corporate Secretary & Executive Administrator and Internal Auditor.

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

	2023	2022
Directors		
Compensation and other short-term benefits	172	160
Executive leadership team		
Salaries and other short-term benefits	1,439	1,988
Post-employment benefits	71	72
Other key management personnel		
Salaries and other short-term benefits	1,257	1,350
Post-employment benefits	75	67
	3,014	**3,637**

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 2023 is $287 (2022 - $788) and OKMP 2023 is $135 (2022 – $320). Travel and training costs to members of the board in 2023 were $27 (2022 - $27).

18. 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.

2023	Carrying amount	Level 1	Level 2	Level 3
FINANCIAL ASSETS -Recurring measurements				
Fair value through profit loss (FVTPL)				
Cash on hand	4,021		4,021	
SaskCentral shares	5,886			5,886
Concentra Bank shares	8,000			8,000
Investment funds	14,237			14,237
Preferred shares	13			13
Accrued interest	72			72
Total financial assets- recurring measurements	**32,229**		**4,021**	**28,208**
FINANCIAL ASSETS – Fair values disclosed				
Amortized cost				
Deposits on demand	62,614	-	62,614	-
SaskCentral liquidity term deposits	53,982	-	53,982	-
SaskCentral liquidity deposits	94,018	-	94,018	-
Non-redeemable term deposits	223,500	-	223,500	-
Marketable bonds and bank terms	32,796	-	32,796	-
Debentures	971	-	971	-
Accrued interest	3,488		3,488	
Loans	1,389,282	-	1,351,956	-
Other receivables	512	-	512	-
Total financial assets - fair values disclosed	**1,861,163**	**-**	**1,823,837**	**-**
FINANCIAL LIABILITIES – Fair values disclosed				
Other financial liabilities				
Deposits	1,709,793	-	1,668,823	-
Loans payable	2,447	-	2,381	-
Other liabilities	10,070	-	10,070	-
Member capital	37,736	-	-	37,736
Total financial liabilities – fair values disclosed	**1,760,046**	**-**	**1,681,274**	**37,736**

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
Accrued interest	135			135
Total financial assets – recurring measurements	**33,732**	**-**	**3,596**	**30,136**
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	-
Accrued interest	1,518		1,518	
Loans	1,258,105	-	1,216,868	-
Other receivables	18,611	-	18,611	-
Total financial assets - fair values disclosed	**1,637,641**	**-**	**1,596,404**	**-**
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**

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.

18. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Changes in recurring measurement level 3 assets	2023	2022
Balance, beginning of year	30,001	26,341
Gains recognized in comprehensive income	63	1,118
Additions	1,701	3,343
Acquisitions through business combination	1,990	-
Disposals	(5,619)	(801)
Balance, end of year	**28,136**	**30,001**

19. 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.

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. Key factors influencing assumptions are economic uncertainties tied to interest rate changes, continued inflationary pressures, the quality of credit, and the borrowers future ability to service debt.

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, 2023. 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 business loans and commercial mortgages by 5%, suggesting a decline in these particular products due to higher rates than recent years and inflationary pressures, and
- *Model 3* – adjusting Alberta and Canada inflation rates down, suggesting a continuing downward trend of inflation rates into 2024

The weightings chosen on December 31, 2023 were 50% for model 1, 25% for model 2 and 25% for model 3. This approach resulted in an increase of $28 to the collective provision at December 31, 2023.

19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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, 2023	**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	128,028	6,611	-	**134,639**	7	1	-	**8**	**134,631**
Commercial	282,150	43,436	9,316	**334,902**	369	1,404	4,557	**6,330**	**328,572**
Residential	578,185	85,670	2,247	**666,102**	136	258	273	**667**	**665,435**
Consumer loans	113,633	13,089	489	**127,211**	498	1,787	416	**2,701**	**124,510**
Business loans	115,372	20,957	1,016	**137,345**	122	996	93	**1,211**	**136,134**
Total	**1,217,368**	**169,763**	**13,068**	**1,400,199**	1,132	4,446	5,339	**10,917**	**1,389,282**

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**

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, Kindersley, and Saskatoon, Saskatchewan and surrounding areas.

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.

2023	**Allowance for Credit Losses (ACL)**			
	Stage 1	Stage 2	Stage 3	**Gross Loans**
Agriculture Mortgages				
Balance at December 31, 2022	8	2	7	**17**
Net remeasurement of loss allowance	(1)	(1)	(7)	**(9)**
Balance at December 31, 2023	**7**	**1**	**-**	**8**
Commercial Mortgages				
Balance at December 31, 2022	253	1,711	96	**2,060**
Net remeasurement of loss allowance	116	(307)	4,461	**4,270**
Balance at December 31, 2023	**369**	**1,404**	**4,557**	**6,330**
Residential Mortgages				
Balance at December 31, 2022	139	578	581	**1,298**
Net remeasurement of loss allowance	(3)	(320)	(308)	**(631)**
Balance at December 31, 2023	**136**	**258**	**273**	**667**
Consumer loans				
Balance at December 31, 2022	491	1,699	296	**2,486**
Net remeasurement of loss allowance	7	88	120	**215**
Balance at December 31, 2023	**498**	**1,787**	**416**	**2,701**
Business loans				
Balance at December 31, 2022	109	1,500	273	**1,882**
Net remeasurement of loss allowance	13	(504)	(180)	**(671)**
Balance at December 31, 2023	**122**	**996**	**93**	**1,211**
Total allowance for credit losses				**10,917**

19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

2022

	Allowance for Credit Losses (ACL)			
	Stage 1	Stage 2	Stage 3	**Gross Loans**
Agriculture Mortgages				
Balance at December 31, 2020	10	7	-	**17**
Net remeasurement of loss allowance	(2)	(5)	7	**-**
Balance at December 31, 2021	**8**	**2**	**7**	**17**
Commercial Mortgages				
Balance at December 31, 2020	180	1,317	341	**1,838**
Net remeasurement of loss allowance	73	394	(245)	**222**
Balance at December 31, 2021	**253**	**1,711**	**96**	**2,060**
Residential Mortgages				
Balance at December 31, 2020	129	663	544	**1,336**
Net remeasurement of loss allowance	10	(85)	37	**(38)**
Balance at December 31, 2021	**139**	**578**	**581**	**1,298**
Consumer loans				
Balance at December 31, 2020	469	2,055	371	**2,895**
Net remeasurement of loss allowance	22	(356)	(75)	**(409)**
Balance at December 31, 2021	**491**	**1,699**	**296**	**2,486**
Business loans				
Balance at December 31, 2020	87	1,121	242	**1,450**
Net remeasurement of loss allowance	22	379	31	**432**
Balance at December 31, 2021	**109**	**1,500**	**273**	**1,882**
Accrued Interest				
Balance at December 31, 2020	4	-	-	**4**
Net remeasurement of loss allowance	(4)	-	-	**(4)**
Balance at December 31, 2021	**-**	**-**	**-**	**-**
Total allowance for credit losses				**7,743**

Investments

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

	2023	**2022**
AA	33,746	17,993
R-1	257,279	178,285
BBB	131,675	118,340
Unrated	14,263	11,773
Total investments	**436,963**	**326,391**

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 20.

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.

2023	Less than 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
Deposits	1,457,949	175,679	73,000	3,165	1,709,793
Loans payable	2,447	-	-	-	2,447
Other liabilities	10,070	-	-	-	10,070
Member capital	2,796	-	-	34,940	37,736
Total	**1,473,262**	**175,679**	**73,000**	**38,105**	**1,760,046**

19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Policies and processes (continued)

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**

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.

	2023	
High quality liquid assets (HQLA)	Actual Value	Weighted Value
Level 1 HQLA	133,974	133,974
Level 2A HQLA	7,876	6,694
Level 2B HQLA	19,144	9,572
Total HQLA	160,994	**150,240**
Cash outflows		
Stable retail deposits	359,684	17,984
Less stable retail deposits	94,952	9,495
Retail term deposits > 30 days	524,406	-
Unsecured wholesale funding	715,233	61,298
Other contractual funding obligations	282,861	17,401
Total cash outflows	1,977,136	106,178
Cash inflows		
Inflows from loan repayments	11,799	5,900
Inflows from other counterparties not included in HQLA	64,639	64,639
Total cash inflows	76,438	70,539
Cash inflows after CUDGC maximum inflow cap applied, if required		70,539
Total net cash outflows		**35,639**

	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
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**

Quarterly LCR history

	2023	2022
At March 31	294%	251%
At June 30	459%	519%
At September 30	605%	226%
At December 31	421%	221%

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 2023 internal LCR limit of 100% and the CUDGC limit of 100% for 2023.

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.

19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Interest rate risk (continued)

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.

2023	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	62,614	-	-	-	-	4,021	66,635
Effective rate	*4.97%*	-	-	-	-	-	*4.67%*
Investments	97,578	78,000	185,640	46,801	822	28,122	436,963
Effective rate	*5.16%*	*4.45%*	*4.99%*	*3.00%*	*3.25%*	-	*4.45%*
Loans	253,791	38,922	159,145	886,252	51,172	-	1,389,282
Effective rate	*8.48%*	*4.70%*	*4.85%*	*4.39%*	*5.78%*	-	*5.25%*
Other receivables	-	-	-	-	-	512	512
	413,983	**116,922**	**344,785**	**933,053**	**51,994**	**32,655**	**1,893,392**
Liabilities							
Deposits	562,592	130,104	375,306	248,679	3,165	389,947	1,709,793
Effective rate	*2.55%*	*3.92%*	*4.31%*	*4.21%*	*4.93%*	-	*2.71%*
Loans payable	-	-	2,447	-	-	-	2,447
Effective rate	-	-	*1.47%*	-	-	-	*1.47%*
Other liabilities	-	-	-	-	-	10,070	10,070
Member capital	-	-	-	-	-	37,736	37,736
	562,592	**130,104**	**377,753**	**248,679**	**3,165**	**437,753**	**1,760,046**
Net mismatch	**(148,609)**	**(13,182)**	**(32,968)**	**684,374**	**48,829**	**(405,098)**	**133,346**

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**

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	2023	2022
1% rise in the prime interest rate	464	903
1% decrease in the prime interest rate	(464)	(903)

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, 2023.

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.

20. 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, 2023, the credit union had the following other commitments subject to credit risk:

	2023	2022
Undrawn lines of credit	250,154	269,013
Standby letters of credit	1,034	2,117
Commitments to extend credit	34,111	32,626
Venture Capital cash calls	4,789	5,349
Collabria MasterCard guarantees	186	316
	290,274	**309,421**

20. COMMITMENTS (continued)

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
2024	1,105
2025	1,127
2026	88
2027	10
2028	10
Thereafter	20
	2,360

In the table above, property, plant and equipment commitments are nil and intangible asset commitments total $110.

21. BUSINESS COMBINATION

On January 1, 2023 pursuant to the terms of an amalgamation agreement, all members of New Community Credit Union exchanged their common shares for common shares of the credit union on a one for one basis. The business combination took place to achieve economies of scale for the combined Credit Union.

Business acquisitions are accounted for using the acquisition method, with the credit union acquiring 100% of the net assets of New Community Credit Union. The results of the acquired business are included in the financial statements from the date of acquisition. No cash was transferred and no contingent consideration was provided for New Community Credit Union. The following table summarizes the fair value of the identifiable assets acquired and the liabilities assumed at the date of acquisition:

	Fair value at the acquisition date
Acquired assets and assumed liabilities	
Cash and equivalents	16,257
Investments	13,227
Loans	102,249
Deferred tax asset	555
Other assets	1,619
Property, plant and equipment	48
Deposits	(122,501)
Other liabilities	(1,569)
Net identifiable assets and liabilities	**9,885**

The par value of equity shares issued to former members of New Community Credit Union was $21. The credit union recognized the excess of fair value of the net assets acquired over the par value of the equity shares issued by the credit union as contributed surplus in the amount of $9,864, which is recorded directly in equity.

Fair values in determining the financial assets acquired and liabilities assumed were determined based on the same criteria as outlined in Note 18 Classification and Fair Value of Financial Instruments. The fair value of property, plant and equipment was estimated using cost less accumulated depreciation.

No goodwill was recognized on the above amalgamation with New Community Credit Union.

Incremental acquisition-related legal, professional and accounting costs of the above noted business combination have been recognized as an expense in the Statement of Comprehensive Income

22. 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)	2023	2022
PERSONNEL		
Salaries	16,946	16,340
Employee profit sharing	1,398	3,297
Employee benefits	3,450	3,087
Other	648	558
	22,442	**23,282**
OCCUPANCY		
Building depreciation	1,593	1,505
Building and land taxes	462	399
Building fire insurance	230	189
Building maintenance	401	578
Heat, light and water	344	392
Janitorial services	531	521
Other	206	219
	3,767	**3,803**
MEMBER SECURITY		
CUDGC deposit insurance assessment	1,293	1,160
Fidelity and burglary insurance	165	151
Life savings insurance	-	23
	1,458	**1,334**
GENERAL BUSINESS		
Advertising and donations	1,333	1,703
Automotive	33	45
Computer costs	5,421	3,984
Equipment depreciation	601	415
External audit	156	153
Foreclosed property	138	150
Loan, search and legal fees	619	500
Overdraft and fraud losses	100	77
Card fees	148	175
Service, clearing and ATM charges	1,728	1,391
Stationary and supplies	72	84
Telephone and postage	322	498
Other	780	590
	11,451	**9,765**
ORGANIZATION COSTS		
Annual meetings	24	25
Director compensation and expenses	233	167
SaskCentral dues	81	65
Other	882	82
	1,220	**339**
TOTAL NON-INTEREST EXPENSES	**40,338**	**38,523**

NOTES

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions. The Corporation is also the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral). Together, these entities are considered Provincially Regulated Financial Institutions or "PRFIs". The Corporation is mandated through provincial legislation, *The Credit Union Act, 1998* and The *Credit Union Central of Saskatchewan Act, 2016* in performing its duties. Provincial legislation also assigns responsibility for oversight of the Corporation to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan.

The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By promoting responsible governance and prudent management of capital, liquidity and guaranteeing deposits, the Corporation contributes to confidence in Saskatchewan PRFIs.

For more information about the Corporation's responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult the Corporation's web site at www.cudgc.sk.ca.

CREDIT UNION MARKET CODE

Our Market Code is about living by a promise to consistently follow best practices for soliciting, promoting, advertising, marketing, selling or distributing our products or services.

* Credential Financial Strategies Inc. is a member company under Aviso Wealth Inc., offering financial planning, life insurance and investments to members of credit unions and their communities. Mutual funds and other securities are offered through Credential Securities, a division of Credential Qtrade Securities Inc. Credential Securities is a registered mark owned by Aviso Wealth Inc. Mutual funds are offered through Credential Asset Management Inc.

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