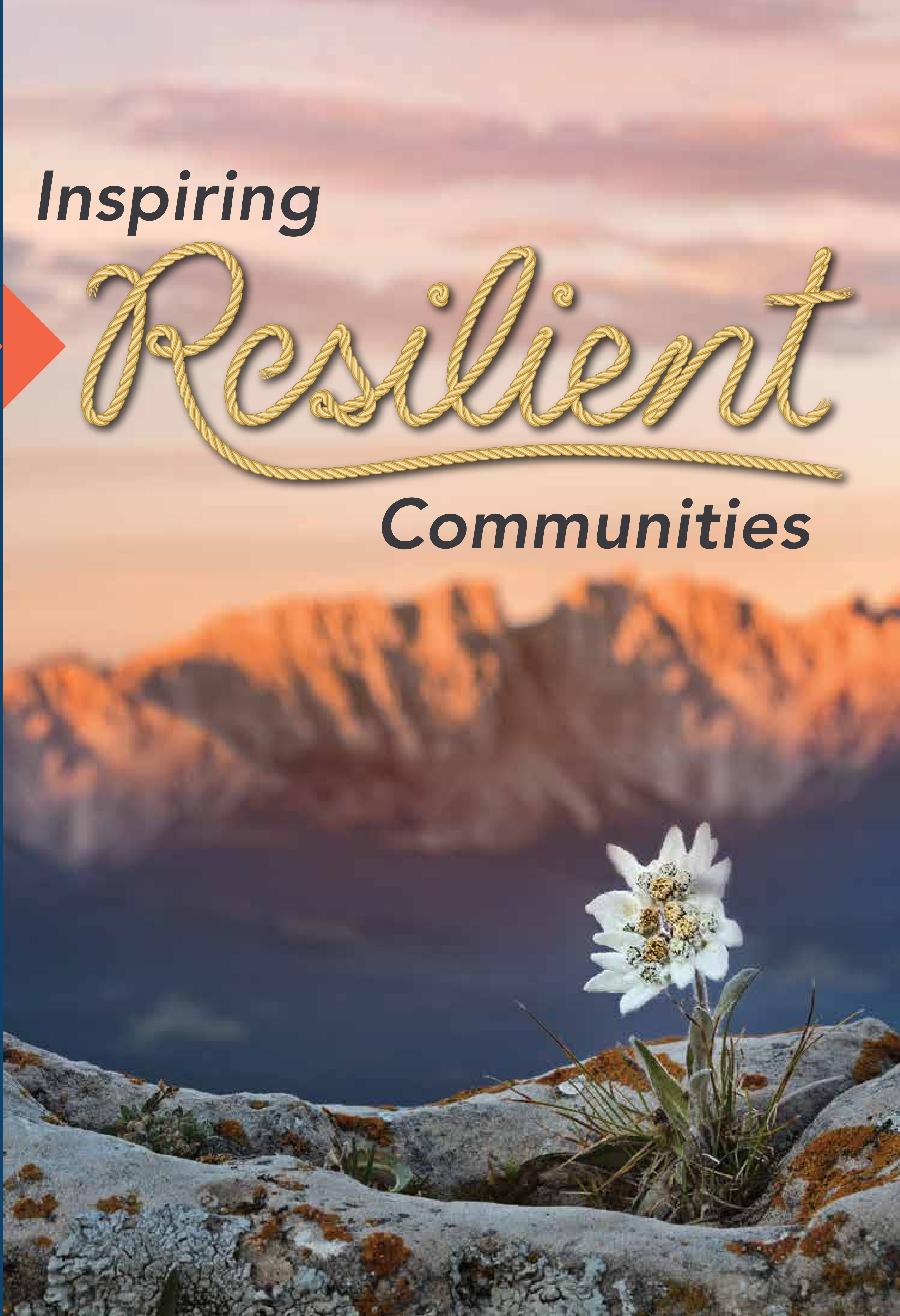
Inspiring Resilient Communities



ANNUAL REPORT | 2022

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A message from our Chief Executive Officer,

Ian Thomas

As I reflect on the past year, ***Building Resilient Communities*** could not be a more appropriate theme for this Annual Report. Resilience is something we have all needed to foster recently. At Kindred, we have done exactly that and we could not have done it alone.

Resilience is based on me and we, everyone participating, with no one left on the outside looking in. There is profound truth in the phrase, "a cord of three strands is not easily broken." I firmly believe that when our "three strands" – Kindred's staff, leadership, and board, our members, and community partners – are pulling in one direction, we are stronger, more resilient, and prepared for the future.

Many approached 2022 with caution. The lingering effects of COVID-19, an unstable global economy, and increased living costs signalled an uncertain year ahead. But credit unions were born out of tough economic times. Seasons of challenge also present opportunities for growth. As a credit union, 2022 provided an opportunity to grow our membership, expand our reach, and strengthen our financial foundations.

Across the sector, credit union new membership grows by roughly 1% per year. In 2022, Kindred grew by 4.5% to over 27,000 members. Deposits grew by 6.60% which includes $41.4 million of Investment Shares. Total assets under administration grew by 6.08% to $2.32 billion as of December 31, 2022.

It is the resilience of our membership and the trust you place in Kindred that has allowed us to remain on a steady growth trajectory. Thank you.

From that day in March 1964 when a group of Waterloo Country Mennonites deposited $22 in a cash box, through to today, Kindred has been community-focused. It is not just what we say; it is who we are.

Even when few were talking about values-based banking, Kindred was focused on doing the right thing. We have been coming alongside our members, wherever they are at, to provide financial services that tap into our shared values. We serve urban, suburban, and rural markets equally well with a healthy balance of residential and commercial/agricultural loans. In 2022, our loans grew by 4.81% to $1.72 billion.

Kindred strives to focus our resources on what we are good at for the benefit of our members and the community at large. Last year, we helped young adults, seniors, families, farmers, and new Canadians plan for the future and achieve their financial goals. Our socially responsible investments grew by $80.8 million: $107.7 million in total deposits. Kindred's Profit Shares program distributed $1.46 million to our personal and business members in 2022.

These are great achievements for organizational profit and sustainability. And the fuller measure of our success is how we impact our members and the communities where they live, work, and play, and how we can have even greater impact as more is entrusted to us. Last year, we budgeted 6% of our pre-tax earnings toward charitable contributions. When our growth exceeded budget, we were able to increase that amount for the third year in a row. Not only did Kindred do better; the community benefited as well.

In total, we provided $575,000 in charitable giving, including a $125,000 contribution toward the expansion of Parkwood Seniors Community in Waterloo. Parkwood provides a range of affordable housing options for older adults, from independent living to long-term care. The expansion will add another 28 affordable apartments for those on a modest income.

Addressing the affordable housing crisis is also the focal point of our new Affordable Housing GIC and Loan. These innovative, first of its kind products allow members to invest in a fund that supports lending for affordable housing units in Waterloo Region. It is another way for Kindred's members to connect their values with their finances.

We also celebrated 25 years of our Church Builder GIC by giving away $25,000 (five $5,000 grants) to help churches address community food security and safe and affordable housing. Since launching the Church Builder GIC we have given over $890,000 in bonus interest to churches and charities. In 2023, we are refreshing this product to create even greater impact and extend its reach.

We are grateful that Kindred can generously support our community partners. It is your trust in Kindred and your commitment to building healthy, resilient communities that makes this all happen.

As we look forward to the remainder of 2023 and beyond, we extend our gratitude to the members who have built Kindred into the success it is today. We are thankful for your many years of faithful partnership. It is because of you that Kindred has become a place of belonging for everyone—new and existing members.

Over the many years, a forward-thinking mentality has been woven into the fabric of Kindred's approach to banking. We have been proactively investing in the future to ensure Kindred is able to serve our growing membership and impact our growing communities. We have integrated new technology platforms, created staff positions in technology, introduced new products and services, and strengthened our commitment to agriculture and business members through hiring our first Vice-President, Agriculture and Commercial Banking.

A potential new member recently commented to me, "I am interested if you can help me today. I am *really* interested if you can help me tomorrow." We can confidently say that Kindred is here for you now and here for your future.

In closing, thank you to our members, staff members, board members, and community partners for your commitment to Banking with Purpose. Together, we are building resilient, thriving communities filled with opportunity for all.

With appreciation,

Ian Thomas, Chief Executive Officer

A message from our Board Chair,

Susan Taves

In 1964, our founders had a radical vision: to see mutual aid put into faithful practice through a community-led credit union. Fifty-nine years later, this beginning still shapes what we do and how we go about doing that together – through mutual aid, economic justice, and selfless service in our day-to-day financial lives.

On behalf of the Board of Directors, it is an honour to serve alongside our staff members and leadership, members, and community partners who make up the Kindred Credit Union community. As you will discover in the pages that follow, it is the resilience of the Kindred community and commitment to our shared purpose and values that has carried us through these challenging economic times.

As Board Chair, I recognize that those in leadership need to inspire. Whether it is modelling appropriate conversations, enhancing our decision-making process, or withstanding turbulent times, our leaders set the pace.

I am particularly grateful for our Board of Directors doing just that. Their commitment to open dialogue and willingness to challenge each other to truly understand different perspectives is extraordinary. The calibre of debate and critical thinking continues to support Kindred's development.

I am grateful too for the leadership of Ian and the rest of the senior leadership team. Their eagerness to seek out genuine dialogue and feedback meets the true definition of partnership.

That partnership extends to our more than 27,000 members. It is a privilege to represent you as your Board of Directors. We know that 2022 may have had ongoing challenges for some, yet you have remained resilient as individuals and as members of the larger Kindred community.

From the beginning, Kindred has been a leader in social purpose, sustainability, and community support. We are a member of the Ontario Living Wage Network, the Global Alliance for Banking on Values, and a certified B Corp. Our commitment to mutual aid is in our DNA.

With the recent thorough modernization of the Credit Union Act, we are required to revise sections of Kindred's General By-Law. These changes embody the prevailing governance best practices in the use of principles-based, plain language. We are also taking this opportunity to update our membership definition supported by a clearer description of who we are. In the midst of these changes, the essence of Kindred's shared values is not changing – they are the heart of our identity.

It is worthwhile noting that these discussions are more than a regulatory process, more than words around a board table, and this direction to revise our membership definition has not been taken lightly. The Board has deliberated on this topic on many occasions over the last couple of years. In mid-2022, a working group of board members, community members, and staff members assembled to thoughtfully consider how we communicate and position our shared purpose and values in the context of membership language and practices.

Their efforts resulted in clear, unanimous recommendations presented to the Board that led to further robust discussions, both in general and specifically regarding the By-laws. The working group's recommendation to amend the By-laws was endorsed by the full Board of Directors and serves as the basis of this direction. The changes clarify and align our legal document with our current practices and position Kindred to continue growing our membership and impacting our communities.

Our future will also include the ever-expanding role of technology in our lives. Technology has made us more efficient and has allowed us to be together, even when at a distance. However, technology in business and in our personal lives needs to be managed and used to reinforce positive and helpful connections for us all.

We all need community. Kindred's work to inspire peaceful, just, and prosperous communities is essential. As we engage with individuals and our community partners, we are empowering members and building capacity for positive, sustainable change in our neighbourhoods and communities.

In my five years as Board Chair, I have witnessed that you—the Kindred community—have made us stronger and more resilient. We are committed to meet members where they are to provide the financial services and mutual aid needed to confidently face the future.

Cooperatively yours,

Susan Taves, Board Chair

Financial Position Summary

Year ended December 31, 2022 with comparative figures for 2021.

Detailed audited financial statements are found on page 19.

Thousands of dollars

		December 31, 2022		**December 31, 2021**
Assets				
Cash resources	**$**	**29,987**	$	40,583
Investments		**208,239**		120,667
Loans to members		**1,712,897**		1,634,836
Property and equipment		**14,327**		15,189
Other assets		**8,326**		5,505
Total Assets	**$**	**1,973,776**	$	1,816,780

Liabilities and Members' Equity				
Total deposits of members	**$**	**1,706,200**	$	1,638,747
Mortgage securitization liabilities		**60,391**		26,227
Lease liability		**10,415**		11,115
Other liabilities		**14,353**		9,451
Member Shares		**593**		565
Profit Shares		**20,787**		19,888
Investment Shares		**94,375**		49,964
Accumulated other comprehensive loss		**(1,705)**		(848)
Retained earnings		**68,367**		61,671
Total Liabilities and Members' Equity	$	**1,973,776**	$	**1,816,780**

Earnings Summary

Year ended December 31, 2022 with comparative figures for 2021.

Detailed audited financial statements are found on page 19.

Thousands of dollars

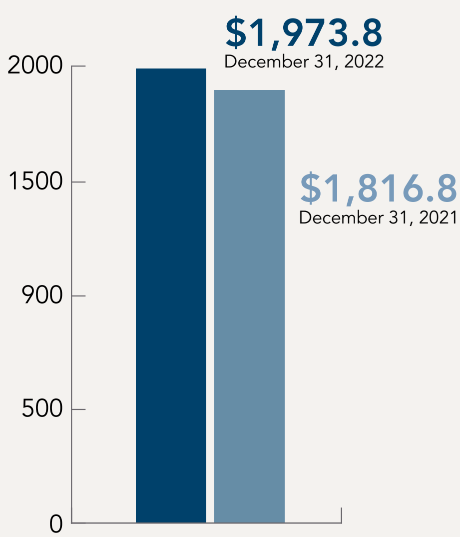
		December 31, 2022		December 31, 2021
Income from interest and investments	**$**	**64,837**	$	53,083
Other revenue		**8,039**		7,543
Total Income	**$**	**72,876**	$	60,626
Less:				
Interest expense on member deposits	**$**	**23,171**	$	18,108
Profit Shares (patronage return)		**1,460**		1,450
Loss (gain) on derivative financial instruments		**339**		–
Up front loss on sale of loans		**637**		–
Gain on exchange of liquidity reserve deposits		**–**		(494)
Mortgage securitization cost of funds		**1,188**		652
Interest on external borrowings		**112**		88
Personnel expense		**21,022**		18,866
Occupancy expense		**1,075**		874
Lease finance cost		**222**		250
Administration expense		**7,657**		6,991
Amortization of property and equipment		**2,207**		2,032
Insurance expense		**1,665**		1,356
Provision for loan losses (gains)		**746**		186
Charitable giving		**575**		514
Income tax provision (recovery)		**1,645**		1,110
Net earnings	**$**	**9,155**	$	8,643
Other comprehensive income (loss) net of tax	**$**	**229**	$	(841)
Comprehensive income	**$**	**9,384**	$	7,802

Net Earnings

	Thousands of dollars			
		December 31, 2022		**December 31, 2021**
Earnings from core operations	**$**	**9,683**	$	8,999
Profit Shares (patronage return)		**(1,460)**		(1,450)
Adjustment for Investment shares dividend expense[1]	**$**	**3,545**		2,060
Extraordinary Charitable Gift	**$**	**–**	$	(150)
Net earnings after above		**11,768**		9,461
Unrealized fair market value gain (loss)	**$**	**(312)**	$	(202)
HQLA related adjustment		**(656)**		–
Earnings from operations before tax		**10,800**		9,753
Income tax (provision) recovery	**$**	**(1,645)**	$	(1,110)
Net earnings (losses) from operations		**9,155**		8,643
Other comprehensive income (loss) net of tax	**$**	**229**		(841)
Comprehensive income	**$**	**9.384**	$	7,802

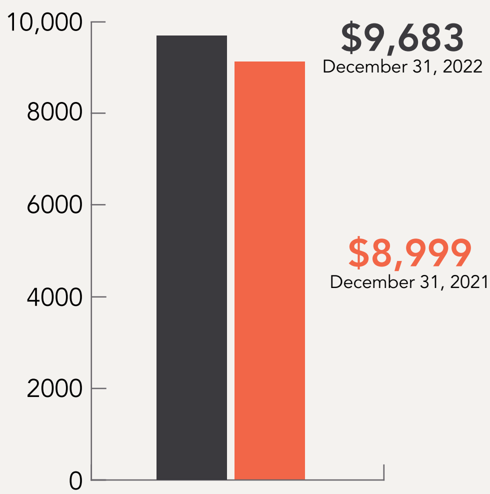
Assets

(millions of dollars)



Core Earnings[1]

(thousands of dollars)



[1]Core earnings include investment share dividend expense while excluding the impact of unrealized fair market value adjustments, taxes, Profit Shares (patronage return), and extraordinary items

Kindred is a *financial cooperative!*

As a credit union, we share the seven **cooperative principles** that have been in practice for more than one hundred years.

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Those serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training, and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

6. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

7. Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Source: International Cooperative Alliance

Fostering the Real Economy: Enhancing our Relationships

The Global Alliance for Banking on Values (GABV) is a group of more than 65 financial institutions from around the world working together to redefine banking by prioritizing social, environmental, and economic sustainability.

Our membership in GABV provides a window into the crucial conversations and innovative ideas taking root in visionary financial institutions around the world. We're a small player on the global scale, yet our commitment to values-centred, faith-inspired banking propels us to speak loudly and to act locally.

GABV uses the term 'real economy' as a principle to help ground us in community and focus our service on members' direct needs. This contrasts with the layered financial economy, where an investment or loan may pass through several institutions before eventually being used by a business in service to a community. While some of these layers are important at a macro level to our economy, focusing on closer connections reinforces real relationships.

At Kindred, we're committed to being good stewards of our members' resources. This includes financial assets as well as human connections, local knowledge, digital infrastructure, and physical spaces. As we build the technologies and systems that improve the speed and efficiency of our services, we're working to enhance the relationships with our members and community partners so that we become better equipped to live out our purpose. We're connecting values and faith with finances in a real economy of real relationships, **INSPIRING PEACEFUL, JUST, AND PROSPEROUS COMMUNITIES.**

Putting a Real Economy Lens on Kindred’s Financial Activity

The real economy relates to economic activities that generate goods and services as opposed to the financial economy that is concerned exclusively with activities in the financial markets. GABV defines financial economy as more than one layer away from a real activity.

	December 31, 2022 $ in thousands			December 31, 2021 $ in thousands		
Assets	**On-book[1]**	**% of total**	**Off-book[2]**	**On-book[1]**	**% of total**	**Off-book[2]**
Financial Economy (Cash, impact investments, accruals, taxes, leases)	**$257,829**	13.1%		$177,850	9.8%	
Real Economy (Loans to members, receivables)	**$1,715,947**	86.9%	$72,328	$1,638,930	90.2%	$52,587
Total Assets	**$1,973,776**		$72,328	$1,816,780		$52,587
Liabilities/Equity						
Financial Economy (reserves, net income, taxes, leases, off-book mutual funds)	**$160,945**	8.2%	$275,157	$115,558	6.4%	$302,072
Real Economy (savings/combinations, deposits, shares)	**$1,812,831**	91.8%		$1,701,222	93.6%	
Total Liabilities/Equity	**$1,973,776**		$275,157	$1,816,780		$302,072

This view of Kindred’s financial activities is intended only to show trends from financial to real, highlighting how we’re working to increase the amount of business that supports our members and communities directly.

[1]‘On-book’ assets are deposits placed with Kindred, such as chequing accounts and GICs.

[2]‘Off-book’ assets are investments with a third party, such as Credential Asset Management mutual funds.

Governance at Kindred

The Council of Members (Council) is a committee of 16 member volunteers with representation from all eight Kindred branches (two volunteers from each branch). Each year the Council seeks volunteers for governance roles on the Board of Directors (Board). This approach to discerning qualified candidates has resulted in diverse and competent boards for Kindred that have served the membership well and been excellent guardians of our values.

Appointments to the Board are for three-year terms and require a ratification vote with a two-thirds majority at the Annual General Meeting. We are currently seeking candidates to fill vacancies on our Council of Members. If you are interested in serving on either the Council, or the Board, please speak with your Branch Manager, one of the representatives for your branch, or email Tithi Thakkar, Corporate Secretary, at tithi.thakkar@kindredcu.om for more information.

NEW BOARD NOMINEES

The Council, with support of the Board of Directors, recommends for member ratification one new nominee for the Board. The Board nominee is presented on page 15.

OUTGOING COUNCIL AND BOARD

On behalf of Kindred's Board of Directors, the Council of Members, and members, thanks to Gloria Martin (Finance and Loan Committee) and Greg Brimblecombe (Audit and Risk Committee) for their important contributions over the past number of years.

Thanks to all Board and Council representatives for their valuable and ongoing contributions to the governance of our credit union.

2022 Council of Members by Branch

Aylmer
Frank Voth,
John Stoltzfus

Elmira
Dennis Frey,
Erla Bauman

Kitchener
Brent Charette,
Dan Driedger (Chair)

Leamington
Vic Winter,
(one vacancy)

Milverton
Connie Jantzi,
(one vacancy)

Mount Forest
Miles Wiederkehr (vice-chair), (one vacancy)

New Hamburg
Dawna Whitehead,
Norman Size

Waterloo
Alfred Hecht (Vice-Chair),
Kevin Dwarte

2022 Board of Directors

Carolyn Albrecht
Governance Committee

Gerry Frey
Finance and Loan Committee Chair

Gloria Martin
Finance and Loan Committee

Greg Brimblecombe
Audit and Risk Committee

Henry Paetkau
Board Vice-Chair, Governance Committee

James Schenk
Audit and Risk Committee

Kaylie Tiessen
Audit and Risk Committee

Rick Martin
Governance Committee

Rosemary McCrie
Finance and Loan Committee

Susan Taves
Board Chair, Governance Committee Chair

Tim Wagler
Audit and Risk Committee Chair

Wanda Wagler-Martin
Finance and Loan Committee

Board of Directors – New

Stephen Funk, Lawyer

- Partner, GGFI Law LLP, Kitchener and New Hamburg
- Over 30 years of experience in practicing law and Member of Waterloo Law Association, Law Society of Ontario
- Board member and Secretary HopeSpring Cancer Support Centre
- Board member and past Chair, Wilmot Family Resource Centre
- Board member and past President, Wilmot Aquatic Aces swim club

Management's Responsibility for Financial Reporting

The accompanying financial statements of Kindred Credit Union Limited are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with International Financial Reporting Standards. When required, Management has used reasonable and informed judgments and estimates in order to ensure that the financial statements are presented fairly and accurately in all material respects.

To meet its responsibility for the integrity and fairness of the financial statements, Management has designed and maintains accounting processes and systems of internal controls to provide reasonable assurance regarding the accuracy of financial records and to establish reliable data for the preparation of financial statements, and the necessary safeguarding of Credit Union assets.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its regular review of financial results and operations, and through the Board-appointed Audit and Risk Committee. The Audit and Risk Committee has the responsibility of meeting with management and external auditors to discuss internal controls over the financial reporting process, matters arising from periodic audits, and other financial reporting issues. The Audit and Risk Committee regularly reports its findings to the Board for consideration.

The financial statements have been audited on behalf of the membership by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit and Risk Committee. The Auditor's Report outlines the nature of their audit and expresses their opinion on the financial statements of the Credit Union.

Ian Thomas MBA, ICD.D
Chief Executive Officer

John Klassen CPA, CMA
Chief, Finance and Compliance

Audit and Risk Committee Report

The Audit and Risk Committee assists the Board of Directors in fulfilling its oversight responsibilities. It does this by reviewing the financial information and reporting processes, including the risks and controls related to those processes that management and the Board have established. The committee is comprised of four directors and has a mandate that includes all of the duties specified for an audit committee in the Credit Union and Caisses Populaires Act, 2020 (The Act) and the associated regulations.

The Audit and Risk Committee met five times during 2022 to complete its responsibilities. Key activities included:

- Reviewing the financial statements and results of the year-end audit with the external auditor;
- Reviewing the performance of the external auditor and their proposed engagement letter;
- Ensuring that regulatory filings were submitted on time;
- Reviewing the credit union's policies, procedures, and controls for legislative compliance;
- Reviewing the disaster recovery and business continuity plans;
- Monitoring the adherence of Directors, Officers, and employees with the credit union's policies and code of conduct;
- Reviewing management's identification of the credit union's significant risks and ensuring that enterprise risk management processes are in place to measure, monitor, manage, and mitigate them;
- Approving the annual internal audit plan and reviewing internal audit activities; and
- Completing a self-assessment on the effectiveness of the Committee and taking the necessary steps to ensure effectiveness.

Based on its findings, the Audit and Risk Committee provides reports and makes recommendations to the Board of Directors or senior management, as appropriate. These recommendations are reviewed to ensure they are considered and appropriate action taken.

The Audit and Risk Committee is pleased to report to the members of Kindred Credit Union that, pursuant to The Act and its regulations, it continues to meet the requirements of its mandate. The committee receives full cooperation and support from management, thus enabling it to play an effective role in improving the quality of financial reporting to its members, and enhancing the overall control environment at Kindred.

In addition, there are no other matters that the Audit and Risk Committee believes should be reported to the members, nor are there any further matters that are required to be disclosed pursuant to The Act or its regulations.

Respectfully submitted,

Tim Wagler, Audit and Risk Committee Chair

Committee: Gregory Brimblecombe, Kaylie Tiessen, James Schenk

Kindred Credit Union Limited

Financial Statements
December 31, 2022

Independent auditor's report

To the Members of Kindred Credit Union Limited

Our opinion

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

What we have audited
The Credit Union's financial statements comprise:

- the statement of financial position as at December 31, 2022;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in members' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

Independence
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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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 IFRS, and for such internal control as management determines is necessary to enable

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Ontario
February 24, 2023

Kindred Credit Union Limited

Statement of Financial Position

As at December 31, 2022

(in thousands of dollars)

	2022 $	2021 $
Assets		
Cash	29,987	40,583
Investments – liquidity reserve (note 5)	118,302	107,775
Loans to members (note 6)	1,712,897	1,634,836
Investments – other (note 5)	89,937	12,892
Property and equipment (note 7)	14,327	15,189
Deferred income tax asset (note 16)	1,281	1,327
Prepaid expenses and other receivables	7,045	4,178
Total assets	1,973,776	1,816,780
Liabilities		
Deposits of members		
Members' deposits (note 8)	1,696,012	1,630,805
Accrued interest payable	10,188	7,942
	1,706,200	1,638,747
Liabilities to non-members		
Accounts payable and accrued charges (note 11)	14,041	9,080
Income taxes payable	-	371
Derivative financial liabilities (note 19)	312	-
Lease liabilities (note 10)	10,415	11,115
Mortgage securitization liabilities (note 20)	60,391	26,227
	85,159	46,793
Liabilities qualifying as regulatory capital		
Profit shares (note 12)	20,787	19,888
Member shares (note 12)	593	565
	21,380	20,453
Total liabilities	1,812,739	1,705,993
Members' Equity		
Investment shares (note 12)	94,375	49,964
Retained earnings	68,367	61,671
Accumulated other comprehensive loss	(1,705)	(848)
Total members' equity	161,037	110,787
	1,973,776	1,816,780

Approved by the Board of Directors

________________ Director ________________ Director

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

Kindred Credit Union Limited

Statement of Income and Comprehensive Income

For the year ended December 31, 2022

(in thousands of dollars)

	2022 $	2021 $
Revenue		
Interest income	61,821	51,594
Investment income	3,016	1,489
	64,837	53,083
Interest expense (income)		
Interest on members' deposits	23,171	18,108
Patronage refund (note 15)	1,460	1,450
Up front loss on sale of loans	637	-
Interest on external borrowings	112	88
Loss on derivative financial instruments (note 19(b))	339	-
Gain on exchange of liquidity reserve deposits	-	(494)
Mortgage securitization cost of funds	1,188	652
Lease finance cost	222	250
	27,129	20,054
Financial margin	37,708	33,029
Fee revenue	5,756	5,297
Commission revenue	2,283	2,246
	8,039	7,543
Income before the undernoted	45,747	40,572
Operating expenses		
Personnel	21,022	18,866
Administration	7,657	6,991
Occupancy	3,282	2,906
Insurance	1,665	1,356
	33,626	30,119
Income before provision for loan losses and charitable giving	12,121	10,453
Provision for loan losses (note 6)	(746)	(186)
Charitable giving	(575)	(514)
Income before income taxes	10,800	9,753
Provision for income taxes (note 16)	1,645	1,110
Net income for the year	9,155	8,643
Other comprehensive income (loss) – net of taxes		
Net change in unrealized gain (loss) on investments (note 5)	229	(841)
Comprehensive income for the year	9,384	7,802

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

Kindred Credit Union Limited

Statement of Changes in Members' Equity

For the year ended December 31, 2022

(in thousands of dollars)

	Investment shares $	Retained earnings $	Accumulated other comprehensive loss $	Total $
Balance – January 1, 2021	48,209	55,090	(7)	103,292
Net income before the following:	-	8,643	-	8,643
Other comprehensive loss – net of taxes (note 16(c))	-	-	(841)	(841)
Net shares issued (note 12)	1,755	-	-	1,755
Dividend on investment shares	-	(2,062)	-	(2,062)
Balance – December 31, 2021	49,964	61,671	(848)	110,787
Net income before the following:	-	9,155	-	9,155
Other comprehensive income (loss) – net of taxes (note 16(c))	-	1,086	(857)	229
Net shares issued (note 12)	44,411	-	-	44,411
Dividend on investment shares	-	(3,545)	-	(3,545)
Balance – December 31, 2022	94,375	68,367	(1,705)	161,037

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

Kindred Credit Union Limited

Statement of Cash Flows

For the year ended December 31, 2022

(in thousands of dollars)

	2022 $	2021 $
Cash provided by (used in)		
Operating activities		
Net income for the year	9,155	8,643
Adjustments for		
Interest and investment income	(64,837)	(53,083)
Interest expense	27,464	20,258
Lease finance cost	222	250
Provision for income taxes	1,645	1,110
Patronage refund	1,460	1,450
Provision for loan losses	746	186
Amortization of property and equipment (note 7)	2,199	2,032
Net change in unrealized losses on derivative instruments	312	202
Change in non-cash working capital	2,623	3,993
Changes in member activities – net		
Change in loans to members	(78,807)	(253,267)
Change in members' deposits	65,207	234,875
Cash flows relating to interest and income taxes		
Interest received on loans to members	65,322	54,741
Interest paid on members' deposits	(25,740)	(21,594)
Income taxes paid	(1,708)	(1,051)
	5,263	(1,255)
Financing activities		
Repayments of lease liabilities	(975)	(954)
Net increase (decrease) on mortgage securitization	34,164	(9,829)
Net change in investment shares	41,388	(307)
Redemption of profit shares (note 12)	(561)	(462)
Net increase in member shares (note 12)	28	28
	74,044	(11,524)
Investing activities		
Net (purchase) redemption of investments	(88,619)	41,725
Purchase of property and equipment (note 7)	(1,284)	(727)
	(89,903)	40,998
(Decrease) increase in cash during the year	(10,596)	28,219
Cash – Beginning of year	40,583	12,364
Cash – End of year	29,987	40,583

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

(tabular amounts in thousands of dollars)

1 Reporting entity

Kindred Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act 1994 (the Act) of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union was formerly known as Mennonite Savings and Credit Union (Ontario) Limited. The Credit Union officially changed its name to become known as Kindred Credit Union Limited on July 4, 2016. The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, guaranteed investment certificates (GICs), RRSPs, RRIFs, automated banking machines, debit and credit cards and internet banking. The Credit Union head office is located at 1265 Strasburg Rd., Kitchener, Ontario.

The financial statements have been authorized for issue by the Board of Directors on February 23, 2023.

2 Basis of presentation

These financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

These financial statements were prepared under the historical cost convention, as modified by the revaluation of certain financial assets and derivative financial instruments measured at fair value.

The financial statements' values are presented in Canadian dollars ($), which is the functional and presentation currency of the Credit Union.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period in which the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Credit Union's financial statements therefore present its financial position and performance fairly.

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are the fair value of financial instruments and the member loan loss provisions. These areas are further disclosed in note 4.

(tabular amounts in thousands of dollars)

3 Significant accounting policies

a) Allowance for impaired loans

At initial recognition, the Credit Union recognizes allowances for expected credit loss (ECL) on all debt instruments measured at amortized cost. ECLs are also recognized for loan commitments and financial guarantees.

IFRS 9, Financial Instruments (IFRS 9), outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Credit Union.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is move to Stage 2 but is not yet deemed to be credit impaired.
- If the financial instrument is credit impaired, the financial instrument is then moved to Stage 3.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on ECLs on a lifetime basis.

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost are credit impaired.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument.

ECLs are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD). The PD represents the likelihood of a member defaulting on its financial obligation, either over the next 12 months or the remaining lifetime of the financial instrument (depending on the stage to which the financial asset belongs). The EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months or the remaining lifetime of the financial instrument. For example, on revolving facilities, the Credit Union considers the amount that is expected to be drawn upon leading up to default. On term facilities, the Credit Union considers the amount it expects to be paid down leading up to default. The LGD represents the Credit Union’s expectation of the extent of a loss on a defaulted exposure. The LGD is expressed as a percentage of EAD.

These inputs are combined to project ECL over either the next 12 months or the entire lifetime of a credit exposure and discounted back to present using the instrument’s effective interest rate.

When determining whether the risk of default on a loan has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on historical experience and expert credit assessment and including forward-looking information.

(tabular amounts in thousands of dollars)

The Credit Union uses the following when determining whether there has been a significant increase in credit risk:

- quantitative criteria: 30 days overdue is classified as Stage 2 and 90 days overdue is designated as Stage 3; and
- qualitative indicators including but not limited to: deteriorating or lack of financial statements, adverse management changes, covenant breaches, frequent overdrafts or arrears, debt service shortfalls, deterioration of security, cessation of operations, receivership or bankruptcy.

The Credit Union allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

i) the remaining lifetime PD as at the reporting date; with

ii) the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

PD is estimated using a two-step process. The first step considers a historical anchor parameter (the 12-month PD). This is designed to represent the long-run average default of the borrower. This anchor parameter is then adjusted to reflect forecasted future economic conditions.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Credit Union collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

Loan writeoffs

The Credit Union writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Credit Union's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Credit Union may write off financial assets that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended December 31, 2022 was $11,937 (2021 – $16,421). The Credit Union still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

Further information on credit impairment can be found in note 22.

(tabular amounts in thousands of dollars)

b) Fees and commission

Fee and commission revenue and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see (c) below). Other fee and commission revenue from contracts with members or other third parties is measured based on the consideration specified in a contract with the counterparty. The Credit Union recognizes revenue as the related performance obligation is satisfied, either over time or at a point in time.

The Credit Union provides retail and corporate banking services to its members, including account management, provision of overdraft facilities, foreign currency transactions and credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees for foreign currency transactions and overdrafts are charged to the member's account when the transaction takes place.

Servicing fees for the administration of loans that have been sold to a third party are based on fixed rates outlined in the respective contract and are recorded monthly.

The Credit Union receives commission revenue primarily through its relationship with Aviso Wealth resulting from sales of mutual fund and insurance products. Commission income is recognized monthly when received.

c) Financial assets and liabilities

The Credit Union has applied IFRS 9 and classifies its financial assets in the following measurement categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions. All financial assets and liabilities, including derivative financial instruments, are recognized in the statement of financial position and measured in accordance with their assigned category.

The accounting policies related to financial assets and liabilities are as follows:

Measurement methods

Amortized cost and effective interest rate

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

(tabular amounts in thousands of dollars)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e., its amortized cost before any loss allowance) or to the amortized cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Credit Union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

Interest income and expense

Interest income and expense are calculated by applying the effective interest rate to the gross carrying amount of financial assets and liabilities, except for financial assets that have subsequently become credit impaired (or Stage 3), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e., net of the ECL provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Credit Union measures a financial asset or financial liability at its fair value plus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in net income. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and FVOCI, which results in an accounting loss being recognized in net income when an asset is newly originated.

Classification and subsequent measurement

Financial assets

Financial assets are initially recognized at fair value and are classified and are subsequently measured at amortized cost, FVOCI or FVTPL. A financial asset is classified as amortized cost if it meets both of the following conditions and is not designated as FVTPL:

i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment by investment basis.

(tabular amounts in thousands of dollars)

Financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets are classified as FVOCI. All other financial assets are classified and subsequently measured at FVTPL.

The business model reflects how the Credit Union manages the assets in order to generate cash flows, which is based on whether the Credit Union's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (i.e., financial assets are held for trading purposes), then the financial assets are classified as part of another business model and measured at FVTPL. Factors considered by the Credit Union in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed. For example, the Credit Union's business model for the mortgage loan book is to hold to collect contractual cash flows.

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

i) contingent events that would change the amount and timing of cash flows;
ii) leverage features;
iii) prepayment and extension terms;
iv) terms that limit the Credit Union's claim to cash flows from specified assets; and
v) features that modify consideration of the time value of money.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Credit Union's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in net income as other income when the Credit Union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in investment income in the statement of income and comprehensive income.

(tabular amounts in thousands of dollars)

The measurement categories of financial assets in accordance with IFRS 9 are as follows:

Financial asset	Measurement category
Cash	Amortized cost
Loans to members	Amortized cost
Excess liquidity deposits	Amortized cost
Loans to MEDA	Amortized cost
Derivatives	FVTPL
Shares in Central 1	FVOCI
Liquidity reserves	FVOCI
Oikocredit shares	FVTPL
Canadian Cooperative Investment Fund	FVOCI

Financial liabilities

The Credit Union classifies and subsequently measures its financial liabilities at amortized cost or FVTPL.

Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as FVOCI is not recognized in profit or loss on derecognition of such securities.

The Credit Union enters into transactions whereby it transfers assets recognized on its statement of financial position. The transferred asset is derecognized if it meets the derecognition criteria. In certain transactions, the Credit Union retains the obligation to service the transferred financial asset for a fee. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Any remaining interest in transferred financial assets that qualify for derecognition by the Credit Union is recognized as a separate asset or liability.

As outlined in note 3(f), in transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(tabular amounts in thousands of dollars)

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

CEBA loans

The Government of Canada (GoC) launched the Canada Emergency Business Account (CEBA) program to provide interest-free loans to qualifying small businesses and not-for-profits to help cover their operating costs during a period where their revenues have been temporarily reduced. The Credit Union acts as a credit facilitator for its eligible members to access loans from the GoC through the CEBA program. Loans advanced to borrowers do not appear on the statement of financial position for the Credit Union as substantially all the risks and rewards associated with the loans, including exposure to payment defaults and principal forgiveness, are assumed by the GoC.

The Credit Union receives a loan administration fee, which is recognized in the statement of income and comprehensive income.

Modification of financial assets

The Credit Union sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that scheduled repayments will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Credit Union monitors the subsequent performance of modified assets. The Credit Union may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets that have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets held as at December 31, 2022 was $nil (2021 – $nil).

The Credit Union continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

d) Comprehensive income

For the Credit Union, OCI represents the change in members' equity during the year that is attributable to unrealized gains and losses on financial assets classified as FVOCI and remeasurements of the present value of the post-employment obligation.

(tabular amounts in thousands of dollars)

Consequently, the changes in these items during the year are recognized in the statement of income and comprehensive income, net of taxes, which is presented as part of members' equity on the statement of financial position.

e) Sale of receivables

The Credit Union periodically sells assets, such as agricultural loans, to other financial institutions to manage its portfolio diversification risk. These transactions satisfy the requirements for derecognition under IFRS and, accordingly, the agricultural loans sold are removed from the statement of financial position. In these instances, the contractual rights to receive the cash flows from the assets and substantially all the risks and rewards associated with the assets are transferred to the purchasing institution. A nominal administration fee, which is recorded as income when received, is paid to the Credit Union each month.

f) Mortgage securitizations

As part of an ongoing program to manage liquidity, capital and interest rate risk, the Credit Union enters into mortgage securitization transactions. These transactions allow for the packaging of insured mortgage loan receivables into mortgage backed securities (MBS) and for the subsequent sale of these MBS to unrelated third parties.

As outlined in note 3(c), securitized financial instruments are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value plus transaction costs and subsequently measured at amortized cost, using the effective interest rate method.

Costs related to the issuance of MBS are amortized over the life of the issue and are included in interest expense.

g) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line method over the expected useful lives of the assets as follows:

Assets	Useful life
Buildings	40 years
Leasehold improvements	Term of lease
Furniture and fixtures and computer equipment	3-10 years

Land is not subject to amortization and is carried at cost.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and comprehensive income in the year the asset is derecognized.

(tabular amounts in thousands of dollars)

h) Leases

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally, the Credit Union uses its incremental borrowing rate as the discount rate of 0.75% to 2.50%.

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

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

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Credit Union's estimate of the amount expected to be payable under a residential value guarantee, or if the Credit Union changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Credit Union presents right-of-use assets in property and equipment and lease liabilities as lease liabilities in the statement of financial position.

(tabular amounts in thousands of dollars)

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

i) Impairment of non-financial assets

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than its carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognized in the statement of income and comprehensive income when there is objective evidence that a loss event has occurred that has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the statement of income and comprehensive income at that time.

j) Derivative financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments at a future date and by which their value changes in response to a change in specified rates, prices or indices and do not require an initial net investment or whose initial net investment is smaller than would be required for other similar types of contracts. The Credit Union uses derivative financial instruments, primarily interest rate swaps, in order to manage interest rate risk exposure. The Credit Union's policy is not to utilize derivative financial instruments for speculative purposes. The Credit Union provides index-linked deposits to its members. The embedded options in the index-linked term deposit products are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

Derivative financial instruments are carried at fair value and are reported in the statement of financial position as derivative financial instrument assets, where they have a positive fair value, and as derivative financial instrument liabilities, where they have a negative fair value. Changes in the fair value of the derivative instruments are recognized in the statement of income and comprehensive income as net unrealized gain on derivative financial instruments. The Credit Union does not apply hedge accounting on its derivative portfolio.

k) Member entitlements

Member shares, profit shares and investment shares have certain characteristics that are outlined in note 12 that require them to be classified as liabilities on the statement of financial position. Accordingly, any dividends authorized on these shares are recorded as interest expense.

l) Foreign currency

Assets and liabilities denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the statement of financial position date. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in other revenue in the statement of income and comprehensive income.

(tabular amounts in thousands of dollars)

m) Income taxes

The Credit Union uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Deferred income tax assets are recognized to the extent that realization is considered more likely than not.

n) Employee benefit plan

The Credit Union accrues its obligations under the post-retirement benefit plan and the related costs and has the following policy:

- the cost of the benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected future costs, discount rate and retirement ages of employees.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in OCI with an immediate allocation to retained earnings. Past-service costs are recognized immediately in income.

4 Critical accounting estimates and judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in the statement of income and comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

(tabular amounts in thousands of dollars)

The estimates, assumptions and judgments that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Fair value of financial instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates, fair value multipliers and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 21.

b) Member loan loss provision

The measurement of the ECL allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECLs, such as:

- determining the criteria for identifying a significant increase in credit risk;
- establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECLs.

The judgments, inputs, methodology and assumptions used for estimating the ECL allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The methods and assumptions applied and the valuation techniques used are disclosed in notes 6 and 22.

Due to ongoing economic changes, there is estimation uncertainty with respect to the recoverability of loans to members and the measurement of ECLs. Certain of the inputs and assumptions related to the model are impacted by this uncertainty.

c) Recognition of securitization arrangements

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into mortgage securitization arrangements. As a result of these transactions and depending on the nature of the arrangement, the Credit Union may be subject to the recognition of the funds received as secured borrowings and the continued recognition of the securitized assets. The determination of the requirements for continued recognition requires significant judgment.

(tabular amounts in thousands of dollars)

5 Investments

	2022 $	2021 $
Shares in Central 1 (a)	2,617	2,574
Liquidity reserves (b)	118,302	107,775
Excess liquidity deposits (c)	86,409	9,421
Oikocredit shares (d)	250	250
Loans to MEDA (e)	600	600
Canadian Cooperative Investment Fund (f)	61	47
	208,239	120,667

a) Shares in Central 1

As a condition of maintaining membership in Central 1, the Credit Union is required to hold an investment in Central 1 shares as determined by the Central 1 Board of Directors from time to time. These shares are held by the Credit Union principally for the benefits of membership with Central 1, including realization of savings through cost sharing and other operational synergies, as well as access to a variety of products and services, and not for the purpose of selling in the near term. Accordingly, the shares have been designated as FVOCI.

Central 1 Class A shares are subject to an annual rebalancing mechanism based on credit union asset growth and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis. The Credit Union's holding of Central 1 Class A shares had a net increase from $487,971 to $530,822 during 2022 as a result of capital calls.

Central 1 Class E shares were issued with a par value of $0.01 per share; however, they are redeemable at $1 per share. There is no separately quoted market value for these shares, the shares are not subject to rebalancing and new members are not required to subscribe to this class of shares. There has not been a sufficient volume of redemptions of Class E shares nor has a communication plan been released by Central 1 to redeem these shares that could be used to reliably estimate a fair value for the Class E shares. As such, the Credit Union has measured these shares at par value of $2,086,100, which is an approximation of fair value as at December 31, 2022.

(tabular amounts in thousands of dollars)

b) Liquidity reserves

The Credit Union is required to maintain liquidity reserves with Central 1 equal to 6.00% of the Credit Union's total assets. The amount of the required liquidity reserve is determined monthly based on the amount of total assets in the previous month's financial statements. The instruments bear interest at fixed and variable rates, which averaged approximately 2.87% (2021 – 0.75%) at year-end. These are measured at FVOCI, on the basis by which the business model is achieved, by both collecting contractual cash flows and selling financial assets.

c) Excess liquidity deposits

The Credit Union has invested excess funds in term deposits, GICs and short-term funds with Central 1 and Manulife. These excess liquidity deposits are measured at amortized cost.

d) Oikocredit shares

Oikocredit, Ecumenical Development Cooperative Society U.A. (Oikocredit) provides financial services and supports organizations internationally to improve the quality of life of low-income people and communities. Oikocredit mobilizes the capital needed to carry out its mission by issuing shares to its member organizations.

As at December 31, 2022, the Credit Union's holdings of these shares are $250,020 (2021 – $250,020).

Oikocredit shares are classified as FVTPL. Par value has been determined by management to be representative of fair value due to the fact that share issue and redemption transactions occur at par value on a regular and recurring basis.

e) Loans to MEDA

MEDA is an international economic development organization whose mission is to create business solutions to poverty. The Credit Union supports this work through the provision of fixed-term promissory notes to the organization, which are classified and measured at amortized cost.

f) Canadian Cooperative Investment Fund (CCIF)

Supported by selected cooperative organizations across Canada, the CCIF is designed to address a gap in the cooperative sector's access to financing. The fund invests in the cooperative sector in the form of loans, equity and quasi-equity investments. The Credit Union has a maximum $150,000 commitment to the fund to be invested over the next several years. CCIF shares are classified as FVOCI.

(tabular amounts in thousands of dollars)

6 Loans to members

a) The Credit Union's loan portfolio and related allowance for impaired loans

An analysis of the Credit Union's loan portfolio and related allowance for impaired loans is as follows:

					December 31, 2022
	Gross amount	**ECL allowance**			**Carrying amount**
		Stage 1	**Stage 2**	**Stage 3**	
	$	**$**	**$**	**$**	**$**
Residential	630,113	(507)	(55)	(462)	629,089
Personal	6,345	(87)	(18)	(12)	6,228
Agricultural	819,521	(246)	(56)	(1,002)	818,217
Commercial	259,970	(96)	(48)	(463)	259,363
	1,715,949	(936)	(177)	(1,939)	1,712,897

					December 31, 2021
	Gross amount	**ECL Allowance**			**Carrying amount**
		Stage 1	**Stage 2**	**Stage 3**	
	$	**$**	**$**	**$**	**$**
Residential	470,787	(216)	(35)	(129)	470,407
Personal	8,971	(74)	(18)	(47)	8,832
Agricultural	793,783	(185)	-	(1,016)	792,582
Commercial	363,613	(99)	-	(499)	363,015
	1,637,154	(574)	(53)	(1,691)	1,634,836

The Credit Union has an agreement in place to sell loans to Farm Credit Canada (FCC). The Credit Union continues to service all of these loans as an agent for FCC. Cumulatively, the balance of loans that continue to be serviced by the Credit Union on behalf of FCC is approximately $44,470,788 (2021 – $23,262,274).

During the year, the Credit Union sold $36,375,966 (2021 – $nil) of agricultural loans to FCC.

The Credit Union acts as a credit facilitator for its eligible members to access loans from the GoC through the CEBA program. The Credit Union has advanced total loans under the CEBA program of $nil (2021 – $29,324,683). These loans have been derecognized and do not appear on the statement of financial position.

(tabular amounts in thousands of dollars)

b) Allowance for impaired loans

The following table shows the reconciliation from the opening to the closing balance of the loss allowance by class of loans to members:

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Residential				
Opening balance – December 31, 2021	(216)	(35)	(129)	(380)
Movement	(291)	(20)	(334)	(645)
Writeoffs	-	-	-	-
Ending balance – December 31, 2022	(507)	(55)	(463)	(1,025)
Personal				
Opening balance – December 31, 2021	(74)	(18)	(47)	(139)
Movement	(13)	-	25	12
Writeoffs	-	-	10	10
Ending balance – December 31, 2022	(87)	(18)	(12)	(117)
Agricultural				
Opening balance – December 31, 2021	(185)	-	(1,016)	(1,201)
Movement	(61)	(56)	14	(103)
Writeoffs	-	-	-	-
Ending balance – December 31, 2022	(246)	(56)	(1,002)	(1,304)

(tabular amounts in thousands of dollars)

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial				
Opening balance – December 31, 2021	(99)	-	(499)	(598)
Movement	3	(48)	36	(9)
Writeoffs	-	-	1	1
Ending balance – December 31, 2022	(96)	(48)	(462)	(606)
Total				
Opening balance – December 31, 2021	(574)	(53)	(1,691)	(2,318)
Movement	(362)	(124)	(259)	(745)
Writeoffs	-	-	11	11
Ending balance – December 31, 2022	(936)	(177)	(1,939)	(3,052)

The Credit Union is holding security against the Stage 3 loans in the estimated amounts of $nil (2021 – $nil) for personal loans, $nil (2021 – $nil) for residential mortgages, $46,002,044 (2021 – $31,365,370) for agricultural loans and $62,008,493 (2021 – $34,243,393) for commercial loans.

The Credit Union is holding security in the form of member deposits in the estimated amount of $2,320,575 (2021 – $3,955,209) as security for loans to members.

c) Loan loss provisions

The loss allowance recognized in the period is impacted by a variety of factors, such as:

- transfers between Stage 1 and Stages 2 or 3 due to loans to members experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent step up (or step down) between 12-month and lifetime ECLs (see note 3);
- additional allowances for new loans to members recognized during the period, as well as releases for financial instruments derecognized in the period;
- impact on the measurement of ECL due to changes in probability of default, exposure at default and loss given default in the period, arising from regular refreshing of inputs to models;
- impacts on the measurement of ECLs due to changes made to models and assumptions;
- discount unwind within ECLs due to the passage of time, as ECLs are measured on a present value basis; and
- loans to members derecognized during the period and writeoffs of allowances related to loans that were written off during the period.

(tabular amounts in thousands of dollars)

The key inputs into the measurement of ECLs are the following variables:

- probability of default;
- loss given default; and
- exposure at default.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month probability of default by the loss given default and exposure at default. Lifetime ECL is calculated by multiplying the lifetime probability of default by the loss given default and exposure at default.

The methodology of estimating the PD is discussed above in note 3.

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios as described in note 22 and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

The exposure at default (EAD) represents the expected exposure in the event of default. EAD is calculated for loans with regular instalments (payments) by using the loan's amortization schedule to estimate the outstanding loan amount remaining in future years. This is done by using the current outstanding balance (principal and interest) and deducting from it future payments, producing a list of outstanding balances that decrease over time.

d) Loan portfolio by maturity date

The following table analyzes the Credit Union's loan portfolio by maturity date.

	Variable rates $	Fixed rates less than 1 year $	Fixed rates 1-5 years $	2022 Total $	2021 Total $
Total loans	254,955	263,192	1,197,802	1,715,949	1,637,154
Average effective yield	7.34%	4.52%	3.60%	4.29%	3.30%

(tabular amounts in thousands of dollars)

e) Impaired loans

The following table identifies the portion of the Credit Union's loan portfolio that is past due but not considered Stage 3 at December 31, 2022. For each loan type, the aging category, the carrying value of the loan and the value of the security held have been presented. There were no residential, agricultural or commercial loans that were past due but not considered Stage 3.

	Past Due	Carrying Amount $	Security Held $
Residential	30-60 days	569	711
	60-90 days	-	-
	90-120 days	-	-
	120+ days	-	-
Personal	30-60 days	40	-
	60-90 days	1	-
	90-120 days	1	-
	120+ days	13	-
Agricultural	30-60 days	150	482
	60-90 days	-	-
	90-120 days	-	-
	120+ days	681	2,181
Commercial	30-60 days	3	-
	60-90 days	-	-
	90-120 days	-	-
	120+ days	-	-
		1,458	3,374

(tabular amounts in thousands of dollars)

7 Property and equipment

The movements in property and equipment were as follows:

	Right-of-use assets $	Land $	Buildings $	Leasehold improvements $	Computers $	Furniture and fixtures $	Total $
Cost							
Balance on January 1, 2021	10,400	777	2,320	4,126	1,530	2,901	22,054
Additions	1,524	-	9	24	591	107	2,255
Disposals	-	-	-	463	352	115	930
Balance on December 31, 2021	11,924	777	2,329	3,687	1,769	2,893	23,379
Additions	53	-	59	15	915	295	1,337
Disposals	-	-	-	1,305	780	349	2,434
Balance on December 31, 2022	11,977	777	2,388	2,397	1,904	2,839	22,282
Accumulated amortization							
Balance on January 1, 2021	1,442	-	792	2,598	850	1,406	7,088
Amortization	728	-	99	445	456	304	2,032
Disposals	-	-	-	463	352	115	930
Balance on December 31, 2021	2,170	-	891	2,580	954	1,595	8,190
Amortization	773	-	100	372	645	309	2,199
Disposals	-	-	-	1,305	780	349	2,434
Balance on December 31, 2022	2,943	-	991	1,647	819	1,555	7,955
Net book value							
December 31, 2021	9,754	777	1,438	1,107	815	1,298	15,189
December 31, 2022	9,034	777	1,397	750	1,085	1,284	14,327

Amortization expense of $2,199,000 (2021 – $2,032,805) is included in occupancy expense in the statement of income and comprehensive income.

The right-of-use assets consist entirely of leases for premises.

(tabular amounts in thousands of dollars)

8 Members' deposit

The following table provides a breakdown and analysis of the Credit Union's member deposit portfolio by maturity date:

	Variable rates $	Fixed rates less than 1 year $	Fixed rates 1-5 years $	2022 Total $	2021 Total $
Chequing and savings accounts	739,632	-	-	739,632	695,425
GICs	-	367,286	265,769	633,055	618,207
RRSP and other registered plans	10,187	43,660	59,839	113,686	115,479
RRIF	2,558	29,031	43,518	75,107	70,517
Tax-free savings accounts	19,759	58,916	55,857	134,532	131,177
Total	772,136	498,893	424,983	1,696,012	1,630,805
Average effective interest rates	0.98%	2.52%	3.01%	1.94%	1.07%

Average effective interest rates are based on book values of deposits and contractual interest rates. All types of member deposits are financial liabilities and are carried at amortized cost using the effective interest method.

Concentra Trust Company of Canada acts as trustee in connection with Registered Plans.

9 Demand loan

The Credit Union has access to a line of credit facility totalling $2,500,000 and US$250,000 at Central 1. These facilities are included in demand loan facilities totalling $58,610,000 (2021 – $53,550,000) with interest rates to be agreed upon when amounts are drawn. The facilities are secured by an assignment of loans to members and a general security agreement covering all assets of the Credit Union. At year-end, the Credit Union had drawn $nil under its line of credit facility (2021 – $nil) and had borrowings of $nil under the demand loan facility (2021 – $nil).

The Credit Union also has access to a standby letter of credit line of $800,000 (2021 – $700,000), of which $30,301 (2021 – $582,741) was utilized at year-end and a financial guarantee line of $20,000,000, of which $nil (2021 – $10,000,000) was utilized at year-end.

In the ordinary course of business, the Credit Union is temporarily allowed to exceed the maximum line of credit facility due to timing of clearing outstanding deposits and cheques.

(tabular amounts in thousands of dollars)

10 Lease liabilities

The Credit Union has various leases that are included in property and equipment.

	Minimum lease payments		Present value of minimum lease payments	
	2022 $	**2021 $**	**2022 $**	**2021 $**
Not later than 1 year	992	968	793	742
Later than 1 year and not later than 5 years	4,016	4,130	3,209	3,218
Later than 5 years	7,662	8,557	6,413	7,155
	12,670	13,655	10,415	11,115
Less: Future finance charges	2,255	2,540	-	-
Present value of minimum lease payments	10,415	11,115	10,415	11,115

11 Post-retirement employee future benefits

The Credit Union sponsors a post-retirement benefit plan providing health, dental and life insurance coverage to eligible employees. The Credit Union's post-retirement benefit plan is administered by Great West Life Assurance Company.

Actuarial valuations of the plan are made based on market-related discount rates. The following table presents information related to the Credit Union's benefit plan as at December 31, including the amounts recorded in accounts payable and accrued charges on the statement of financial position and the components of the net benefit plan expense:

a) Accrued benefit obligation

	2022 $	**2021 $**
Balance – Beginning of year	3,664	3,460
Current service cost	151	147
Interest cost	108	101
Benefits paid	(62)	(44)
Remeasurements:		
Gain from change in assumptions	(1,328)	-
Balance – End of year, included in accounts payable and accrued charges	2,533	3,664

There are no separate plan assets.

(tabular amounts in thousands of dollars)

The Credit Union's benefit plan expenses, included in personnel expenses in the statement of income and comprehensive income, were as follows:

	2022 $	2021 $
Current service cost	151	147
Interest cost	108	101
Net benefit plan expense	259	248

Through its post-employment medical plan, the Credit Union is exposed to a number of risks, the most significant of which are detailed below:

- changes in bond yields – a decrease in corporate bond yields will increase plan liabilities; and
- trend rates – an increase in expected health care and dental care costs will increase plan liabilities.

The assumptions used in the measurement of the accrued benefit obligation are as follows:

- the discount rate was established at 5.30% (2021 – 2.90%). The rate of increase in expected health care rates is presumed to be 6.50% and this rate will reduce linearly to 5.00% after six years. Dental care costs are presumed to increase 5.00% per year.

b) Sensitivity of assumptions

	2022 $	2021 $
Liability change resulting from:		
1% increase in trend rate	407	587
1% decrease in trend rate	(308)	(446)
1-year increase in retirement age	(27)	(39)
1% increase in discount rate	(452)	(653)
1% decrease in discount rate	608	878

Each sensitivity analysis above is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected benefit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

The most recent actuarial valuation was prepared as at December 31, 2020 and updated for an increase in the discount rate at December 31, 2022. The average remaining service period of the active employees covered by the benefit plan is 7.0 years.

The weighted average duration of the defined benefit obligation is 14.5 years.

(tabular amounts in thousands of dollars)

12 Liabilities and equity qualifying as regulatory capital

	2022 $	2021 $
Investment shares – 94,374,690 (2021 – 49,963,702)	94,375	49,964
Profit shares – 19,326,757 (2021 – 18,438,483)	19,327	18,438
Provision for the issuance of profit shares – 1,460,000 (2021 – 1,450,000)	1,460	1,450
Member shares – 592,505 (2021 – 564,707)	593	565
	21,380	20,453

a) Investment shares

An unlimited number of non-voting, non-cumulative Class B special shares have been authorized with a stated value of $1 per share. The holder of investment shares may request redemption five years following issuance. All redemptions are subject to the discretion of the Board of Directors. These special shares are issuable in series and rank ahead of owner shares and member shares. Investment shares form part of regulatory capital and have been classified as equity on the basis of their redemption features. During the year, the Credit Union issued 41,387,663 in new investment shares for net proceeds of $41,387,663.

b) Profit shares

An unlimited number of Class A non-voting, non-cumulative patronage shares have been authorized with a stated value of $1 per share. Profit shares, which represent cumulative patronage refunds for existing members, form part of regulatory capital. These shares rank ahead of member shares and are payable to members upon termination of membership, or at the discretion of the Board of Directors. Profit shares form part of regulatory capital and have been designated as other liabilities.

It is the Credit Union's practice at year-end to accrue a provision for the issuance of profit shares in February of the following year. This provision is presented as a liability qualifying as regulatory capital.

c) Member shares

An unlimited number of voting, non-cumulative member shares have been authorized with a stated value of $5 per share. Member shares are the minimum share deposit requirement for membership and form part of regulatory capital. These shares are non-interest bearing and are payable to members upon termination of membership. Member shares form part of regulatory capital and have been designated as other liabilities.

(tabular amounts in thousands of dollars)

	Opening balance 2022 $	Issued $	Redeemed $	Closing balance 2022 $
Investment shares	49,964	44,411	-	94,375
Profit shares	19,888	1,460	(561)	20,787
Member shares	565	57	(29)	593

	Opening balance 2021 $	Issued $	Redeemed $	Closing balance 2021 $
Investment shares	48,209	1,755	-	49,964
Profit shares	18,900	1,450	(462)	19,888
Member shares	537	52	(24)	565

13 Capital and liquidity management

The Act requires credit unions to maintain minimum levels of liquidity and regulatory capital. Liquidity is measured as cash resources and liquidity term deposits, expressed as a percentage of the total of members' deposits and demand loan. As per the Act, regulatory capital must not total less than 3.00% (2021 – 4.00%) of total assets, and not less than 8.00% (2021 – 8.00%) of risk-weighted assets. Regulatory capital, comprised of Tier 1 and Tier 2 capital, includes investment shares, profit shares, member shares, retained earnings and accumulated other comprehensive income, adjusted for certain items under the Regulations to the Act. In the calculation of regulatory capital as a percentage of total assets, total assets are also adjusted for certain items under the Regulations to the Act. In accordance with the Act, no payments shall be made from regulatory capital that would cause regulatory capital to fall below regulatory requirements. Liquidity and regulatory capital as a percentage of assets are as follows:

	Required	2022	2021
Liquidity		13.83%	9.67%
Regulatory capital			
As percentage of total assets	3.0%	9.22%	7.23%
As percentage of risk-weighted assets	8.0%	15.30%	11.20%
			$
Tier 1 capital		172,782	122,478
Tier 2 capital		10,170	8,888
Total regulatory capital		182,952	131,366

The Credit Union's liquidity plan is designed to ensure that the Credit Union will be able to pay obligations when they fall due, be able to repay depositors when funds are withdrawn, and be able to meet commitments to provide loans to members.

(tabular amounts in thousands of dollars)

The Credit Union met its regulatory liquidity requirements as at and during the year ended December 31, 2022 and exceeded the minimum requirements of the Act and Regulations regarding regulatory capital as at December 31, 2022.

Beyond the regulatory requirements outlined above, the Board has established even higher targets with respect to regulatory capital, which it requires management to attain as it undertakes its responsibilities on behalf of the Board.

The Credit Union's capital management plan is designed to establish a strong base for future growth, the payment of dividends and member patronage refunds, as well as provide a cushion in the event of market volatility. By Board policy, the Credit Union is to attain a regulatory capital as a percentage of total assets of 6.50% and 11.50% as a percentage of risk-weighted assets, which was met as at December 31, 2022.

14 Required disclosures under the Act and related party transactions

a) Outstanding loans to key management personnel, their spouses, dependants, children and related corporations amounted to $6,161,501 (2021 – $2,756,715). None of these loans are considered impaired.

Outstanding deposits from key management personnel, their spouses, dependants, children and related corporations amounted to $83,095,081 (2021 – $4,174,511).

b) Remuneration paid to directors of the Credit Union is $263,141 (2021 – $172,931). Other expenses of the Board amounted to $7,982 (2021 – $849).

c) The Act requires credit unions to disclose remuneration paid during the year to employees whose total remuneration exceeds $175,000. If there are more than five employees in this category, the five employees with the highest total remuneration for the year are disclosed. The table below provides this information for the current year.

Name	Position	Salary $	Benefits $	Bonus $	Total $
Ian Thomas	Chief Executive Officer	344	24	90	458
John Klassen	Chief, Finance and Compliance	235	15	44	294
Nolan Andres	Chief, Technology and Innovation	201	14	41	256
Rebecca Smith	VP, Culture and Wellness	182	12	38	232
Max Bentz	Vice-president, Member Relationships	177	12	36	225

(tabular amounts in thousands of dollars)

d) Compensation of key management personnel

Key management personnel of the Credit Union include all directors, officers and key management. The summary of compensation for key management personnel is as follows:

	2022 $	2021 $
Salaries and other short-term employee benefits	1,730	1,396
Other long-term benefits	103	254
Bonus	309	300
	2,142	1,950

15 Patronage refund

The patronage refund is authorized by the Board of Directors and is allocated to members in two ways. Firstly, members were allocated a dividend of 2.81% (2021 – 1.01%) on their December 31, 2022 owner shares. Secondly, members received an allocation based on the volume of business conducted with the Credit Union during the year. The patronage refund is classified as part of interest expense in the statement of income and comprehensive income as outlined in note 12(b).

16 Income taxes

a) Income tax expense is calculated as follows:

	2022 $	2021 $
Income before income taxes	10,800	9,753
Combined Canadian federal and provincial income tax rate applicable to the Credit Union	18.2%	18.2%
Income tax provision based on combined federal and provincial income tax rate	1,966	1,775
Differences from statutory rate		
Other	(321)	(665)
	1,645	1,110
Provision for (recovery of) income taxes		
Current	1,650	1,250
Deferred	(5)	(140)
	1,645	1,110

(tabular amounts in thousands of dollars)

b) Deferred income taxes resulted from the following:

	2022 $	2021 $
Deferred income tax asset arising from the following:		
Property and equipment and leases	203	360
Allowance for impaired loans	238	114
Post-retirement employee future benefit plan	461	667
Liquidity reserve	377	187
Other	2	(1)
	1,281	1,327
Deferred tax asset:		
To be recovered after more than 12 months	1,043	1,213
To be recovered within 12 months	238	114
	1,281	1,327

	Opening balance – December 31, 2021 $	Recognized in statement of income and comprehensive income $	Recognized in other comprehensive income (loss) $	Closing balance – December 31, 2022 $
Deferred tax asset				
Property and equipment and leases	360	(157)	-	203
Allowance for impaired loans	114	124	-	238
Post-retirement employee future benefit plan	667	35	(241)	461
Liquidity reserve	187	-	190	377
Other	(1)	3	-	2
Net deferred tax asset	1,327	5	(51)	1,281

(tabular amounts in thousands of dollars)

	Opening balance – January 1, 2021 $	Recognized in statement of income and comprehensive income $	Recognized in other comprehensive income (loss) $	Closing balance – December 31, 2021 $
Deferred tax asset				
Property and equipment	230	130	-	360
Allowance for impaired loans	143	(29)	-	114
Post-retirement employee future benefit plan	630	37	-	667
Liquidity reserve	-	-	187	187
Other	(3)	2	-	(1)
Net deferred tax asset	1,000	140	187	1,327

c) Tax amounts related to other comprehensive income (loss) are as follows:

			2022
	Gross $	Taxes $	Net of taxes $
Net tax expense (recovery) on investments designated as FVOCI	(280)	51	(229)

			2021
	Gross $	Taxes $	Net of taxes $
Net tax expense (recovery) on investments designated as FVOCI	1,028	(187)	841

17 Commitments and contingencies

Members' loans

The Credit Union has made commitments to members for loans of approximately $34,933,204 (2021 – $81,425,707), which have not been disbursed by December 31, 2022. In addition, unutilized portions of lines of credit extended to members as at December 31, 2022 amounted to approximately $313,179,580 (2021 – $289,504,281).

(tabular amounts in thousands of dollars)

18 Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The Credit Union matches employee contributions up to 5% of the employee's salary (7% for staff hired pre-January 1, 2017). The expenses and payments for the year ended December 31, 2022 were $356,350 (2021 – $810,870). The Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

19 Derivative financial instruments

a) Index-linked purchase option agreements

Included in GICs, RRSPs and tax-free savings accounts is a total of $556,858 (2021 – $538,862) of index-linked deposits. The index-linked deposits are for a three or five-year period, with the return based on the performance of various stock market indices.

The Credit Union has entered into purchase option agreements with Central 1 for a notional amount of $551,813 (2021 – $538,862) to offset the exposure to the various indices associated with these products, whereby the Credit Union pays Central 1 a fixed amount of interest at the start of the contract based on the face value of the index-linked deposits sold. At the end of the three or five-year term, Central 1 pays to the Credit Union an amount equal to the amount that will be paid to the depositor based on the performance of the particular indices.

The purpose of these purchase option agreements is to provide an economic hedge against market fluctuations. These agreements have fair values that vary based on changes in various indices. The fair value of these purchase option agreements included in other assets amounted to $35,380 as at December 31, 2022 (2021 – $60,291). The fair value of the options embedded in the index-linked deposits included in members' deposits amounted to $35,380 as at December 31, 2022 (2021 – $60,291). The gain or loss recognized as a result of these options is $nil (2021 – $nil).

b) Interest rate swaps

The Credit Union enters into interest rate swap agreements in order to provide an economic hedge against exposure to interest rate fluctuations. As at December 31, 2022, the Credit Union was party to four interest rate swap agreements. The agreements in aggregate represent a notional principal amount of $75,000,000 (2021 – $nil), which is used as the basis for determining payments under the contracts and is not actually exchanged between the Credit Union and Central 1, its counterparty.

Under the term of the agreements, the Credit Union has contracted with the counterparty to pay interest at a variable rate to be re-priced monthly or quarterly, while receiving interest at a fixed rate on the notional principal amount.

(tabular amounts in thousands of dollars)

These derivative instruments are recorded in the statement of financial position at fair value. Interest rate swaps have a fair value that varies based on the particular contract, considering such factors as the notional value, the term to maturity and change in interest rates. As at December 31, 2022, the fair value of these agreements was a liability of $311,920 (2021 – $nil). Included as components of loss on derivative financial instruments in the statement of income and comprehensive income is (gain) loss on derivative financial instruments of net interest revenue of $27,242 (2021 – net interest revenue of $202,163) and net unrealized losses on interest rate swap transactions of $311,920 (2021 – net realized losses of $201,968).

Notional amount $	Maturity date	Paying rate %	Receiving rate %	Fair value $
25,000	March 15, 2024	3.90	Six-month CORRA	(122)
25,000	June 15, 2024	3.96	Six-month CORRA	(64)
25,000	December 15, 2023	3.985	Six-month CORRA	(126)
				(312)

20 Mortgage securitizations

The following table summarizes the carrying and fair values of mortgages of the Credit Union that have been securitized and sold by the Credit Union to third parties, as well as the carrying and fair values of the corresponding mortgage securitization liabilities.

	Carrying value $	Fair value $
Securitized mortgages sold as NHA MBS	60,403	58,975
Principal payments to be applied (included in cash)	1,049	1,049
Total securitized assets	61,452	60,024
Mortgage securitization liabilities	60,391	58,963
Net amount	1,061	1,061

All mortgages securitized by the Credit Union are required to be fully insured prior to sale and therefore give rise to minimal credit risk. However, the Credit Union remains exposed to interest rate risk, timely payment and prepayment risk associated with the underlying assets. Accordingly, the assets, liabilities, revenue and expenses have not been derecognized and the transactions are accounted for as secured financing transactions in the Credit Union's statement of financial position and statement of income and comprehensive income as outlined in note 3(f).

(tabular amounts in thousands of dollars)

21 Fair value of financial instruments

The fair values of the Credit Union's financial instruments were estimated using the valuation methods and assumptions described below. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in interest rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Fair values of floating rate loans and deposits approximate book value as the interest rates on these instruments automatically re-price to market insofar as the spread remains appropriate. Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks. Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms. A credit valuation adjustment is applied to the calculated fair value of uninsured deposits to account for the Credit Union's own risk.

Derivative financial instruments are recorded at fair value in the statement of financial position. The fair value is determined based on prevailing market rates and notional value.

The fair value for the Credit Union's investments as detailed in note 5 is determined as follows.

- membership shares in Central 1 and Oikocredit do not trade in a public market. Fair market value approximates par value as the shares are subject to regular rebalancing across the membership;
- liquidity reserves are traded in a public market and are measured using the closing fair market value;
- excess liquidity deposits and loans to MEDA are fair valued by discounting the contractual future cash flows at current market rates of similar financial instruments with similar terms;
- Canadian Cooperative Investment Fund do not trade in a public market. Fair market value is based on the Credit Union's share of net asset value;
- Class E membership shares in Central 1 do not trade in a public market, redemptions are infrequent and no clear plan of redemption by Central 1 has been communicated. As such, the shares are measured at par value, which approximates fair value at December 31, 2022; and
- the fair value of profit and membership shares approximate carrying values.

Fair value hierarchy

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

(tabular amounts in thousands of dollars)

Level 2 Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly.

Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

Estimated fair values of financial instrument assets and liabilities are described in the following table:

		2022		2021	
	Fair value hierarchy	**Carrying value $**	**Fair value $**	**Carrying value $**	**Fair value $**
Recurring measurements:					
Financial assets					
Shares in Central 1 Class A	Level 2	531	531	488	488
Shares in Central 1 Class E	Level 2	2,086	2,086	2,086	2,086
Shares in Oikocredit	Level 2	250	250	250	250
Fair values disclosed:					
Financial assets					
Liquidity reserves	Level 2	118,302	118,302	107,775	107,775
Loans to MEDA	Level 2	600	600	600	600
Loans to members	Level 3	1,712,897	1,640,367	1,634,836	1,638,894
Excess liquidity deposits	Level 2	89,937	89,937	9,421	9,421
Financial liabilities					
Deposits of members	Level 3	1,697,042	1,679,907	1,630,805	1,639,423
Mortgage securitization liabilities	Level 2	60,391	58,963	26,227	26,380
Profit shares	Level 2	20,787	20,787	19,888	19,888
Member shares	Level 2	593	593	565	565

Fair values for items that are short-term in nature are approximately equal to book value. These include cash, accrued interest payable and accounts payable and accrued charges.

22 Financial risk management

The Credit Union's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practices.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board of Directors provides written principles for risk tolerance and overall risk management. Management reports to the Board of Directors on compliance with the risk management policies of the Credit Union. In addition, the Credit Union utilizes a variety of resources to undertake various internal audit activities and reports to the responsible senior leader and Board of Directors the results of these activities.

(tabular amounts in thousands of dollars)

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and variable rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk that arise from these activities are interest rate risk, credit risk, liquidity risk, foreign exchange risk and other price risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the methods used in managing those risks.

Activity	**Risks**	**Method in Managing Risks**
An imbalance in the amount of variable rate loans to members compared to variable rate members' deposits	Sensitivity to changes in interest rates	Asset-liability matching, sales of selected loan portfolios and periodic use of derivatives
Index linked deposit products	Sensitivity to changes in underlying equity indices	Options are used to mitigate this risk

a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. The financial margin reported in the statement of income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Credit Union's management and reported to the Board, which is responsible for managing interest rate risk.

In managing interest rate risk, the Credit Union relies primarily upon use of the asset-liability and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Credit Union's financial instruments. The full extent of the interest rate swaps that the Credit Union has in place are included in note 19(b).

Interest rate shock analysis is used to assess the change in value of the Credit Union's financial instruments when an immediate increase or decrease to interest rates is introduced and the resulting changes in income are computed over a 12-month period. This shock analysis is calculated on a monthly basis and is reported to the asset-liability committee (ALCO) and subsequently to the Board. Based on current differences between financial assets and financial liabilities, the Credit Union estimates that an immediate and sustained 50 basis point increase (decrease) in interest rates would increase (decrease) net interest income for the year by approximately $416,000 (2021 – $461,000).

(tabular amounts in thousands of dollars)

The ALCO also looks at other aspects of interest rate risk such as basis risk, which is the risk of loss arising from changes in the relationship of interest rates that have similar but not identical characteristics (for example the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk, which is the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans, to ensure they are appropriate and takes actions to ensure these are within acceptable levels.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2022. Amounts with variable rates, or due or payable on demand, are classified as maturing within less than one year, regardless of maturity. Member loans and deposits subject to fixed rates are based on contractual terms. Amounts that are not interest sensitive have been grouped together.

	Assets $	Liabilities and members' equity $	Interest rate swaps $	Net asset/ liability gap $
Expected re-pricing or maturity date				
Less than one year	714,872	(1,296,536)	(75,000)	(656,664)
1 to 2 years	210,007	(266,113)	75,000	18,894
2 to 3 years	317,718	(82,270)	-	235,448
3 to 4 years	466,340	(61,525)	-	404,815
4 to 5 years or more	260,630	(74,969)	-	185,661
Non-interest sensitive	4,209	(192,363)	-	(188,154)
	1,973,776	(1,973,776)	-	-

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectation of borrowers and depositors. The average rate of interest-bearing assets is 4.20% and interest-bearing liabilities is 1.95%.

b) Credit risk

Credit risk is the risk that a credit union member or counterparty will be unable to pay amounts in full when due. Credit risk arises principally from lending activities that result in member loans and advances and investing activities that result in investments in cash resources. Counterparty risk is also a key consideration with respect to derivative contracts, which the Credit Union enters into from time to time with Central 1. Significant changes in the economy of the Province of Ontario or deteriorations in lending sectors that represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at the statement of financial position date. Management of credit risk is an integral part of the Credit Union's activities. Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods.

The Credit Union maintains levels of borrowing approval limits and, prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

(tabular amounts in thousands of dollars)

As at December 31, 2022, the classes of financial instruments for which the Credit Union is most exposed to credit risk are as follows:

Credit risk exposure	**Outstanding $**
Liquidity reserves	118,302
Investments	89,937
Loans to members	1,712,897
	1,921,136

Beyond the credit risk associated with the above financial assets, the Credit Union is also exposed to credit risk associated with undrawn lines of credit and undisbursed commitments to members for loans as at year-end, as disclosed in note 17.

Loan impairment

At each reporting date, the Credit Union assesses whether a loan or groups of loans are credit impaired (referred to as Stage 3 loans). A loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

i) significant financial difficulty of the borrower or issuer;

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

iii) the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise; and

iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

The Credit Union incorporates forward-looking information into both the assessment of whether the credit risk of a loan or groups of loans has increased significantly since its initial recognition and the measurement of ECL.

The Credit Union formulates three economic scenarios: a base case, which is the median scenario assigned 80% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 10% probability of occurring. External information considered includes economic data and forecasts published by government bodies and monetary authorities in the jurisdictions in which the Credit Union operates.

The key drivers considered for credit risk are unemployment rates, interest rates and real estate prices. None are considered to have a material impact on the loan loss provision at this time. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(tabular amounts in thousands of dollars)

Loans to members

Loans to members consist of loans, some of which are supported by specific collateral such as residential properties, and charges over business assets such as premises, inventory and accounts receivable. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral. In the case of loans that are conventional mortgages, the Board has established maximum loan to value (Max. LTV) ratios that cannot be exceeded. The following chart gives a profile of these maximums and identifies the amount of conventional mortgages for each loan portfolio that are subject to these maximums:

Portfolio	Total loans $	Conventional mortgage loans $	Max. LTV %
Residential	630,113	579,412	80
Personal	6,345	-	-
Agricultural	819,521	727,336	75
Commercial	259,970	180,815	60
	1,715,949	1,487,563	

The Credit Union's lending (measured as a percentage of the total loan portfolio) is diversified by portfolio sectors as follows:

	Board maximum %	2022 %	2021 %
Residential	No limit	36.7	28.8
Personal	No limit	0.4	0.5
Agricultural	55	47.8	48.5
Commercial	25	13.3	20.7
Institutional	10	1.2	0.9
Unincorporated association	5	0.6	0.6

Board policy also requires that the maximum combined exposure for total commercial and agricultural lending (excluding institutional and unincorporated association loans) be less than 65.0% of assets. At December 31, 2022, commercial and agricultural loan exposure on this basis was 59.25%.

Furthermore, within the above noted portfolio sectors, the Board has also established maximum loan concentrations within industry sectors to ensure an appropriate diversification as the Board considers appropriate within these portfolios. Actual concentrations by industry sector were well below the maximums at year-end.

(tabular amounts in thousands of dollars)

The credit quality of the commercial and agricultural loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal risk rating system. The Credit Union assesses the relative risk of the account using internal rating tools and taking into account statistical analysis as well as the experience and judgment of the credit department. Loans subject to ratings are assigned a risk score from 1 to 6 (1 = low risk, 6 = watch account). Loans are regularly reviewed and updated as appropriate. With respect to the personal loan and residential mortgage portfolio, procedures are in place to ensure the regular monitoring and review of loans in addition to scheduled audits at the branch and head office levels.

Risk scale	Stage 1 $	Stage 2 $	Stage 3 $	2022 Total $	2021 Total $
1 – Low	40,491	-	-	40,491	40,905
2 – Medium low	254,830	-	-	254,830	269,974
3 – Medium	571,357	1,867	-	573,224	647,018
4 – Medium high	145,755	1,745	-	147,500	141,864
5 – High	29,810	618	-	30,428	16,167
6 – Watch	-	-	16,421	16,421	10,424
	1,042,243	4,230	16,421	1,062,894	1,126,352

The carrying value of all loans restructured for members during the year, where a concession in terms was granted with the loan remaining in good standing, is $8,515,843 (2021 – $116,426,707).

c) Liquidity risk

Liquidity risk is the risk the Credit Union will encounter difficulty to meet its obligations to members and other creditors. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and liquidity reserves, a board policy set minimum liquidity at all times, based on total members' deposits and demand loan. The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, sale of loan portfolios and asset-liability maturity management techniques. Management monitors projections of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central 1 of $58,610,000 (2021 – $53,550,000) as an integral part of its liquidity management strategy as disclosed in note 9.

(tabular amounts in thousands of dollars)

The remaining contractual maturity of recognized financial liabilities and loan commitments is as follows:

	Payable on demand $	Less than 1 year $	1 to 5 years $	More than 5 years $	Total $
Deposits of members	773,166	498,894	424,982	-	1,697,042
Accrued interest payable	-	10,189	-	-	10,189
Accounts payable and accrued charges	-	10,439	-	-	10,439
Demand loan	-	-	-	-	-
Lease liabilities	-	793	3,209	6,413	10,415
Mortgage securitization liabilities	-	10,911	49,480	-	60,391
Unadvanced loan commitments	-	34,933	-	-	34,933
	773,166	566,159	477,671	6,413	1,823,409

d) Foreign exchange risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial investments for an extended period. The nature of the foreign exchange risk at the Credit Union is that members can maintain US dollar deposit accounts and GICs for which the Credit Union will generally hold an equivalent amount of US dollar denominated assets in the form of cash and investments. The Board has established that the Credit Union must ensure that the difference between the US dollar denominated assets and liabilities must be less than 10%. The Credit Union has traditionally dealt with unwanted levels of foreign exchange risk by taking actions related to US dollar denominated assets and liabilities rather than entering into any foreign exchange derivative contracts. The impact of a 10.00% strengthening (weakening) of the Canadian dollar against the US dollar is considered insignificant.

e) Other price risk

The Credit Union is also exposed to other price risk on certain of its investments and deposits, but given the limited amount of these deposits and investments, the price risk exposure is considered insignificant.

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