PRAIRIE CENTRE Credit Union

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# Prairie Centre Credit Union Annual General Meeting

**TUESDAY, APRIL 25, 2023 | 7:00 PM**

**Hybrid Delivery: Delisle Senior Centre and Virtual**

## Agenda

1. Welcome and Review of Meeting Protocol
2. Call Meeting to Order
3. Introduction of Guests / Board of Directors
4. Approval of the Agenda
5. Approval of Minutes
    a. April 25, 2022 Membership Meeting
6. Board of Director's Report
7. Chief Executive Officer's Report
8. Review of Financial Statements
9. Appointment of Auditor
10. Nominations Committee Report
11. Appointment of Returning Officer
12. Bylaw Amendments
13. Other Business
14. Door Prizes
15. Adjournment

**PRAIRE CENTRE CREDIT UNION**
**MEMBERSHIP MEETING**
**MONDAY, APRIL 25, 2022**
**VIA ZOOM**

# MINUTES

1. **Call Meeting to Order**
   - Board Chair, Greg Hannay called the meeting to order at 7:02 pm, reviewed the meeting protocol, and confirmed quorum; 49 attendees present.

2. **Introductions**
   - Hannay proceeded with introductions and welcomed all in attendance.

3. **Approval of Agenda.**

**MOTION:** to adopt the Agenda as presented.

: Karen McFaull / Keith Collins

**CARRIED**

4. **Approval of Minutes**
   a. Prairie Centre Credit Union Annual General Meeting held on April 29, 2021.
   b. Prairie Centre Credit Union Special Membership Meeting held on June 22, 2021.

**MOTION:** to approve the Minutes of the April 29, 2021 and June 22, 2021 meetings as presented.

: Evan Sjovold / Tim Askin **CARRIED**

5. **Report Presentations**
   a. Board of Directors Report
      - Hannay reported on behalf of the Board of Directors.
        - 2021 was a year of challenges and we continued to deal with the effects of the COVID-19 pandemic as well as drought which impacted our members. Through these challenges, Prairie Centre managed to achieve new growth through mergers and organically; assuring our board that our vision and strategy remain viable and accurate.
        - The Board continues on a strong path in governance, and will be enhancing governance skills by continuing education and training to ensure our board remains relevant and competent.

- The organization's vision, strategy, and commitment to rural Saskatchewan, is what appealed to our newest branch and region when deciding to join the Prairie Centre family. On January 1, 2022 the community of LeRoy and its surrounding region and members officially joined Prairie Centre Credit Union. The board is pleased to welcome our newest director from this region, Kami Holowachuk.
- In 2021 the process to acquire a new CEO was undertaken. The board was proud of the process that was taken to successfully search applicants from across the country. With a unanimous board decision, an offer was made to and accepted by Blair Wingert. The board sincerely thanks former CEO, Al Meyer for his many years of leading the Prairie Centre team. The board wishes Al a very happy and well-deserved retirement.
- The board would also like to acknowledge and pay respect to the late Brian Benson, former director, whose knowledge and passion toward the cooperative movement and Prairie Centre Credit Union are qualities that were admired and will be missed.
- The board thanks all staff and management for their commitment and hard work that allowed Prairie Centre to have yet another successful year.

b. CEO's Report

- CEO Blair Wingert delivered his report.
  - 2021 was full of challenges. However, in typical Saskatchewan style, Prairie Centre dug in with perseverance, hope, and optimism. Some 2021 highlights include:
    - COVID-19 impacted our business operations. We adapted as restrictions fluctuated. Staff did a great job to continue to serve our members.
    - 2021 began with the addition of our 15th branch as Delisle Credit Union legally merged with Prairie Centre. Within the first 6 months we worked at integrating the Delisle membership and staff into the Prairie Centre family. The Delisle membership saw lots of changes, however we have received amazing community support throughout the process.
    - In the spring of 2021, it was announced that Prairie Centre and LeRoy Credit Union had intentions of merging. At the end of June both memberships had approved the merger, which took effect January 2022.
    - A project that took place in 2021 was a refresh of service packages. During April to June we rolled out the new packages to the membership. The packages are very competitive in the industry and many come with hundreds of dollars in savings if bundled with other Prairie Centre products.
    - Another major project was our digital banking and website upgrade, which occurred in September. This change impacted members as a new sign-in set up was required. Our staff began conversations with members in August and continued for weeks, along with extended hours of a help desk

to field calls from members experiencing issues. We experienced a few hiccups along the way, but overall it was a success.
  - Most of the province experienced the worst drought in 20 years. This effected our trading area for the most part. As always, Prairie Centre continues to offer help to our producers during these times. Staff are dedicated to assist and discuss options that might be available to get through these tough times.
  - Despite all the challenges described, Prairie Centre still managed business growth. On book assets grew by 14.5% to just over $1 billion and our off book assets grew by 20% to $360 million. Total assets under management total $1.37 billion making us the 6$^{th}$ largest credit union in the province.
  - At year end 2020 we achieved a profit of $5.5 million, higher than the previous year at $3.3 million. The 2020 profit comes after paying our members $2.1 million in member rewards and giving over $200,000 to our communities through donations and scholarships.
  - Thanks to staff for the momentum that keeps Prairie Centre moving forward successfully year after year.

**MOTION:** to accept the Board and CEO Reports as presented.

: Karen Sinclair / John Kutz **CARRIED**

c. Auditor's Report
- The full auditors report can be viewed within Prairie Centre's Annual Report, which is available on our website. Carlson mentioned Curt Wagner of MNP is in attendance in the event there are any questions about the Auditor's Report.

d. Financial Statements
- Chief Financial Officer, Lesley Carlson reviewed the summarized financial statements and various reports as included in the 2021 Annual Report. Carlson further advised, should anyone be interested in viewing the full financial statements, they are posted on our website.

**MOTION:** to accept the Auditor's Report and the 2021 Financial Statements as presented.

: Elan Kidd / Scott Cheston **CARRIED**

**6. Ratification of Auditor**
- Chair Hannay, on behalf of Prairie Centre Audit and Risk Committee and Board of Directors, recommends that we retain MNP as external auditors for 2022.

**MOTION:** to ratify the appointment of MNP as external auditors for Prairie Centre Credit Union for 2022.

: Evan Sjovold / Tammy Pregizer Legge **CARRIED**

**7. Appointment of the Returning Officer**

- Hannay advised Prairie Centre Credit Union appoints a Returning Officer annually. On behalf of the Governance Committee and Board of Directors, Hannay recommends Craig Hanson, for 2022/2023.

**MOTION:** to appoint Craig Hanson as Returning Officer for 2022/2023.

: Greg Hannay / Karen Sinclair **CARRIED**

**8. Other Business**

- No further business was brought forward.

**9. Questions**

- No questions were brought forward.

**10. Adjournment**

**MOTION:** to adjourn.

: Greg Carlson

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# Home grown.

Banking built for the prairies.

PRAIRIE CENTRE
Credit Union

2022 ANNUAL REPORT

## PURPOSE

We are here to help create a Saskatchewan where our people and communities can thrive together. We cultivate growth by building relationships and empowering people to improve their financial health through sound advice and local access to leading global financial tools.

## VISION

We will be Saskatchewan's leading rural-based credit union, committed to connecting with our communities and members anywhere.

## VALUES

Connection
Curiosity
Sustainability
Growth

# Values in Action

## Connection

Build strong connections in our work environment, the communities and members we serve, and relationships with our trusted partners through collaboration, knowledge-sharing, and resources.

## Curiosity

Curiosity will guide us, and we will invite inquiry to help spark innovation while working together to become better problem solvers.

## Sustainability

Achieve through decision-making that builds a strong and loyal member base, create resilient business practices, and works to attract and retain employees.

## Growth

Grow our relationships, our brand, our footprint in rural Saskatchewan, and our communities. We want to grow as individuals by taking personal responsibility to improve our skills because it not only adds value to our bottom line, but also helps us to develop both personally and professionally.

# Prairie Centre at a Glance

**16**
**Rural SK Branches (and 5 subsidiary locations)**

**172**
**Employees**

**17,000 +**
**Members**

**$1.8 Million**
**Member Rewards**

**$1.5 Billion +**
**Managed Assets**

# The People of Prairie Centre

## 40 Years

Gaylene Pederson

## 25 Years

Carren Blosky
Lorraine Gerbrandt
Carol Lucki-Book
Marion Miller
Janet Reimer
Bev Rowley
Eileen Schmidt

## 20 Years

Dallas McDonald
Julie Sparks

## 15 Years

Jannelle Curtis
Christine Leys
Brooke Strueby

## 10 Years

Denise Ganes
Brenda Hunter
Lorna McGrath
Lisa Moss
Verna Urlacher

## 5 Years

Kimberly Clarke
Janet Hutchison
Lana Lee
Cheryl McKeil
Stacey Schneider

## Milestones

Prairie Centre recognizes loyal and dedicated employees are the foundation to our success. Congratulations to these Prairie Centre employees on their Long Service Award milestones.

## 2022 Retirement

**Al Meyer, Former CEO**

Since the inception of Prairie Centre Credit Union, Al Meyer was there for us. After 29 years of dedicated service to Prairie Centre and our membership, Al started his well-deserved retirement in 2022. We would like to thank him for his many years of commitment to the growth and sustainability of Prairie Centre Credit Union.

# Our Forward Focus

Prairie Centre is building momentum across the Prairies. Our way of life is to be celebrated, but more importantly, UNDERSTOOD. Understood by a financial institution that's steadfast, committed to our people and our province, and continues to gain strength so profits that are earned here, stay here. Profits that have meaningful impact and can be seen and felt at the local level.

Prairie Centre has built an ambitious three year strategic plan (2023-2026) to become the financial institution that people love to bank with through:

## Brand Evolution & Community Presence

A compelling story has the power and emotion to start the conversation around a brand and power enough curiosity to get people to choose it over another. Through the telling of the Prairie Centre story, we allow customers to experience our brand, make a meaningful emotional connection, and share the experience across their network. Great brand experiences turn the story over to the customer and they become the ones who tell it.

## Employee Engagement & Professional Development

Education, self-development, and engagement are key to a thriving culture and play a critical role in overall satisfaction as well as confidence our employees demonstrate in their role at Prairie Centre. Employee engagement has a direct impact on our bottom line through reduced staff turnover and increased productivity. Engagement helps Prairie Centre understand employee needs, as well as helps to identify ways to improve morale and create better work environments. In other words, we value what our employees have to say.

Investing in our employees pays dividends both professionally and personally. Prairie Centre makes significant gains when our staff feel confident in what they do as it helps to create a better member experience. It provides our employees the skills to advance when opportunities arise and helps Prairie Centre transfer knowledge through succession planning.

## Member Experience & Growth Opportunities

Improving the member experience at every point from onboarding to retirement planning, and everywhere in between, is pinnacle.

At Prairie Centre, we pride ourselves on serving people with the same determination, grit, and passion for the Prairies as we have. The opportunities to share this passion and spread our footprint throughout the province are abundant. We want to look for new and creative ways to reach new markets. This will require innovative ideas and strategies that are essential to keeping our business growing and sustainable.

## Technology, Data Management, & Cyber Security

Technology can take care of the basic tasks, leaving us with more time to focus on the important things, our members. As the world moves more digital, we see the financial industry changing with it. Prairie Centre will invest resources towards staying abreast of the new technology trends that will shift our industry in the future, which includes open banking and digital disruptors.

With the ever-advancing technology comes the constant threat of cyber-attacks. Prairie Centre will continue to work to identify potential threats and develop stronger defense strategies to mitigate them. Educating our employees and members will be the first step in fending off the threat actors.

## Operational Improvement & Efficiencies

Improving operational effectiveness and efficiencies involves combined effort that optimizes processes, people, financials, and technology to support sustainability. It goes beyond cost management, and it looks at areas where inefficiencies exist and determines how to improve them. Focus here helps Prairie Centre deliver strong and stable financial performance to support investments in our future and to ensure our credit union remains strong.

# Home Grown

## Our Commitment to Rural Saskatchewan

Prairie Centre Credit Union is proud to call the prairies home – it's in our name after all. We are authentic prairie people, and our values represent the members we serve; determined, spirited, and passionate. We love the land and the prairie way of life and always look to celebrate our rural roots by strengthening ties with our customers and local communities.

Because our members are owners, we are motivated to help them achieve financial success. Prairie Centre Credit Union's Member Rewards program keeps any profits we make with our members. That means profits, jobs, and our love of rural Saskatchewan stays right here.

We continuously engage with and strongly support our communities through volunteering and financial support of community organizations and activities, including unique award-winning scholarship programs investing in our young talent. During 2022, over $230,000 was provided to our communities in donations, scholarships, sponsorships, and in-kind contributions. The dollar value noted here does not include contributions made through volunteer hours our staff members provide on a regular basis. We are very proud of our staff commitment to volunteering that helps build stronger, thriving communities.

**$230,865**

**PROVIDED TO OUR COMMUNITIES IN 2022**

Prairie Centre Credit Union is an economic force for good and always will be. It drives our success and guides everything we do, across the entire customer experience. We work towards building a future that is substantial, meaningful, and relevant for the people of rural Saskatchewan, one where we can all profit and grow beneath our magnificent prairie skies.

# Board Chair & CEO Statement

As a member-owned financial institution, we are pleased to present to you our annual report highlighting the results from 2022.

2022 was a very busy year for Prairie Centre Credit Union. We kicked the year off by welcoming LeRoy Credit Union to the Prairie Centre family, making it our 16th branch and giving us a presence on the east side of the province. There was a lot of excitement and optimism early in the year as we had come through two years impacted by COVID-19 and were getting back to "business as usual."

In early March, we said farewell to our long time CEO, Al Meyer. We would like to sincerely thank Al for his dedication to Prairie Centre and the credit union system.

At the beginning of June, Prairie Centre faced a system-wide cyber incident that hampered our operations for over three months. Our staff were instrumental in minimizing the impact to our members and keeping branch operations running smoothly while we worked through the restoration.

The year also brought with it a second year of drought throughout most of Prairie Centre's trading area, adding increased pressure and anxiety to our agriculture members. As Saskatchewan's leading rural-based credit union, we recognize the importance of agriculture and how fundamental it is to our success. Prairie Centre is banking built for the prairies and we're here to help our members through the good times and bad by offering support and guidance.

Even with the challenges we faced in 2022, Prairie Centre's financial results were strong. Our assets grew by 18% to $1.18 billion; loans grew by 22% to $914 million and member deposits grew 17% to $1.06 billion. We had record earnings in 2022 with a net income of $17.74 million due largely in part to the sale of Concentra Bank by the credit union system. This helped bolster our capital position which supports our long-term sustainability. Our members continue to benefit from our Member Rewards program and received $1.8 million through rate discounts on loans and rate incentives on deposits.

The Board of Directors and Executive Management worked together to build a new three-year strategic plan that focuses on our unwavering commitment to rural Saskatchewan and doing our part to keep our communities vibrant and strong.

In closing, these results would not be possible without the support from you, our members. Thank you for your continued loyalty and belief in rural Saskatchewan. We would also like to thank the Board of Directors, management, and staff for your commitment and dedication in serving our members.

**Greg Hannay**
*Board Chair*

**Blair Wingert**
*Chief Executive Officer*

# Management Discussion and Analysis

The Management Discussion and Analysis (MD&A) is provided to help members understand and assess the current financial position and future direction of Prairie Centre Credit Union (2006) Ltd. (Prairie Centre) and is intended to be reviewed along with the consolidated financial statements.

As we look to the future, we are making assumptions which are subject to risk and uncertainties and create the possibility that our predictions and projections will not prove to be accurate. Therefore, readers are cautioned to not place undue reliance on these statements.

## Economic Overview

Although Prairie Centre Credit Union is focused on serving the needs of our members in Saskatchewan, the economic and business conditions beyond our trading area can impact Prairie Centre and our financial position. This includes national and international economic conditions as they influence currency and interest rates.

The Canadian dollar remained relatively flat in 2022, and the outlook for 2023 is for the dollar to continue to be weak, but stable when compared with the American dollar.

Interest rates rose rapidly in 2022, in stark contrast to the prolonged period of low stable interest rates. The interest rate forecast is for one further rate increase in 2023, as we grapple with high inflation worldwide with the end of economic stimulation programs by government during the pandemic. Interest rates are expected to decline when inflation is believed to be under control.

The Bank of Canada is engineering a slow-down in the economy to deal with inflation. The increase in interest rates causes debt servicing costs to increase, and consumers will need to curtail spending. As people face higher costs there is pressure on wages to increase, which is also fueled by a labour shortage as an increasing number of older workers retire.

As a country, the performance of our economy depends heavily on developments in the United States and other global economies. There is a potential for a global recession, or at the very least a slowdown in economic activity to deal with inflation, ongoing shocks related to the pandemic, and the war in Ukraine. The United States and Europe are expected to be most likely to experience recessionary pressures.

The Canadian economy has effectively had zero growth as inflationary forces hampered spending. The Canadian economy is projected to expand by 3% in 2023, however, given the gap in labour supply and other economic pressures, there is risk in this forecast.

An increase in prosperity in the energy and potash sectors has assisted Saskatchewan's economy. An overall increase in agriculture commodities and yields will also be a positive boost for our province. In most of our region there was persistent drought negatively affecting agriculture for another year, however we are optimistic for what 2023 will bring. Saskatchewan is poised to lead the country in growth due to diversity in our economy which will be good news for our province and Prairie Centre Credit Union.

## Financial Position

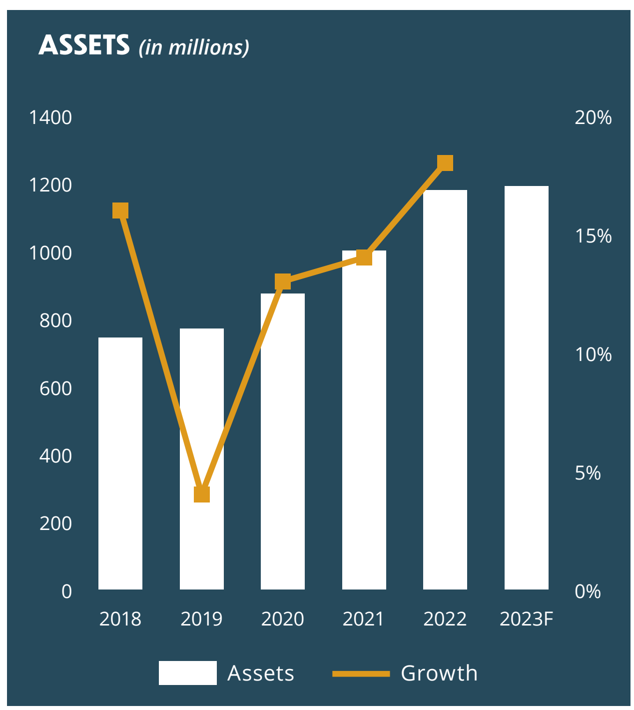
Prairie Centre is the 6th largest credit union in the province and operates independently in rural Saskatchewan. We welcomed LeRoy as a new branch through a merger on January 1, 2022. This has expanded our reach eastward and we are excited to have them with us! We now serve over 17,000 members and have 16 branch operations in the communities of Beechy, Delisle, Dinsmore, Eatonia, Elbow, Elrose, Eston, Harris, Herbert, Kyle, LeRoy, Loreburn, Morse, Outlook, Rosetown, and Spiritwood.

PCCU Insurance Ltd. is our general insurance subsidiary. We have offices in Elbow, Eston, Harris, Rosetown and in 2022 we purchased Kyle Agencies Inc. We offer a full line of products including home, auto, farm, hail, and commercial insurance. Our agency in Rosetown also offers Real Estate and Accounting services. Through acquisition of local companies, we are keeping these services in our communities while generating additional revenue for operations.

We have over 170 staff members working and living in the trading area who provide full financial services to our members with a focus on helping members meet their financial goals. We are committed to providing ongoing staff training and development sessions to improve our employees' skills which allows us to better assist and serve our members.

As the largest rural-based credit union in Saskatchewan, one of our main influences is the local farming economy. Farming was challenged in 2022 by drought conditions in most of our regions. The increase in commodity prices provided some relief for those farmers with product to sell. Our resilient members have adjusted and 2022 was a year of growth and expansion for Prairie Centre.

In 2022 our assets grew, and we reached just under $1.18 billion, growing from $1 billion the year prior; 18% growth. It was a challenging crop year in much of our region, so we are very pleased with these results given the current economic environment. Given the uncertain economic environment, we are forecasting flatter growth in the upcoming year, and expect to be at $1.19 billion in assets at the end of 2023.



Loans grew 22% during the year, increasing from $743 million to $914 million. Growing our loan portfolio along with deposit growth is a goal of the credit union and we are pleased with the progress. We are forecasting more modest growth in 2023, expecting loans to be $960 million at the end of the year.

Member deposits increased this year, and we achieved 17% growth, ending the year at $1.06 billion, up from $913 million the year before, which is attributed to growth from our LeRoy branch as well as additional deposits from our membership. Given the more challenging economic environment we believe deposits will grow slightly in the upcoming year to $1.07 billion.

As we are a full service financial institution, we offer brokerage and mutual fund accounts to help our members diversify their deposit holdings. Currently we administer additional deposits from members through our advisory services representatives. Our portfolio increased from $224 million in 2021, to $234 million at the end of 2022.

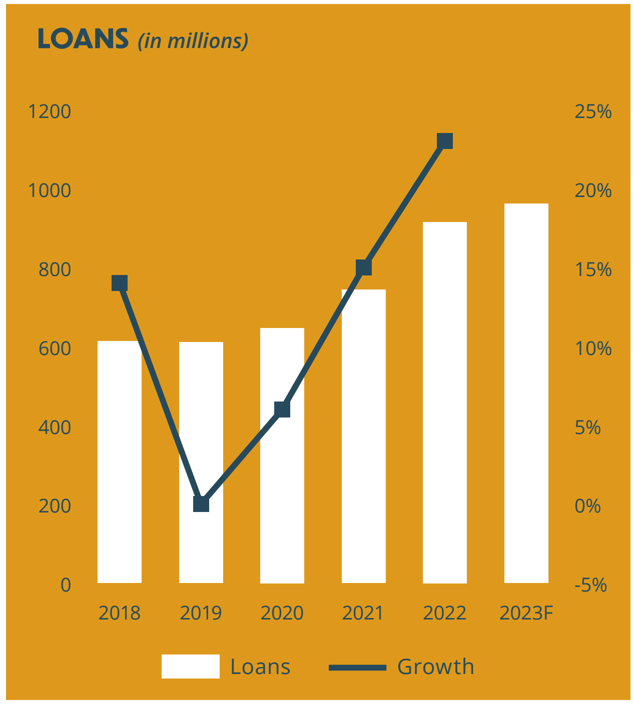
## Profitability and Efficiency

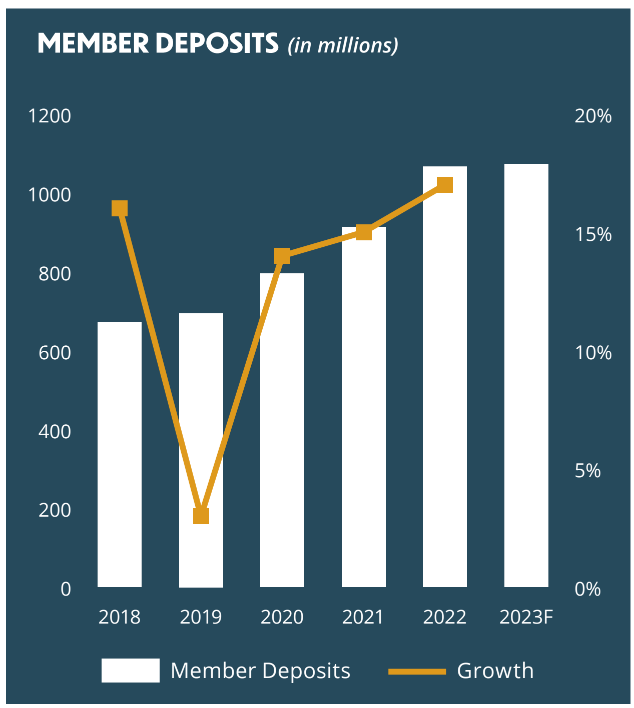
We build equity in the credit union through earning a profit and then retaining these earnings.

Our profit this year is vastly higher than previous years due to the sale of Concentra Bank to Equitable Bank. SaskCentral was a majority owner of Concentra Bank and proceeds of the sale were distributed by SaskCentral to Saskatchewan credit unions.

We ended 2022 with profit of $17.74 million, $6M from operations, and the remaining $11.7M is attributed to the sale of Concentra Bank.

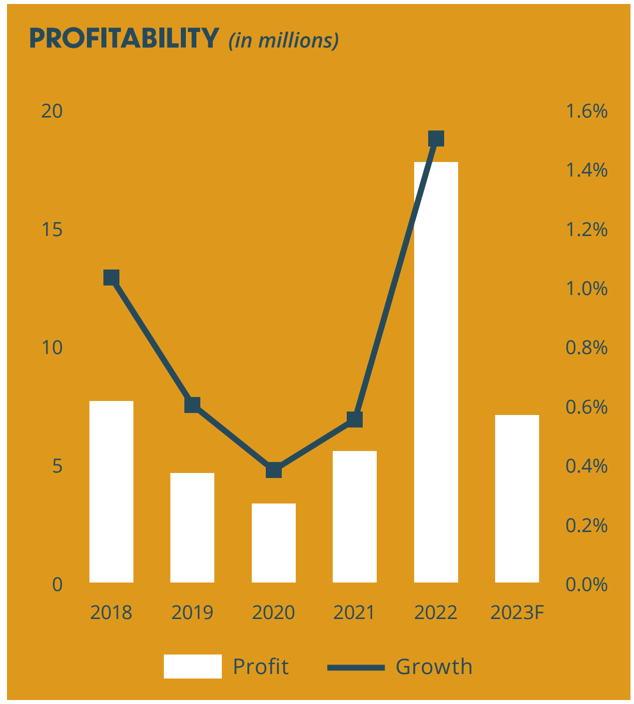
We are forecasting profit for 2023 to be $7 million which is a return on assets of 59 basis points, and comparable to prior year earnings when taking the sale of Concentra Bank into account.



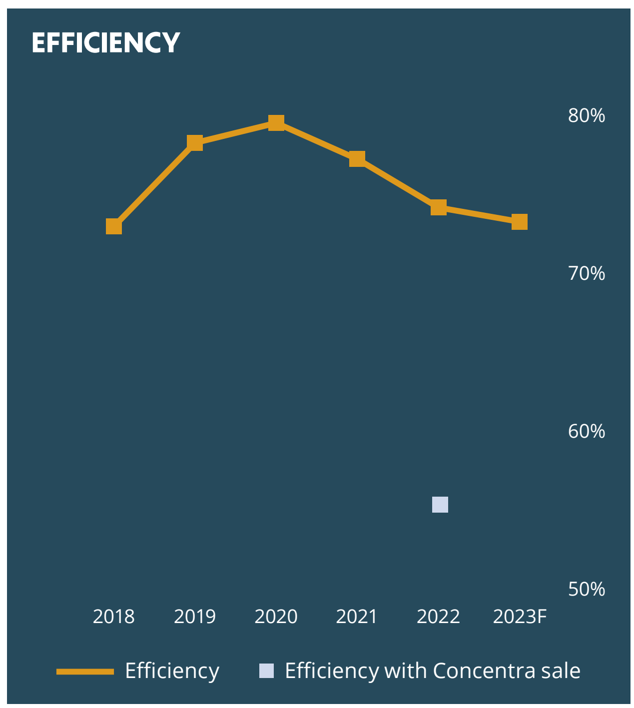
Beyond the dollars we earn, we watch our efficiency ratio closely as a measure of our profitability. The efficiency ratio is how much we spend to make a dollar, so a lower value indicates greater efficiency in operations.

In 2022 our efficiency ratio was 55.24% when you include proceeds of the sale of Concentra and 74.03% without these proceeds. This ratio is lower than the prior year of 76.75%. For 2023, we expect our efficiency ratio to be 73.13%. Our goal is to keep our efficiency ratio at a level that optimizes profitability while still providing quality service to our membership and continuing to invest into future operations.




## Capital Management

Worldwide, all financial institutions are tasked with building capital to ensure downturns in the economy can be withstood. Prairie Centre Credit Union builds capital through retaining our earnings. On our Consolidated Statement of Financial Position this is shown as Members' Equity.




The fundamental strength of a credit union is the level of capital it holds to protect against normal, anticipated, and unexpected business events. Our main objective remains to preserve and build equity and strengthen our capital position while growing our market share. It is our goal to provide our members with the best service possible and the products they require.

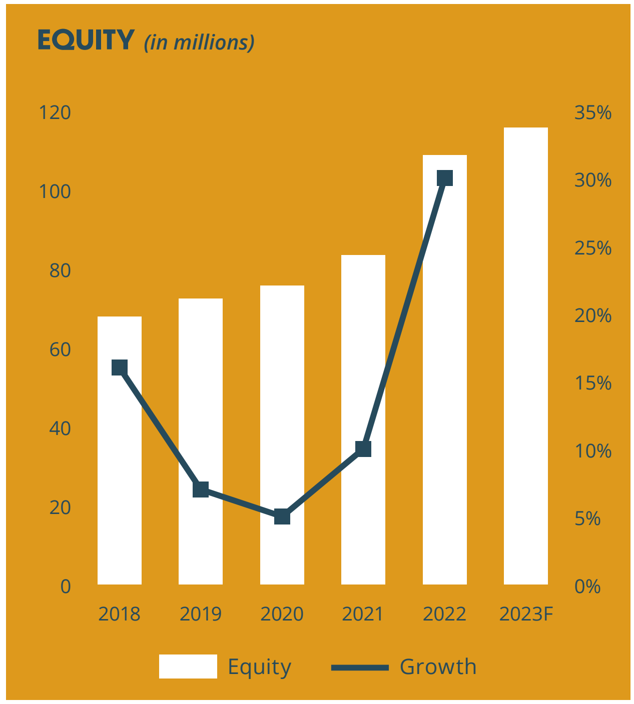
Credit unions operate in a highly regulated environment and the primary regulator is Credit Union Deposit Guarantee Corporation (the Corporation). The Corporation sets regulatory guidelines to which all Saskatchewan credit unions must adhere. To assess capital adequacy, the Corporation models standards adopted by financial institutions around the world, including Canadian banks. These standards continually evolve and promote the importance of a strong banking sector to withstand financial crisis.

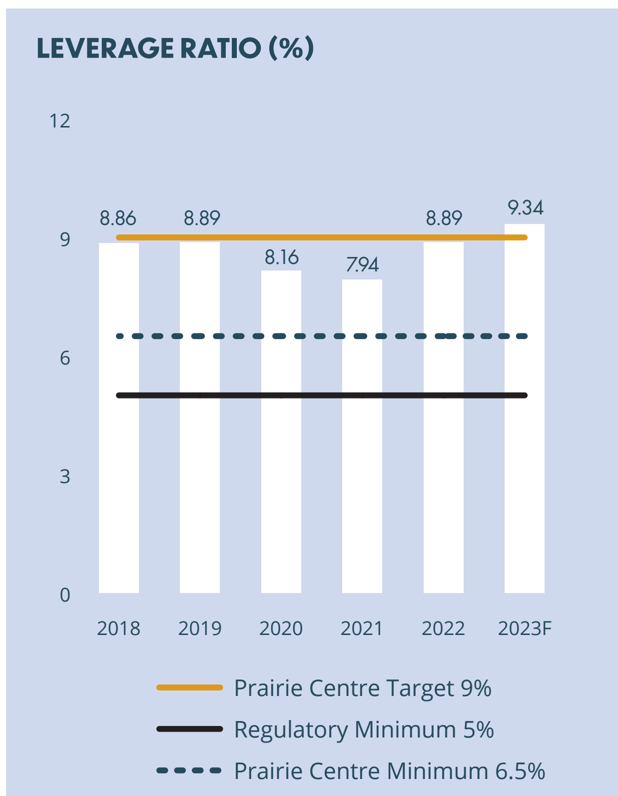
The Board of Directors and Executive Management believe in maintaining a strong capital position. Our Capital Management Framework sets guidelines for capital, and the need to assess capital adequacy through a formal process in accordance with the regulatory expectations. The goal of capital management is to achieve and exceed regulatory minimums, maintain an optimal level of capital, meet operational requirements, absorb unexpected losses, implement long term strategic plans, and signal financial strength.

As our capital is comprised of our retained earnings, Prairie Centre Credit Union relies on profitability to grow its capital position. The credit union retains its annual earnings to meet the capital requirements and maintain our independence. As the graph reveals, our retained earnings have been growing steadily, and our equity grew from $83.4 million at the end of 2021 to $108.7 million at the end of 2022. Looking ahead to 2023, we have budgeted equity to grow to $115.7 million.

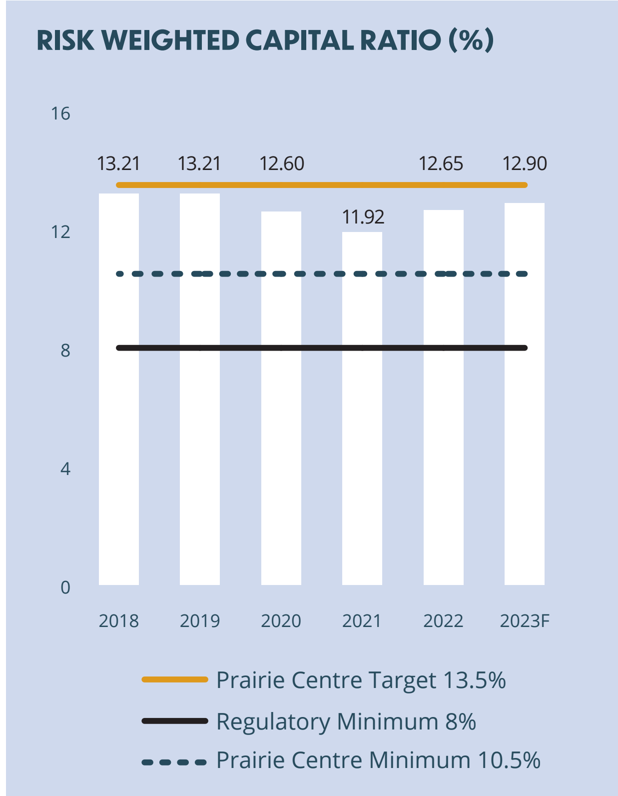
There are two main ratios used for measuring capital strength. The first is called the leverage test and this ratio divides eligible capital by leverage assets. The second measure is a risk-based capital test which compares eligible capital to risk weighted assets. Minimum and target measures are established in policy and regular reviews of capital requirements are completed.

The current regulatory requirement for the leverage ratio is 5.0%. Prairie Centre has established a minimum level for the leverage ratio of 6.5% and a long-term target level of 9.0%. We started the year at 7.94% and grew to 8.89% over 2022. The large increase was achieved through profitability. We expect the ratio to rise again in 2023 to 9.34% with continued profitability and lower growth predicted.



Credit unions assess capital requirements based on the risks and stressors faced by their individual operations using an Internal Capital Adequacy Assessment Process (ICAAP). ICAAP evaluates requirements for capital relative to strategic plans and the credit union's risk appetite. The assessment of risks with assigned capital requirements is a key tool in making strategic business decisions. Enterprise-wide stress testing and scenario analysis are also used to assess the impact of various stress conditions on our risk profile and capital requirements. We monitor our equity, profitability, and capital levels closely to ensure we continue to have adequate capital to continue our strategy to pursue mergers and acquisitions which will benefit the credit union in the long term. At the end of 2022, our ICAAP required level of capital is calculated to be 12.38%.




The Corporation's minimum ratio of eligible capital to risk weighted assets is 10.50% and this is our policy minimum for risk weighted capital. Our long-term target level has been set at 13.50% to ensure we have adequate capital relative to our risk profile. We completed 2022 with a ratio of 12.65%; increasing from 11.92% where we were the prior year-end. In 2023, we expect our risk weighted capital ratio to increase to 12.90%.

## Enterprise Risk Management

As a financial institution, Prairie Centre Credit Union is exposed to a variety of risks. Business strategies incorporate decisions regarding risk and how we will manage and mitigate risk. Managing and appropriately balancing risk with business opportunities is the top priority for the Board of Directors and Executive Management of Prairie Centre Credit Union.

Our risk philosophy is that we will take on a moderate amount of risk to generate adequate profitability to support our business growth, member commitment, and fulfill our capital plan, without exposing Prairie Centre to undue loss.

We have internal controls and compliance requirements that help us establish processes to mitigate risk. Internal and external audits are performed regularly to test the effectiveness of the controls. Our regulator also performs reviews of the organization.

Our primary risk offset is our capital position. An adequate amount of capital allows the Credit Union to absorb unexpected losses, implement long term strategic plans, and signal financial strength. As discussed earlier, we utilize a Capital Management Framework to assess capital adequacy and set targets for capital. Prairie Centre has a moderate level of capital and therefore takes a moderate approach to risk.

Prairie Centre utilizes an enterprise-wide risk management (ERM) system to identify, measure, and monitor risks which is detailed in an ERM Framework. The ERM Framework categorizes risks and explains how risk management functions at Prairie Centre. Through our governance structure, the Audit and Risk committee (ARCO) reviews audit reports and establishes the risk and compliance framework, reviewing controls at a high level.

The Board of Directors is responsible for approving the overall business strategies, understanding the major risks, setting acceptable risk tolerance, and defining risk appetite levels. Annually, the Board of Directors review the relevant risks faced by the credit union and approves an action plan set by Executive Management.

Executive Management is responsible for implementing strategies and policies approved by the Board, and for developing processes that identify, measure, monitor, and control risks. To achieve this objective, Executive Management undertakes continuous risk identification and engages management and staff in risk identification. For optimal risk management we establish sound policies and operational processes throughout the credit union. Annually, in conjunction with the business plan, Executive Management reviews emerging risks from planned activities, and from changes occurring in the marketplace. Required actions are built into the budget and business plan for the upcoming year.

All Prairie Centre employees incorporate risk management principles into the work and act as a risk manager, knowledgeable in how to manage risks inherent in their day-to-day activities.

**The following key risk categories form part of the Credit Union's overall Enterprise Risk Management system:**

## Strategic Risk

Strategic risk is the risk that business decisions or plans could be flawed, which will impact the ability of the credit union to meet objectives. To manage this risk, the credit union engages in formal planning processes, which result in a three-year strategic plan and the formulation of key strategic measurements annually as the business plan is established. The credit union uses a comprehensive reporting process to monitor performance relative to plans and provides regular updates to the Board of Directors. As described above, the ERM process further identifies emerging risks and formulates plans as risks are identified.

2022 marked the completion of our current strategic plan. We follow a three-year planning cycle that begins with input from our members garnered through surveys and feedback from staff. In 2022, the board and executive management held a strategic planning session and updated our vision, purpose statement, and values. Every year, Prairie Centre management develops operating plans and targets aligned with the strategic direction of the credit union.

## Market Risk

Market risk is the risk that the financial position or earnings will be adversely affected by changes in market conditions such as interest rates and foreign exchange rates. Prairie Centre's market risk primarily arises from movements in interest rates and is caused specifically from timing differences in the re-pricing of assets and liabilities. The credit union employs comprehensive management processes around our market exposures and risk-taking activities.

An Asset and Liability Committee (ALCO), comprised of Executive Management and our Vice President Finance, meet regularly to monitor present and potential exposure in the areas of interest rate risk, credit risk, operations risk, liquidity risk, and currency risk. ALCO reviews short-term and long-term interest rate trends and outlines the corrective action to control risk.

There is defined policy around numerous interest rate risk measures, which is then compared to our current and expected future situation through dynamic modeling. We also utilize income simulation for scenario and stress testing based on changes in interest rates. Further details on our interest rate sensitivity is provided in the financial statements.

Regular reporting of these risk measures and how they compare to credit union policy and industry standards is provided to the ALCO, ARCO, Board of Directors, and system regulators. We assess the need for mitigating activities and implement appropriate risk mitigating strategies where and when deemed necessary.

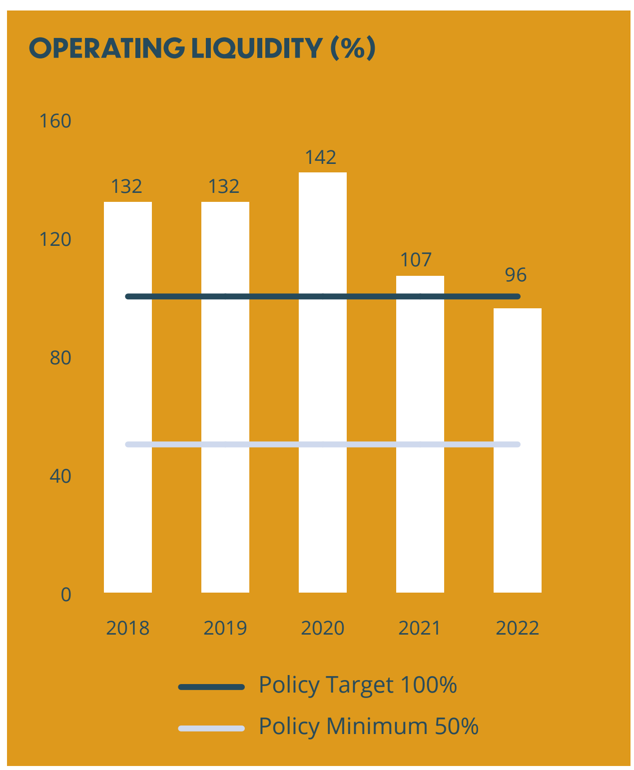
## Liquidity Risk

Liquidity is a measure of our ability to meet our financial obligations and our members' day to day cash needs and loan demands without incurring unacceptable losses. Adequate liquidity is dependent upon our ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or our financial condition.

The primary role of liquidity risk management is to proactively assess the need for funds to meet obligations and ensure the availability of cash or collateral to fulfill those needs at the appropriate time by coordinating the various sources of funds available to the institution under normal and stressed conditions.

We manage liquidity in accordance with our Liquidity Risk Management Framework. The credit union's framework outlines policy and regulatory requirements and includes strategies to maintain sufficient liquid resources to continually fund our commitments and respond to member demand. For our operating liquidity requirements, we hold a portfolio of liquid assets and have established borrowing facilities. Actual and anticipated inflows and outflows of funds are calculated daily to allow us to detect a potential liquidity event at the earliest possible stage. We also have a comprehensive liquidity crisis management plan to follow in the unlikely event that this occurs.

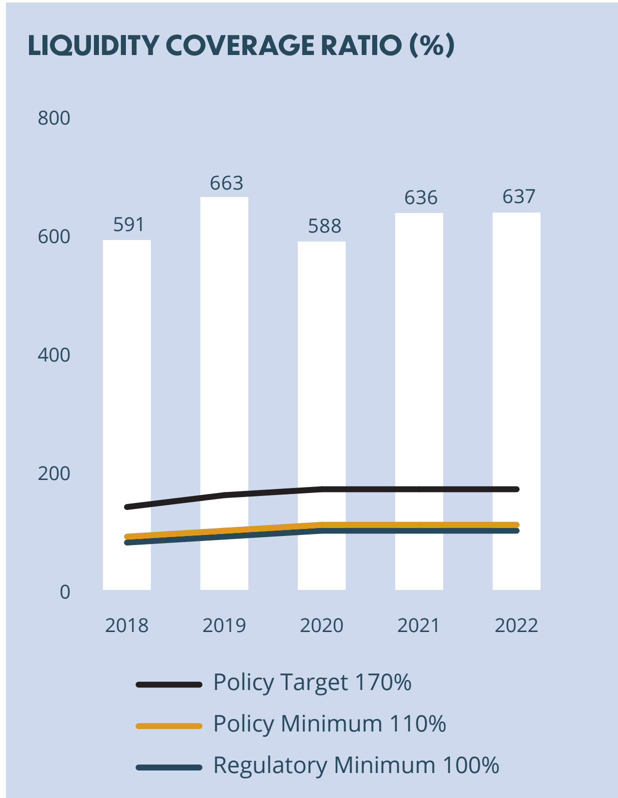
Our operating liquidity ratio is an internal measure which considers projected cash inflows as a percentage of projected cash outflows. Our Board of Directors has



defined our target as 100%, with a minimum level of 50%. Operating liquidity levels and policy requirements are provided with prior years included for comparative purposes.

We also evaluate liquidity using the liquidity coverage ratio (LCR), which assesses liquidity in a stressed situation, comparing the value of our high-quality liquid assets to potential net outflows. We have set policy requirements above the regulatory standard for the liquidity coverage ratio. The finance division provides quarterly liquidity reports to the ALCO who oversee liquidity risk exposure and management.

Our liquidity coverage ratio position, policy, and regulatory requirements are provided with prior years included for comparative purposes indicating we are well above required levels.




## Credit Risk

Credit risk originates primarily from our direct lending activities and syndicated loans (credit products purchased but not administered by Prairie Centre Credit Union) and, to a lesser extent, our holdings of investment securities. Credit risk is the risk of financial loss resulting from a borrower or counterparty's inability to meet its obligations.

Credit risk management focuses on underwriting and pricing loans according to their level of risk and ensuring the overall portfolio is well diversified. There are five parts to credit risk management including policy, credit granting, monitoring and exposure, portfolio management, and audit.

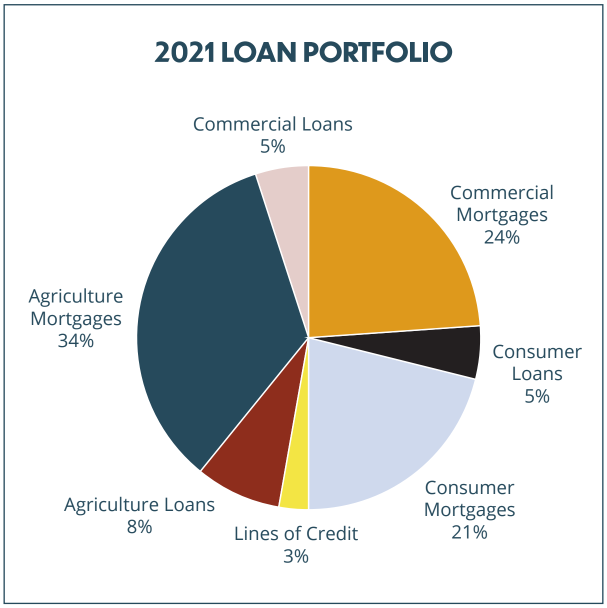
Lending practices are set by the Board of Directors in policy and put into practice through procedures as established by Executive Management. Credit granting is performed in accordance with approved policies, procedures, and applicable legislation. This includes credit analysis, pricing, terms, and documentation of loans. Consistent documentation is used by all Prairie Centre branches. Pricing parameters are in place to support lenders in pricing decisions and to ensure risk is being offset by rates while remaining competitive in the market.

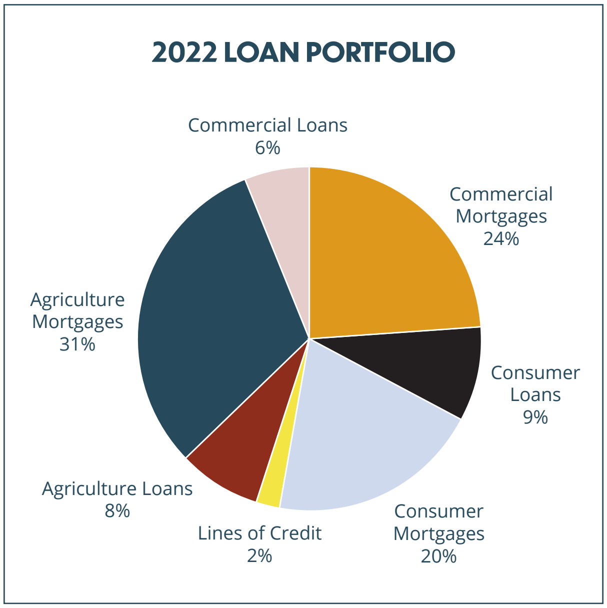
Concentration limits regarding industry and size of loans have been designed to reflect our risk tolerance. Credit risk is further mitigated through in-depth and ongoing training of lending personnel, independent adjudication of larger risk loan applications, and regular monitoring and reporting. Our level of impaired loans and our delinquency levels in 2022 rose from the prior year. We continue to work with our members and expect to see fewer impaired and delinquent loans in 2023.

Prairie Centre's credit portfolio and lending practices undergo regular and ongoing independent assessment through external audit, internal audit, and regulatory reviews. Reports are provided to management and to the Board of Directors through the ARCO.

The Credit Union monitors its exposure to potential credit losses and maintains both specific and collective loan allowances. Specific allowances are reviewed regularly by examining the individual loans and estimating the value we will receive versus the full carrying value. Our collective allowance is calculated by taking into consideration current economic conditions, historical losses, and delinquency in our loan portfolio. We also consider forward looking future information when establishing the value of the collective loan allowance. In 2022 we increased both specific and collective allowance values. Loans are presented in our consolidated financial statements at the net realizable value. A full breakdown of loans, delinquency, and allowances is found in the notes section of the consolidated financial statements.

The loan portfolio charts show the type of loans we hold. The prior year is provided for comparative purposes. As a rural based credit union, it is no surprise that the largest portion of our loan portfolio is made of up agriculture loans and mortgages.




To manage the risk associated with consumer mortgage lending we take a balanced approach to structuring the portfolio. We utilize both insured and uninsured mortgages in financing home purchases and provide lines of credit to members using home equity as security. Insured residential mortgages are mortgages whereby our exposure to default is mitigated by insurance through the Canada Mortgage and Housing Corporation (CMHC) or other private mortgage default insurers.

A breakdown of our residential mortgages is provided in the chart below and reveals just over $180 million, with 40% being insured and 60% being uninsured.

| Residential mortgages and home equity lines of credit (LOC) | | | | |
|---|---|---|---|---|
| | Insured | Uninsured | Home equity LOCs | Grand total |
| Total | $72,807,525 | $102,493,327 | $4,965,451 | $180,266,303 |

**Residential Mortgage Portfolio by Amortization Period**

Mortgages are repaid over a longer period. The following table provides a breakdown of the remaining amortization period of our mortgage portfolio by percentage of the outstanding amount for performing insured and uninsured mortgages.

| Remaining amortization period | % | Insured dollars | % | Uninsured dollars |
|---|---|---|---|---|
| Less than 10 years | 5.2% | $3,766,884 | 13.8% | $14,824,794 |
| 10 to 20 years | 52.7% | $38,384,746 | 44.3% | $47,614,429 |
| 20 to 25 years | 41.9% | $30,533,081 | 41.9% | $45,019,555 |
| Greater than 25 years | 0.2% | $122,814 | 0.0% | – |
| Total | 100% | $72,807,525 | 100% | $107,458,778 |

The portion of our residential mortgage portfolio that is insured has additional protection against credit risk. To reduce the risk on uninsured mortgages we require a larger down payment, resulting in a lower loan to value ratio. The following table provides the loan to value ratio for newly originated uninsured residential mortgages and home equity line of credits granted in 2022.

| Mortgage originated in 2022 | Loan to value |
|---|---|
| Uninsured mortgages | 66% |
| Home equity line of credit | 35% |

In the event of an economic downturn, the lower loan to value ratio provides a cushion of equity which incents homeowners to maintain payments and retain their property. To be conservative, we set loan to value ratio minimums based on the risk profile of the community we are lending in.

We monitor the total value of uninsured mortgages to a 20% reduction in house prices. Our exposure at the end of 2022 was minimal at 0.33% of the uninsured mortgage total.

## Legal and Regulatory Risk

Prairie Centre Credit Union operates in a heavily regulated and rules-based environment. Legal and regulatory risk arises from potential non-compliance with laws, rules, regulations, or ethical standards in the jurisdiction in which the organization operates.

All employees are accountable for compliance within the scope of their responsibilities and complete annual training to stay up to date on the requirements. Specialized departments are knowledgeable in the regulations that pertain to their areas. Our structure, policies, and procedures aid us in complying with laws and regulations. We utilize a Compliance Framework and assign responsibility of day-to-day management of all legal and regulatory requirements to Business Unit Compliance Officers (BUCOs). Reporting regarding compliance is completed by the BUCOs and sent to our risk department who monitor adherence to compliance requirements. Summarized reporting is provided to the Board of Directors. In addition, compliance is tested through reviews completed by internal and external audit as well as by our regulator.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, controls and systems, or from external events including the risk of fraud. Operational risk is inherent in all activities within the credit union. In 2022 we experienced a cyber incident. We were able to implement alternate systems to serve our members to minimize business interruption. Our members were patient, and we appreciate your flexibility during the year while we worked through the disruption.

Operational risk is managed using preventative measures including policies and procedures, controls, monitoring, and performing self-assessments to identify and assess risk exposures. Risk is managed through segregation of duties, employee training, performance management, and a structured internal audit program. We have a system to assess risk associated with our vendors as well.

The credit union mitigates operational risks through utilization of alert systems, business continuity planning, appropriate insurance coverage, and secure technology solutions. We have a dedicated technology department responsible for system security and functionality. As part of the restoration from the cyber incident we implemented additional security measures and ongoing testing and training.

## Summary

As we reflect on the past year, we are proud of the accomplishments of Prairie Centre Credit Union. While we continue to focus on serving the needs of our members, the economic and business conditions we face have an impact on Prairie Centre. Despite the challenges we encountered throughout the past year, we were still able to grow our organization, expand the service delivery provided to our members, and find efficiencies that could be reinvested back into our organization for the benefit of our member owners.

Thank you to our Board of Directors and staff for their commitment and hard work. We also want to acknowledge and show appreciation to our members for your continued support as our organization evolves. We look forward to meeting all your financial needs in the future.

# Corporate Governance

Corporate Governance is the system by which organizations are directed and controlled. Prairie Centre Credit Union operates within a comprehensive regulatory framework. We incorporate and establish bylaws as provided for under provincial legislation through The Credit Union Act, 1998. We are regulated by The Credit Union Deposit Guarantee Corporation. The Corporation sets out Standards of Sound Business Practice and provides regulatory guidance for all Saskatchewan credit unions. Within this framework, the Board of Directors are responsible for approving policy and setting the overall direction of the credit union, and management is responsible for operations.

Prairie Centre's philosophy on corporate governance is to practice transparency in operations and maintain a professional approach and accountability in dealing with our members. The credit union voluntarily adheres to a Market Code which consists of business conduct practices that ensure we maintain high standards of professionalism. Our focus is on maintaining the highest standards by conducting affairs ethically and lawfully and by sustaining a culture of integrity and professionalism. We treat all information as private and confidential, maintain reliable banking and payment systems, employ fair sales practices, and deal with any member complaints to ensure a satisfactory resolution.

Credit Unions are established as co-operative financial institutions and use the co-operative principles as guidelines for our values. Members elect a board of directors to look after their interests.

## Board of Directors

There are currently eleven independent members on the Board of Directors, representing the eight districts of Prairie Centre Credit Union. The functions of the Board include formulation of strategic business plans, setting up goals for evaluating the performance of the CEO, approving corporate mission, vision, and values, monitoring corporate performance against strategic business plans, ensuring compliance with laws and regulations, keeping members informed regarding plans, strategies, and performance of the credit union, and other important matters.

In acting in the best interests of the credit union and its members, the Board's actions adhere to the standards set out in The Credit Union Act, 1998; The Credit Union Regulations, 1999; the Standards of Sound Business Practice; Prairie Centre Credit Union's articles and bylaws, and all legislation applicable to credit unions.

During the financial year 2022, the Board of Directors held six regular meetings and had six special meetings. Our Directors place strong emphasis on learning and development and participate in training every year through the Credit Union Director Achievement (CUDA) training. We are proud to report that by the end of the first quarter of 2023, all Prairie Centre Board of Directors as well as the Executive Management team will have earned their Professional Director (Pro.Dir™) designation. This achievement demonstrates the commitment of the credit union having strong and effective governance practices. The Board and Executive team continue to participate in educational opportunities for their designation.

## Governance Investment

| Honorariums | Per Diems | Training | Travel | Office/Other Costs | Total |
|---|---|---|---|---|---|
| $9,900 | $102,183 | $91,272 | $13,633 | $12,790 | $229,778 |

For enhanced efficiency and effectiveness, well-appointed and structured committees are utilized. Each committee has a mandate outlining its purpose and responsibilities which enables a clear focus on specific areas of activity vital to the effective governance of our credit union. Prairie Centre Credit Union has the following board committees:

## Governance Committee

The Governance Committee is comprised of the Chair and three Vice Chairs of the Board. Duties related to governance are to set and maintain effective governance guidelines, ensure the performance and succession of the CEO, and ensure compliance with all policies and Prairie Centre Credit Union bylaws. This committee held two meetings in 2022 and acts as the Nominations Committee.

## Audit and Risk Committee

Five Directors serve on the Audit and Risk Committee; they met four times in 2022. The purpose of the Audit and Risk Committee is to oversee the financial reporting process, review financial statements, liaise with internal and external auditors and regulators, and review internal control procedures at a high level. The committee also ensures the Enterprise Risk Management framework is reviewed, oversees the identification, measurement, and development of strategies to manage risks, and oversees compliance with legal and regulatory requirements.

## Conduct Review Committee

The Conduct Review Committee is comprised of five Directors; they met once during 2022. The purpose of the Conduct Review Committee is to ensure that all proposed related party transactions with the credit union are deemed fair to the credit union and that best judgment is exercised in all matters of related party relationships.

## Human Resources Committee

The Human Resources Committee is accountable to make recommendations for consideration by the Board of Directors for all human resources planning, and the total compensation system of the credit union. Five Directors serve on this committee; they met two times in 2022.

## Member Engagement Committee

This committee is made up of four Board members and was established to generate ways to stimulate member involvement in the credit union such as increasing attendance at the annual general meetings, becoming a director, and recognition of the co-operative difference in having membership in their financial institution. The committee met once in 2022.

# Board of Directors

### Greg Hannay, PRO.DIR
*Board Chair*
**Representative of District #2**

Elected to the Prairie Centre Board of Directors in 2009. Retired Farmer/ Seed Cleaning Plant Owner. Chair of the Governance Committee. Sits on the Audit & Risk Committee and the Conduct Review. Director of PCCU Insurance Ltd.

*2022 Meeting Attendance - 86%*

### Keith Collins, DIP. AG., PRO.DIR
*1st Vice Chair*
**Representative of District #1**

Elected to the Prairie Centre Board of Directors in 2009. Farmer. Sits on the Audit and Risk Committee, Conduct Review Committee and Governance Committee.

*2022 Meeting Attendance - 79%*

### John Kutz, DIP. AG., PRO.DIR
*2nd Vice Chair*
**Representative of District #3**

Elected to the Prairie Centre Board of Directors in 2011. Farmer. Sits on the Audit and Risk Committee, Conduct Review Committee, and Governance Committee.

*2022 Meeting Attendance - 89%*

### Evan Sjovold, B.SC.(AG), PRO.DIR
*3rd Vice Chair*
**Representative of District #4**

Elected to the Prairie Centre Board of Directors in 2005. Farmer. Sits on the Governance Committee. Chair of the Audit and Risk Committee, Conduct Review Committee.

*2022 Meeting Attendance - 100%*

### Jason Gaboury
**Representative of District #8**

Appointed to the Prairie Centre Board of Directors in 2018. Farmer/ Rancher. Sits on the Member Engagement Committee.

*2022 Meeting Attendance - 86%*

### Kami Holowachuk, DIP. BA.
**Representative of District #7**

Appointed to Prairie Centre Board of Directors in 2022. Postmaster. Sits on the Member Engagement Committee.

*2022 Meeting Attendance - 100%*

### Randy Kelly, B.SC.(AG)
**Representative of District #2**

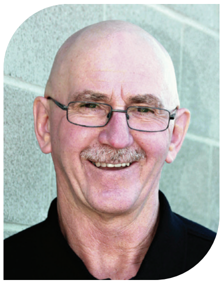
Elected to the Prairie Centre Board of Directors in 2019. Farmer. Sits on the Human Resources Committee and Member Engagement Committee.

*2022 Meeting Attendance - 88%*

### Norman McIntyre, DIP. AG., BAC PRO.DIR
**Representative of District #3**

Elected to the Prairie Centre Board of Directors in 2020. Farmer. Sits on the Audit and Risk Committee, Conduct Review Committee.

*2022 Meeting Attendance - 88%*



**Wayne Pauls,**
**Representative of District #6**

Appointed to the Prairie Centre Board of Directors in 2018. Retired. Sits on the Human Resources Committee.

*2022 Meeting Attendance - 100%*

**Karen Sinclair,** PRO.DIR
**Representative of District #8**

Elected to the Prairie Centre Board of Directors in 2010. Retired. Chair of the Human Resources Committee.

*2022 Meeting Attendance - 100%*

**Heather Wilson-Gerbrandt,**
BA, TEFL, PRO.DIR
**Representative of District #5**

Appointed to the Prairie Centre Board of Directors in 2016. Educational Assistant/Rancher. Sits on the Human Resources Committee, Chair of the Member Engagement Committee.

*2022 Meeting Attendance - 100%*

# Executive Team

**Blair Wingert,** *Chief Executive Officer*

In his role as Chief Executive Officer (CEO), Blair provides leadership and strategic direction of Prairie Centre's vision, purpose, and values, along with overseeing the overall credit union operations. Blair has 20 years of experience in the financial services industry focused on providing an exceptional member experience while driving organizational results. Joining Prairie Centre Credit Union in 2014 as the Chief Credit Officer and transitioning to the Chief Operating Officer in 2018, Blair has led the retail team to achieve great results. Blair has been a strong leader within Prairie Centre and the communities we serve. As part of the Executive Management team, Blair serves as a member of the board of directors for our subsidiary PCCU Insurance Ltd. Blair has a Bachelor of Commerce degree, Certified Chief Executive (CCE) designation and an Associate of the Credit Union Institute of Canada (ACUIC). In 2016, Blair completed the Brown Governance Professional Director Certification Program and earned the Professional Director (Pro.Dir™) designation.

**Jillian Carlson,** *Chief Business Officer*

As Chief Business Officer (CBO), Jill oversees the business activities of the Wealth Management Division and PCCU Insurance Ltd. including PCCU Accounting and PCCU Real Estate. Jill provides leadership and implements the strategic plan for both areas of focus. With a passion for delivering exceptional member service, Jill strives to grow and expand our service offering in the communities we serve and surrounding areas. Starting at Prairie Centre Credit Union in 2011, Jill has over 20 years of experience in the financial services industry in both a retail and management capacity. Jill has a Bachelor of Science in Agriculture, Professional Financial Planning designation and is Certified Professional Consultant on Aging.

As part of the Executive Management team, Jill serves as the CEO and a director of PCCU Insurance Ltd.

### **Lesley Carlson,** *Chief Financial Officer*

Lesley is in charge of overseeing the operations of the Finance, Accounting, and Risk Divisions. In the area of finance and accounting, this includes preparation of financial statements, forecasting, asset and liability management, as well as capital and liquidity management to ensure Prairie Centre is at the forefront of emerging requirements for prudent financial oversight and control. In the risk division, this includes responsibility for the Enterprise Risk Management, Privacy and Compliance functions to ensure Prairie Centre has sound risk management practices and operates within regulatory and industry requirements while keeping member service top of mind. As part of the Executive Management team, Lesley serves as a member of the board of directors for our subsidiary PCCU Insurance Ltd.

Lesley has been with Prairie Centre Credit Union since 1989 and has worked in frontline and management positions in each area of operations during her 38 years with credit unions. Lesley is a Certified Financial Planner, has completed the Associate Credit Union Institute of Canada (ACUIC) Designation with honours, and holds a Bachelor of Management Degree with Distinction. In 2016 she earned the Professional Director (Pro.Dir™) designation, and in 2018 she completed the Certified Chief Executive designation through the Credit Union Executive Society.

### **Adam Johb,** *Chief Operating Officer*

In his role as Chief Operating Officer (COO), Adam oversees the business activities in all 16 branches. Adam provides leadership and strategic execution of Prairie Centre's credit management, loan quality, and overall retail administration. With a commitment to member service, Adam drives product and service development initiatives relating to retail operations. As part of the Executive Management team, Adam serves as a member of the board of directors for our subsidiary PCCU Insurance Ltd. Starting at Prairie Centre Credit Union in 2020, Adam has over 17 years of experience in the credit union system, all of which have been in rural Saskatchewan. His experience has involved leading people, managing branches as well as projects. Adam has served as Co-Chair of the Saskatchewan Young Leaders Committee.

### **Michelle MacDonald,** *Chief Information Officer*

As Chief Information Officer (CIO), Michelle leads the Facilities, Information Technology, Projects, and Marketing Departments, and supports Governance for Prairie Centre. As part of the Executive Management team, Michelle serves as a member of the board of directors for our subsidiary PCCU Insurance Ltd. She holds her Master of Arts in Leadership, Bachelor of Commerce in Finance, certificates in municipal governance, and other leadership and management training courses. Michelle joined the Credit Union on the retail team in 2018, bringing with her leadership and executive management experience in areas such as municipal governance, post-secondary education, digital, marketing, project management, and communications. Bringing a commitment to service and connection, Michelle promotes innovation, lifelong learning, and shared purpose amongst her team. She holds a seat on the University of Saskatchewan Senate and volunteers with various organizations in her home community of Eston. Michelle brings a passion for people, change management, innovation, service, and community to everything she does.

# Auditor’s Report

## Report of the Independent Auditor on the Summary Consolidated Financial Statements

To the Members of Prairie Centre Credit Union (2006) Ltd.:

### Opinion

The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2022, and the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the related note, are derived from the audited consolidated financial statements of Prairie Centre Credit Union (2006) Ltd. (the “Credit Union”) for the year ended December 31, 2022.

In our opinion, the accompanying summary consolidated financial statements are a fair summary of the audited consolidated financial statements, in accordance with the basis described in Note 1.

### Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements and the auditor’s report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor’s report thereon.

### The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated March 15, 2023.

### Management’s Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of the summary consolidated financial statements in accordance with the basis described in Note 1.

### Auditor’s Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards (CAS) 810, Engagements to Report on Summary Financial Statements.

MNP LLP

Saskatoon, Saskatchewan
March 15, 2023

Chartered Professional Accountants

# Summary Consolidated Statement of Financial Position

| As at December 31 | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ **124,321,686** | $ 106,856,745 |
| Investments | **108,385,412** | 131,333,106 |
| Member loans receivable | **914,443,112** | 742,755,801 |
| Other assets | **14,963,526** | 1,400,963 |
| Property, plant and equipment | **13,123,247** | 13,542,541 |
| Intangible assets | **4,623,584** | 4,427,475 |
| | $ **1,179,860,567** | $ 1,000,316,631 |
| **Liabilities** | | |
| Member deposits | $ **1,065,732,940** | $ 912,858,246 |
| Other liabilities | **5,361,176** | 3,952,795 |
| Membership shares | **85,920** | 77,690 |
| | **1,071,180,036** | 916,888,731 |
| **Members' equity** | | |
| Retained earnings | **98,970,073** | 81,234,633 |
| Contributed surplus | **9,710,458** | 2,193,267 |
| | **108,680,531** | 83,427,900 |
| | $ **1,179,860,567** | $ 1,000,316,631 |

*A full set of audited consolidated financial statements is available from the Credit Union*

**Approved on behalf of the Board**

**Board President, Greg Hannay**

**Audit & Risk Committee Chair, Evan Sjovold**

# Summary Consolidated Statement of Comprehensive Income

| For the Year Ended December 31 | 2022 | 2021 |
|---|---|---|
| Interest income | $ **51,001,760** | $ 29,243,202 |
| Interest expense | **12,345,690** | 7,897,493 |
| Gross financial margin | **38,656,070** | 21,345,709 |
| Other income | **7,546,552** | 6,562,271 |
| Net interest and other income | **46,202,622** | 27,907,980 |
| Operating expenses | **25,161,671** | 21,205,345 |
| Income before provision for (recovery of) impaired loans and provision for income taxes | **21,040,951** | 6,702,635 |
| Provision for (recovery of) impaired loans | **941,428** | (898,128) |
| Income before provision for income taxes | **20,099,523** | 7,600,763 |
| Provision for income taxes | **2,364,083** | 2,059,075 |
| Comprehensive income | $ **17,735,440** | $ 5,541,688 |

*A full set of audited consolidated financial statements is available from the Credit Union*

# Summary Consolidated Statement of Changes in Members' Equity

For the Year Ended December 31

| | Contributed Surplus | Retained Earnings | Total |
|---|---|---|---|
| Balance, December 31, 2020 | $ 6,104,023 | 69,588,922 | 75,692,945 |
| Comprehensive income | – | 5,541,688 | 5,541,688 |
| Transfer from contributed surplus to retained earnings | (6,104,023) | 6,104,023 | – |
| Contributed surplus resulting from business combination | 2,193,267 | – | 2,193,267 |
| Balance, December 31, 2021 | 2,193,267 | 81,234,633 | 83,427,900 |
| **Comprehensive income** | **–** | **17,735,440** | **17,735,440** |
| **Contributed surplus resulting from business combination** | **7,517,191** | **–** | **7,517,191** |
| **Balance, December 31, 2022** | **$ 9,710,458** | **$ 98,970,073** | **$ 108,680,531** |

*A full set of audited consolidated financial statements is available from the Credit Union*

# Summary Consolidated Statement of Cash Flows

| For the Year Ended December 31 | 2022 | 2021 |
|---|---|---|
| Cash flows provided by (used for) the following activities: | | |
| Operating activities | $ 6,219,296 | $ 7,346,850 |
| Financing activities | 18,026,373 | 94,216,619 |
| Investing activities | (6,780,728) | (76,307,907) |
| Increase in cash and cash equivalents | 17,464,941 | 25,255,562 |
| Cash and cash equivalents, beginning of year | 106,856,745 | 81,601,183 |
| Cash and cash equivalents, end of year | $ 124,321,686 | $ 106,856,745 |

*A full set of audited consolidated financial statements is available from the Credit Union*

# Note to the Summary Consolidated Financial Statements

## For the Year Ended December 31, 2022

### 1. Basis of the Summary Consolidated Financial Statements

Management has prepared the summary consolidated financial statements from the December 31, 2022 audited consolidated financial statements, which are prepared in conformity with International Financial Reporting Standards. A full set of audited consolidated financial statements is available from the Credit Union. The detailed notes included in the audited consolidated financial statements are not included in these summary consolidated financial statements.

The criteria developed by management for the preparation of the summary consolidated financial statements is as follows: that the information included in the summary consolidated financial statements is in agreement with the related information in the consolidated financial statements, and that the summary consolidated financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related complete consolidated financial statements, including the notes thereto, in all material respects.

# Prairie Centre Credit Union (2006) Ltd.

## Consolidated Financial Statements

*December 31, 2022*

# Contents

*For the year ended December 31, 2022*

## Management's Responsibility

To the Members of Prairie Centre Credit Union (2006) Ltd.:

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

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

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

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

March 15, 2023

Chief Executive Officer, Blair Wingert

LCarlson

Chief Financial Officer, Lesley Carlson

To the Members of Prairie Centre Credit Union (2006) Ltd.:

## Opinion

We have audited the consolidated financial statements of Prairie Centre Credit Union (2006) Ltd. and its subsidiaries (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## 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 Consolidated Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

**MNP LLP**
119 4th Ave South, Suite 800, Saskatoon SK, S7K 5X2 1 (877) 500-0778 T: (306) 665-6766 F: (306) 665-9910

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 consolidated 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Saskatoon, Saskatchewan

MNP LLP

March 15, 2023

Chartered Professional Accountants

# Prairie Centre Credit Union (2006) Ltd.
## Consolidated Statement of Financial Position
*As at December 31, 2022*

| | **2022** | *2021* |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents *(Note 5)* | **124,321,686** | 106,856,745 |
| Investments *(Note 6)* | **108,385,412** | 131,333,106 |
| Member loans receivable *(Note 7)* | **914,443,112** | 742,755,801 |
| Other assets *(Note 8)* | **14,963,526** | 1,400,963 |
| Property, plant and equipment *(Note 9)* | **13,123,247** | 13,542,541 |
| Intangible assets *(Note 10)* | **4,623,584** | 4,427,475 |
| | **1,179,860,567** | 1,000,316,631 |
| **Liabilities** | | |
| Member deposits *(Note 12)* | **1,065,732,940** | 912,858,246 |
| Other liabilities *(Note 14)* | **5,361,176** | 3,952,795 |
| Membership shares *(Note 15)* | **85,920** | 77,690 |
| | **1,071,180,036** | 916,888,731 |
| **Commitments** *(Note 18), (Note 20)* | | |
| **Members' equity** | | |
| Retained earnings | **98,970,073** | 81,234,633 |
| Contributed surplus | **9,710,458** | 2,193,267 |
| | **108,680,531** | 83,427,900 |
| | **1,179,860,567** | 1,000,316,631 |

**Approved on behalf of the Board**

**Board President, Greg Hannay**

**Audit & Risk Committee Chair, Evan Sjovold**

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

# Prairie Centre Credit Union (2006) Ltd.
## Consolidated Statement of Comprehensive Income
*For the year ended December 31, 2022*

| | ***2022*** | *2021* |
|---|---|---|
| **Interest income** | | |
| Member loans | **35,174,892** | 27,283,541 |
| Investments | **4,110,297** | 1,959,661 |
| Investments - SaskCentral dividends | **11,716,571** | - |
| | **51,001,760** | 29,243,202 |
| **Interest expense** | | |
| Member deposits | **12,267,079** | 7,894,451 |
| Borrowed money | **78,611** | 3,042 |
| | **12,345,690** | 7,897,493 |
| **Gross financial margin** | **38,656,070** | 21,345,709 |
| **Other income** | **7,546,552** | 6,562,271 |
| | **46,202,622** | 27,907,980 |
| **Operating expenses** | | |
| Personnel | **14,703,469** | 12,330,574 |
| Security | **961,957** | 752,184 |
| Organizational | **360,143** | 247,736 |
| Occupancy | **1,782,126** | 1,602,727 |
| General business | **7,353,976** | 6,272,124 |
| | **25,161,671** | 21,205,345 |
| **Income before provision for (recovery of) impaired loans and provision for (recovery of) income taxes** | **21,040,951** | 6,702,635 |
| **Provision for (recovery of) impaired loans** *(Note 7)* | **941,428** | (898,128) |
| **Income before provision for (recovery of) income taxes** | **20,099,523** | 7,600,763 |
| **Provision for (recovery of) income taxes** *(Note 13)* | | |
| Current | **2,506,202** | 1,793,904 |
| Deferred | **(142,119)** | 265,171 |
| | **2,364,083** | 2,059,075 |
| **Comprehensive income** | **17,735,440** | 5,541,688 |

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

# Prairie Centre Credit Union (2006) Ltd.
## Consolidated Statement of Changes in Members' Equity
*For the year ended December 31, 2022*

| | *Contributed surplus* | *Retained earnings* | *Total equity* |
|---|---|---|---|
| **Balance December 31, 2020** | **6,104,023** | **69,588,922** | **75,692,945** |
| Comprehensive income | **-** | **5,541,688** | **5,541,688** |
| Transfer from contributed surplus to retained earnings | **(6,104,023)** | **6,104,023** | **-** |
| Contributed surplus resulting from business combination | **2,193,267** | **-** | **2,193,267** |
| **Balance December 31, 2021** | **2,193,267** | **81,234,633** | **83,427,900** |
| Comprehensive income | **-** | **17,735,440** | **17,735,440** |
| Contributed surplus resulting from business combination *(Note 24)* | **7,517,191** | **-** | **7,517,191** |
| **Balance December 31, 2022** | **9,710,458** | **98,970,073** | **108,680,531** |

# Prairie Centre Credit Union (2006) Ltd.
## Consolidated Statement of Cash Flows
*For the year ended December 31, 2022*

| | ***2022*** | *2021* |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Interest received from member loans | **34,010,056** | 27,455,363 |
| Interest received from investments | **4,018,919** | 1,913,624 |
| Other income | **7,546,552** | 6,562,271 |
| Cash paid to suppliers and employees | **(24,609,697)** | (19,199,993) |
| Interest paid on deposits | **(12,036,185)** | (8,092,002) |
| Interest paid on borrowings | **(78,611)** | (3,042) |
| Income taxes paid | **(2,631,738)** | (1,289,371) |
| | **6,219,296** | 7,346,850 |
| **Financing activities** | | |
| Net change in member deposits | **18,052,893** | 94,220,184 |
| Net change in membership shares | **(26,520)** | (3,565) |
| | **18,026,373** | 94,216,619 |
| **Investing activities** | | |
| Net change in member loans receivable | **(87,902,185)** | (81,627,053) |
| Net change in investments | **60,605,387** | (5,559,998) |
| Purchases of property, plant and equipment | **(486,502)** | (678,983) |
| Proceeds from disposal of property, plant and equipment | **11,429** | 28,310 |
| Purchases of intangible assets | **(373,040)** | - |
| Cash received from business combinations | **21,364,183** | 11,529,817 |
| | **(6,780,728)** | (76,307,907) |
| **Increase in cash and cash equivalents** | **17,464,941** | 25,255,562 |
| **Cash and cash equivalents, beginning of year** | **106,856,745** | 81,601,183 |
| **Cash and cash equivalents, end of year** | **124,321,686** | 106,856,745 |

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

## 1. Reporting entity

Prairie Centre Credit Union (2006) Ltd. (the "Credit Union") was formed pursuant to the *Credit Union Act 1998* of Saskatchewan ("the Act") and operates sixteen Credit Union branches.

The Credit Union serves members and non-members in Beechy, Delisle, Dinsmore, Eatonia, Elbow, Elrose, Eston, Harris, Herbert, Kyle, LeRoy, Loreburn, Morse, Outlook, Rosetown, Spiritwood and the surrounding communities. The address of the Credit Union's registered office is P.O. Box 940, Rosetown, Saskatchewan.

The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2022 comprise the Credit Union and its wholly owned subsidiaries Dinsmore Financial Ltd., 102125001 Saskatchewan Ltd. and PCCU Insurance Ltd., and PCCU Accounting Ltd., PCCU Real Estate Ltd., and Kyle Agencies Inc., all three of which are wholly owned subsidiaries of PCCU Insurance Ltd. Together, these entities are referred to as the Credit Union.

The Credit Union operates as one segment principally in personal and commercial banking in Saskatchewan. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of members, and the nature of the regulatory environment.

The Credit Union conducts its principal operations through various branches, offering products and services including deposit business, insurance services, individual lending, and independent business and commercial lending. The deposit business provides a wide range of deposit and investment products and sundry financial services to all members. The lending business provides a variety of credit products and services designed specifically for each particular group of borrowers. Other business comprises business of a corporate nature such as insurance, accounting, investment, risk management, asset liability management, treasury operations, and revenue and expenses not expressly attributed to the business units.

### *Statement of compliance*

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

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 15, 2023.

## 2. Change in accounting policies

### *Standards and Interpretations effective in the current period*

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

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

## 3. Basis of preparation

### *Basis of measurement*

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

### *Functional and presentation currency*

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

**3. Basis of preparation** *(Continued from previous page)*

***Significant accounting judgments, estimates and assumptions***

The preparation of the Credit Union's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

***Macroeconomic environment***

The Credit Union continues to operate in an uncertain macroeconomic environment. There is inherent uncertainty in estimating the impacts that rising interest rates, inflation and supply chain disruptions, in part caused by some countries attempts to combat the spread of COVID-19, will have on the macroeconomic environment. As a result, a heightened level of judgment in estimating expected credit losses ("ECL's") continues to be required.

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

By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

***Classification of financial assets***

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

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

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

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

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

**3. Basis of preparation** *(Continued from previous page)*

***Key assumptions in determining the allowance for expected credit losses*** *(Continued from previous page)*

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

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options and demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money
- Effects of the economic changes, such as inflation and rising interest rates, on specific sectors to which the Credit Union has credit exposures

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

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

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

***Fair value of unquoted equity instruments***

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

***Impairment of non-financial assets***

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

***Deferred taxes***

The calculation of deferred tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of consolidated financial statement preparation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future years could be material. Further details are in Note 13.

## 3. Basis of preparation *(Continued from previous page)*

***Income taxes***

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

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

Estimates must be utilized in evaluating the useful lives of all property, plant and equipment and intangible assets for calculation of the depreciation and amortization for each class of assets. For further discussion of the estimation of useful lives, refer to the headings property, plant and equipment and intangible assets contained in Note 4.

## 4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiaries.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, are considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses, or income and expenses arising from intra-company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

***Foreign currency translation***

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

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

***Revenue recognition***

The following describes the Credit Union's principal activities from which it generates revenue.

**4. Summary of significant accounting policies** *(Continued from previous page)*

**Service charge fees, commission and other revenue**

The Credit Union generates revenue from providing various financing and investing services to its members. Revenue is recognized as services are rendered.

The Credit Union does not have an enforceable right to payment until services are rendered and commission revenue earned when the products are sold.

The amount of revenue recognized on these transactions is based on the price specified in the contract.

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

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

***Financial instruments***

***Financial assets***

**Recognition and initial measurement**

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

**Classification and subsequent measurement**

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

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, SaskCentral and Concentra Bank deposits, deposit instruments, member loans receivable and accrued interest thereon, and accounts receivable balances.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.

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

**4. Summary of significant accounting policies** *(Continued from previous page)*

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of other equity instruments and SaskCentral and Concentra Bank shares.

*Business model assessment*

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

*Contractual cash flow assessment*

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

**Reclassifications**

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

**Impairment**

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments, as well as lease receivables, contract assets, and any financial guarantee contracts and loan commitments not measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For member loans receivable the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for accounts receivable that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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

**4. Summary of significant accounting policies** *(Continued from previous page)*

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

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

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

Refer to Note 18 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

**Derecognition of financial assets**

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

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

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

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

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

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss. Such transactions include syndications of member loans.

**Modification of financial assets**

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

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

**4. Summary of significant accounting policies** *(Continued from previous page)*

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

***Financial liabilities***

**Recognition and initial measurement**

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

**Classification and subsequent measurement**

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

**Derecognition of financial liabilities**

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

**Derivatives**

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

**Dividend income**

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

**Interest**

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

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

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

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

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

**Offsetting**

Financial assets and financial liabilities are offset, with the net amount presented in the consolidated statement of financial position, when, and only when, the Credit Union has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

**4. Summary of significant accounting policies** *(Continued from previous page)*

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material.

**Collateral**

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

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

***Cash and cash equivalents***

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

***Investments***

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

**SaskCentral and Concentra Bank deposits and shares**

SaskCentral and Concentra Bank deposits are measured at amortized cost. Shares are measured at fair value, with adjustments to fair value recognized in profit or loss.

***Impairment of non-financial assets***

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in comprehensive income.

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

**4. Summary of significant accounting policies** *(Continued from previous page)*

***Syndication***

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

***Foreclosed assets***

Foreclosed assets held for sale are initially recorded at the lower of cost and fair value less costs to sell. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell. Foreclosed assets are recorded in member loans receivable as outlined in Note 7.

***Property, plant and equipment***

Property, plant, and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items of property, plant, and equipment.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is available for use.

The depreciation rates applicable for each class of asset during the current and comparative period are as follows:

| | ***Rate*** |
|---|---|
| Buildings | 10 - 50 years |
| Automobiles | 4 - 7 years |
| Computer software and office equipment | 2 - 10 years |

The residual value, useful life, and depreciation method applied to each class of assets are reassessed at each reporting date.

Gains or losses on the disposal of property, plant, and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in comprehensive income as other operating income or other operating costs, respectively.

***Business combinations***

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method.

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

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

The Credit Union recognizes any non-controlling interests in its subsidiaries either at fair value or at the non-controlling interest's proportionate share of the subsidiaries assets.

**4. Summary of significant accounting policies** *(Continued from previous page)*

***Business combinations*** *(Continued from previous page)*

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

The following are exceptions to this recognition and measurement principle:

- Deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 *Income Taxes*;
- Liabilities or assets related to the acquiree's employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee Benefits*;
- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with those of the Credit Union are measured in accordance with IFRS 2 *Share-Based Payments* at the acquisition date;
- Asset and disposal groups that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured at fair value less costs to sell.
- Contingent liabilities are recognized at the acquisition date even if is not probable that an outflow of economic benefits will be required to settle the obligation;
- Indemnification assets are recognized at the same time and measured at the same basis as the indemnified item, subject to a valuation allowance for uncollectable amounts. This may lead to exceptions if the indemnified item is itself an exception; and
- The value of a reacquired right is measured as an intangible asset on the basis of the remaining contractual term regardless of whether market participants would consider potential contractual renewals in determining its fair value.

***Intangible assets***

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they meet the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized as follows, based upon management's best estimate of the useful life of the asset.

The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

| | ***Method*** | **Rate** |
|---|---|---|
| Customer lists | straight-line | 25 years |
| Definite life licences | straight-line | 25 years |

Licences with indefinite useful lives are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

***Goodwill***

Goodwill arising in a business combination is recognized as an asset at the date of control (acquisition date). Goodwill is measured as the excess of the cost of the acquisition over the Credit Union's interests in the net fair value of the identifiable net assets, liabilities and contingent liabilities of the acquiree recognized at the date of acquisition.

**4. Summary of significant accounting policies** *(Continued from previous page)*

For the purposes of assessing impairment, goodwill is allocated to individual CGU's or groups of CGU's that are expected to benefit from the synergies of the combination. Each unit to which goodwill is allocated represents, subject to an operating segment ceiling test, the lowest level within the Credit Union that goodwill is monitored for internal reporting purposes. The impairment of non-financial assets note describes how goodwill is tested for impairment.

***Income taxes***

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled.

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

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

***Leases***

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

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

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

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

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

**4. Summary of significant accounting policies** *(Continued from previous page)*

***Leases*** *(Continued from previous page)*

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

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

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

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

***Employee benefits***

The Credit Union’s post employment benefit programs consist of a defined contribution plan.

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $630,760 (2021 – $558,395) were paid to the defined contribution retirement plan during the year.

***Membership shares***

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

## 4. Summary of significant accounting policies *(Continued from previous page)*

***Standards issued but not yet effective***

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

***IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements***

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

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

***IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors***

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

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

## 5. Cash and cash equivalents

| | ***2022*** | *2021* |
|---|---|---|
| Cash | **9,613,579** | 16,092,069 |
| Cash equivalents | **114,708,107** | 90,764,676 |
| | **124,321,686** | 106,856,745 |

## 6. Investments

| | ***2022*** | *2021* |
|---|---|---|
| Measured at fair value through profit or loss | | |
| SaskCentral and Concentra Bank shares | **8,569,530** | 6,811,269 |
| Other equity instruments | **3,812,988** | 2,937,160 |
| | **12,382,518** | 9,748,429 |
| Measured at amortized cost | | |
| SaskCentral and Concentra Bank deposits | **84,469,274** | 96,227,472 |
| Deposit instruments | **11,000,000** | 25,000,000 |
| | **95,469,274** | 121,227,472 |
| Accrued interest | **533,620** | 357,205 |
| | **108,385,412** | 131,333,106 |

**6. Investments** *(Continued from previous page)*

The table below shows the credit risk exposure on investments. Ratings are as provided by Dominion Bond Rating Services ("DBRS") unless otherwise indicated.

| | ***2022*** | *2021* |
|---|---|---|
| **Investment portfolio rating** | | |
| AA | **1,000,000** | - |
| A | **10,000,000** | 26,250,050 |
| BBB | **47,250,277** | - |
| R1 | **45,788,527** | 5,561,219 |
| Unrated | **3,812,988** | 2,937,160 |
| | **107,851,792** | 34,748,429 |

In comparative year, liquidity reserves and balances on deposit with SaskCentral and Concentra Bank were excluded.

**Statutory liquidity**

Pursuant to Regulations, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Credit Union Deposit Guarantee Corporation ("CUDGC"), requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2022 the Credit Union met the requirement.

**Liquidity coverage ratio**

The Credit Union has implemented a Liquidity Coverage Ratio (“LCR”) which is a regulatory requirement of CUDGC. The objective of the LCR is to ensure that the Credit Union has an adequate stock of unencumbered high-quality liquid assets (“HQLA”) that:

- consists of cash or assets that can be converted into cash at little or no loss of value; and
- meets its liquidity needs for a 30-calendar day stress scenario, by which time it is assumed corrective actions have been taken by the Credit Union and/or CUDGC.

This stress scenario noted above is viewed as a minimum requirement. The Credit Union conducts additional stress tests to assess the level of liquidity to hold beyond the regulatory minimum, and constructs scenarios that could cause difficulties for specific business activities. Internal stress tests have longer time horizons and results are reported to CUDGC upon request.

The LCR is calculated as the value of the stock in HQLA in stressed conditions divided by the total net cash outflows over the next 30 calendar days.

As at December 31, 2022, the Credit Union is in compliance with regulatory requirements.

**7. Member loans receivable**

Principal and allowance by loan type:

| | | | | | ***2022*** |
|---|---|---|---|---|---|
| | **Principal performing** | **Principal impaired** | **Allowance specific** | **Allowance for expected credit losses** | **Net carrying value** |
| Agriculture loans | 75,533,513 | 2,672 | 172 | 147,251 | **75,388,762** |
| Agriculture mortgages | 281,753,120 | 464,032 | 23,518 | 550,159 | **281,643,475** |
| Commercial loans | 47,073,615 | 6,790,037 | 2,297,849 | 206,323 | **51,359,480** |
| Commercial mortgages | 215,747,108 | 8,378,723 | 1,097,928 | 857,491 | **222,170,412** |
| Consumer loans | 78,128,937 | 520,647 | 393,950 | 157,734 | **78,097,900** |
| Consumer mortgages | 178,519,476 | 1,397,111 | 118,329 | 165,593 | **179,632,665** |
| Lines of credit | 21,550,908 | - | - | 252,935 | **21,297,973** |
| | 898,306,677 | 17,553,222 | 3,931,746 | 2,337,486 | **909,590,667** |
| Foreclosed assets | 229,722 | - | - | - | **229,722** |
| Accrued interest | 4,622,723 | 1,090,047 | 1,090,047 | - | **4,622,723** |
| | 903,159,122 | 18,643,269 | 5,021,793 | 2,337,486 | **914,443,112** |

| | | | | | *2021* |
|---|---|---|---|---|---|
| | Principal performing | Principal impaired | Allowance specific | Allowance for expected credit losses | Net carrying value |
| Agriculture loans | 56,658,504 | 7,035 | 2,035 | 69,539 | 56,593,965 |
| Agriculture mortgages | 250,411,572 | 394,630 | 171,363 | 307,786 | 250,327,053 |
| Commercial loans | 34,588,564 | 101,534 | 101,534 | 48,944 | 34,539,620 |
| Commercial mortgages | 169,865,750 | 5,001,146 | 10,025 | 245,805 | 174,611,066 |
| Consumer loans | 39,553,259 | 149,390 | 133,406 | 55,613 | 39,513,630 |
| Consumer mortgages | 158,941,895 | 259,826 | 174,826 | 126,463 | 158,900,432 |
| Lines of credit | 24,944,124 | - | - | 113,891 | 24,830,233 |
| | 734,963,668 | 5,913,561 | 593,189 | 968,041 | 739,315,999 |
| Foreclosed assets | 225,000 | - | - | - | 225,000 |
| Accrued interest | 3,214,802 | 447,802 | 447,802 | - | 3,214,802 |
| | 738,403,470 | 6,361,363 | 1,040,991 | 968,041 | 742,755,801 |

**7 Member loans receivable** *(Continued from previous page)*

The allowance for loan impairment changed as follows:

| | ***2022*** | *2021* |
|---|---|---|
| Balance, beginning of year | **2,009,032** | 3,853,062 |
| Provision for (recovery of) impaired loans | **941,428** | (898,128) |
| | **2,950,460** | 2,954,934 |
| Less: accounts written off, net of recoveries | **(1,418,418)** | (959,575) |
| Add: acquired through business combination | **5,827,237** | 13,673 |
| Balance, end of year | **7,359,279** | 2,009,032 |

**8. Other assets**

| | ***2022*** | *2021* |
|---|---|---|
| Accounts receivable | **12,381,505** | 442,410 |
| Prepaid expenses and deposits | **1,232,007** | 177,923 |
| Deferred tax asset *(Note 13)* | **1,197,992** | 672,935 |
| Goodwill | **152,022** | 107,695 |
| | **14,963,526** | 1,400,963 |

The purchases of various subsidiaries resulted in a goodwill balance equal to that of the purchase price less the net identifiable assets at the time of purchase. There has been no impairment of goodwill.

**9. Property, plant, and equipment**

| | ***Land*** | ***Buildings*** | ***Computer software*** | ***Office equipment*** | ***Automobiles*** | ***Total*** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at December 31, 2020 | 486,175 | 21,872,379 | 2,261,995 | 4,082,882 | 344,904 | 29,048,335 |
| Additions | - | 208,085 | 98,880 | 323,218 | 48,800 | 678,983 |
| Disposals | (15,000) | (56,153) | (29) | (907,327) | (37,850) | (1,016,359) |
| Acquisitions through business combination | 7,500 | 240,746 | - | 49,313 | - | 297,559 |
| Balance at December 31, 2021 | 478,675 | 22,265,057 | 2,360,846 | 3,548,086 | 355,854 | 29,008,518 |
| Additions | **-** | **159,655** | **133,200** | **98,771** | **94,876** | **486,502** |
| Disposals | **-** | **-** | **(219,285)** | **-** | **(35,766)** | **(255,051)** |
| Acquisitions through business combinations *(Note 24)* | **6,949** | **838,317** | **300,061** | **281,203** | **-** | **1,426,530** |
| Balance at December 31, 2022 | **485,624** | **23,263,029** | **2,574,822** | **3,928,060** | **414,964** | **30,666,499** |

## 9. Property, plant, and equipment *(Continued from previous page)*

| | *Land* | *Buildings* | *Computer software* | *Office equipment* | *Automobiles* | *Total* |
|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | |
| Balance at December 31, 2020 | - | 10,187,163 | 1,759,518 | 2,837,249 | 220,771 | 15,004,701 |
| Depreciation | - | 745,975 | 92,351 | 387,250 | 50,447 | 1,276,023 |
| Disposals | - | (48,700) | (29) | (905,472) | (33,839) | (988,040) |
| Acquisitions through business combination | - | 132,082 | - | 41,211 | - | 173,293 |
| Balance at December 31, 2021 | - | 11,016,520 | 1,851,840 | 2,360,238 | 237,379 | 15,465,977 |
| Depreciation | - | **761,862** | **157,686** | **377,569** | **51,078** | **1,348,195** |
| Disposals | - | - | **(219,285)** | - | **(35,766)** | **(255,051)** |
| Acquisitions through business combinations *(Note 24)* | - | **480,663** | **277,289** | **226,179** | - | **984,131** |
| Balance at December 31, 2022 | - | **12,259,045** | **2,067,530** | **2,963,986** | **252,691** | **17,543,252** |
| **Net book value** | | | | | | |
| At December 31, 2021 | 478,675 | 11,248,537 | 509,006 | 1,187,848 | 118,475 | 13,542,541 |
| **At December 31, 2022** | **485,624** | **11,003,984** | **507,292** | **964,074** | **162,273** | **13,123,247** |

## 10. Intangible assets

| | *Customer lists* | *Indefinite life licenses* | *Definite life licenses* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at December 31, 2020 | 3,647,949 | 787,898 | 428,400 | 4,864,247 |
| Balance at December 31, 2021 | 3,647,949 | 787,898 | 428,400 | 4,864,247 |
| Acquisition through business combination | **298,432** | **74,608** | - | **373,040** |
| Balance at December 31, 2022 | **3,946,381** | **862,506** | **428,400** | **5,237,287** |
| **Amortization and impairment losses** | | | | |
| Balance at December 31, 2020 | **252,653** | - | **17,136** | **269,789** |
| Amortization | **149,847** | - | **17,136** | **166,983** |
| Balance at December 31, 2021 | **402,500** | - | **34,272** | **436,772** |
| Amortization | **159,795** | - | **17,136** | **176,931** |
| Balance at December 31, 2022 | **562,295** | - | **51,408** | **613,703** |

**10. Intangible assets** *(Continued from previous page)*

| | *Customer lists* | *Indefinite life licenses* | *Definite life licenses* | *Total* |
|---|---|---|---|---|
| **Carrying amounts** | | | | |
| At December 31, 2021 | 3,245,449 | 787,898 | 394,128 | 4,427,475 |
| **At December 31, 2022** | **3,384,086** | **862,506** | **376,992** | **4,623,584** |

***Intangible assets with indefinite useful lives***

The indefinite life asset consists of insurance licenses which are required to operate in Saskatchewan. The licenses do not expire, therefore, the licences have an indefinite useful life.

**11. Line of credit**

***SaskCentral***

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at prime minus 0.5% (5.95% at December 31, 2022) in the amount of $22,300,000 (2021 - $17,000,000) from SaskCentral. As at December 31, 2022, $nil was advanced (2021 - $nil).

Borrowings are secured by an assignment of book debts, financial services agreement, and on an operating account agreement.

***Concentra Bank***

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at three month CDOR plus 0.65% (5.59% at December 31, 2022), in the amount of $20,000,000 (2021 - $20,000,000) from Concentra Bank. As at December 31, 2022 the balance was $nil (2021 - $nil). Unadvanced balances carry a standby fee of 15 basis points annually, assessed monthly back to the approval date on unused average balances. This line of credit is secured by a General and Specific Security agreement granting a second charge security interest, mortgage, pledge and charge over all of the Credit Union's present and after-acquired property, both real and personal.

**12. Member deposits**

| | ***2022*** | *2021* |
|---|---|---|
| Chequing and non-registered savings | **715,696,928** | 634,844,211 |
| Registered plans | **137,819,611** | 117,865,536 |
| Term deposits | **207,462,275** | 156,615,223 |
| Accrued interest | **4,754,126** | 3,533,276 |
| | **1,065,732,940** | 912,858,246 |

Total deposits include $2,379,041 (2021 - $2,525,135) denominated in foreign currencies.

Member deposits are subject to the following terms:

- Chequing and non-registered savings products are due on demand and bear interest at rates up to 5.00% (2021 - 1.00%).
- Registered plans are subject to fixed and variable rates of interest up to 5.00% (2021 - 4.50%), with interest payments due monthly, annually, or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 6.50% (2021 - 5.20%), with interest payments due monthly, annually, or on maturity.

## 13. Income tax

***Income tax expense recognized in comprehensive income***

The applicable tax rate is the aggregate of the federal income tax rate of 15% (2021 - 15%) and the provincial tax rate of 12% (2021 - 12%).

***Deferred tax asset (liability)***

The movement in deferred tax assets and liabilities are:

| | 2022 | 2021 |
|---|---|---|
| **Deferred tax asset (liability)** | | |
| Property, plant, and equipment | **380,682** | 365,207 |
| Intangible assets | **(21,241)** | (20,745) |
| Liabilities that are deducted for tax purposes only when paid | **69,898** | 38,995 |
| Losses available for offset against future earnings | **38,100** | - |
| Allowance for impaired loans | **730,553** | 289,478 |
| | **1,197,992** | 672,935 |

**Net deferred tax asset is reflected in the consolidated statement of financial position as follows:**

| | | |
|---|---|---|
| Deferred tax asset | **1,197,992** | 672,935 |

***Reconciliation between average effective tax rate and the applicable tax rate***

| | 2022 | 2021 |
|---|---|---|
| Applicable tax rate | **27.00 %** | 27.00 % |
| Non-taxable portion of dividends | **(15.74)%** | - % |
| Non-deductible and other items | **0.50 %** | 0.09 % |
| Average effective tax rate (tax expense divided by profit before tax) | **11.76 %** | 27.09 % |

## 14. Other liabilities

| | 2022 | 2021 |
|---|---|---|
| Accounts payable | **4,792,244** | 3,476,573 |
| Corporate income tax payable | **568,932** | 476,222 |
| | **5,361,176** | 3,952,795 |

## 15. Membership shares

Authorized:

Unlimited number of Common shares, at an issue price of $5-$10

Issued:

| | ***2022*** | *2021* |
|---|---|---|
| 17,006 Membership shares (2021 - 15,521) | **85,920** | 77,690 |

All common shares are classified as liabilities.

When an individual becomes a member of the Credit Union, they are issued a common share at $5 per share. Each member of the Credit Union has one vote, regardless of the number of common shares held.

During the year, the Credit Union issued 1,048 (2021 - 856), acquired 1,390 through business combination (2021 - 680), and redeemed 953 (2021 - 906) common shares.

## 16. Related party transactions

***Key management compensation of the Credit Union***

Key management personnel ("KMP") of the Credit Union are the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Project Officer, Chief Information Officer, Chief Business Officer, Vice Presidents of all service lines, and members of the Board of Directors.

KMP remuneration includes the following expenses:

| | ***2022*** | *2021* |
|---|---|---|
| Salaries and short-term benefits | **2,298,418** | 2,046,070 |
| Post-employment benefits | **122,594** | 112,372 |
| | **2,421,012** | 2,158,442 |

***Transactions with key management personnel***

The Credit Union, in accordance with its policy, grants credit to its directors, management, and staff. The management and staff rates may be slightly below member rates. Directors pay regular member rates on loans.

Loans made to KMP are approved under the same lending criteria applicable to members and are included in member loans on the consolidated statement of financial position. There are no loans to KMP that are impaired.

Directors, management, and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in deposit accounts on the consolidated statement of financial position. Management and staff may be eligible for bonus rates on deposit accounts.

There are no benefits or concessional terms and conditions applicable to the family members of KMP.

In the ordinary course of business, the Credit Union provided normal financial services to its wholly-owned subsidiaries Dinsmore Financial Ltd., 102125001 Saskatchewan Ltd. and PCCU Insurance Ltd. on terms similar to those offered to non-related parties and to PCCU Accounting Ltd., PCCU Real Estate Ltd., and Kyle Agencies Inc., wholly owned subsidiaries of PCCU Insurance Ltd.

These loans and deposits were made in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

**16. Related party transactions** *(Continued from previous page)*

| | ***2022*** | *2021* |
|---|---|---|
| Aggregate loans to KMP | **5,641,646** | 7,801,924 |
| Aggregate revolving credit facilities to KMP | **3,373,820** | 4,686,502 |
| Less: approved and undrawn lines of credit | **(2,602,176)** | (2,925,098) |
| | **6,413,290** | 9,563,328 |

| | ***2022*** | *2021* |
|---|---|---|
| During the year the aggregate value of loans disbursed to KMP amounted to: | | |
| Revolving credit | **357,431** | 133,335 |
| Mortgages | **579,636** | 392,025 |
| Loans | **489,602** | 554,575 |
| | **1,426,669** | 1,079,935 |

| | ***2022*** | *2021* |
|---|---|---|
| Income and expense transactions with KMP consisted of: | | |
| Interest earned on loans and revolving credit facilities to KMP | **238,787** | 615,437 |
| Interest paid on deposits to KMP | **37,867** | 31,431 |

| | ***2022*** | *2021* |
|---|---|---|
| The total value of member deposits from KMP as at the year-end: | | |
| Chequing and demand deposits | **4,470,614** | 4,342,505 |
| Term deposits | **1,213,924** | 772,322 |
| Registered plans | **299,710** | 515,661 |
| Total value of member deposits due to KMP | **5,984,248** | 5,630,488 |

***Directors' fees and expenses***

| | ***2022*** | *2021* |
|---|---|---|
| Directors' expenses | **17,840** | 17,407 |
| Meeting, training, and conference costs | **91,272** | - |

***SaskCentral and Concentra Bank***

The Credit Union is a member of SaskCentral, which acts as a depository for surplus funds received from and loans made to credit unions. SaskCentral also provides other services for a fee to the Credit Union and acts in an advisory capacity.

Up until November 1, 2022, the Credit Union was related to Concentra Bank, which was owned in part by SaskCentral. Concentra Bank provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers.

Interest and dividends earned on investments during the year ended December 31, 2022 amounted to $15,301,012 (2021 - $1,616,349) of which $11,716,571 relates to the dividend accrued from SaskCentral in relation to the sale of Concentra Bank shares.

Interest paid on borrowings during the year ended December 31, 2022 amounted to $78,611 (2021 - $3,042).

Payments made for affiliation dues for the year ended December 31, 2022 amounted to $48,562 (2021 - $61,659).

## 16. Related party transactions *(Continued from previous page)*

### Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions was formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan, and Manitoba along with Concentra Bank.

## 17. Capital management

A capital management framework is included in policies and procedures established by the Board of Directors. The Credit Union's objectives when managing capital are to:

- Adhere to regulatory capital requirements as minimum benchmarks;
- Co-ordinate strategic risk management and capital management;
- Develop financial performance targets/budgets/goals;
- Administer a patronage program that is consistent with capital requirements;
- Administer an employee incentive program that is consistent with capital requirements; and
- Develop a growth strategy that is coordinated with capital management requirements.

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

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 1,250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum tier 1 capital to risk-weighted assets of 6%, and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5%. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement. Eligible capital consists of total tier 1 and tier 2 capital.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus, and accumulated other comprehensive income ("AOCI"). Deductions from common equity tier 1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments, and fair value gains/losses on own-use property. Additional tier 1 capital consists of qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in additional tier 1 capital.

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

Regulatory standards also require the Credit Union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio.

**17. Capital management** *(Continued from previous page)*

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2022:

| | *Regulatory standards* | *Board limits* |
|---|---|---|
| Total eligible capital to risk-weighted assets | **10.50 %** | **10.50 %** |
| Total tier 1 capital to risk-weighted assets | **8.50 %** | **8.50 %** |
| Common equity tier 1 capital to risk-weighted assets | **7.00 %** | **7.00 %** |
| Leverage ratio | **5.00 %** | **6.50 %** |

During the year, the Credit Union complied with all internal and external capital requirements.

The following table summarizes key capital information:

| | ***2022*** | *2021* |
|---|---|---|
| ***Eligible capital*** | | |
| Common equity tier 1 capital | **103,397,633** | 78,383,724 |
| Additional tier 1 capital | **-** | - |
| Total tier 1 capital | **103,397,633** | 78,383,724 |
| Total tier 2 capital | **2,423,406** | 1,045,731 |
| Total eligible capital | **105,821,039** | 79,429,455 |
| ***Risk-weighted assets*** | | |
| Total eligible capital to risk-weighted assets | **12.65 %** | 11.92 % |
| Total tier 1 capital to risk-weighted assets | **12.36 %** | 11.76 % |
| Common equity tier 1 capital to risk-weighted assets | **12.36 %** | 11.76 % |
| Leverage ratio | **8.89 %** | 7.94 % |

**18. Financial instruments**

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk, and liquidity risk.

Accordingly, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union
- Balance risk and return
- Manage credit, market and liquidity risk through preventative and detective controls
- Ensure credit quality is maintained
- Ensure credit, market, and liquidity risk is maintained at acceptable levels
- Diversify risk in transactions, member relationships and loan portfolios
- Price according to risk taken, and
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit and Risk Committee and Conduct Review Committee.

**18. Financial instruments** *(Continued from previous page)*

There have been no significant changes from the previous year in the Credit Union's risks to which it is exposed or its general policies and procedures for managing risk.

***Credit risk***

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from member loans receivable.

**Risk management process**

Credit risk management is integral to the Credit Union's activities. Management and the Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements
  - Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge
  - Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements
- Borrowing member character requirements
- Limits on aggregate credit exposure per individual and related parties
- Limits on concentration of credit risk by loan type, industry and economic sector
- Limits on the types of credit facilities and services offered
- Internal loan approval processes and loan documentation standards
- Loan re-negotiation, extension and renewal processes
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors
- Control and monitoring processes including portfolio risk identification and delinquency tolerances
- Timely loan analysis processes to identify, assess and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans
- Overdraft control and administration processes
- Loan syndication processes

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represents the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party; and
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

**18. Financial instruments** *(Continued from previous page)*

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

| | ***2022*** | *2021* |
|---|---|---|
| Unadvanced lines of credit | **180,513,598** | 163,407,001 |
| Guarantees and standby letters of credit | **5,195,425** | 2,898,175 |
| Commitments to extend credit | **11,056,045** | 2,116,604 |
| | **196,765,068** | 168,421,780 |

**Inputs, assumptions and techniques**

*Definition of default and assessments of credit risk*

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

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

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

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

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

*Measurement of expected credit losses*

The Credit Union measures expected credit losses, or ECLs, for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial loans/mortgages, agricultural loans/mortgages, personal loans and lines of credit). Otherwise, expected credit losses are measured on an individual basis.

**18. Financial instruments** *(Continued from previous page)*

When measuring 12-month and lifetime expected credit losses, the Credit Union utilizes complex modelling, which uses current banking system loan data to assess probability of default, exposure at default, loss given default, and present value calculations. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its members and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

The Credit Union has run a number of simulations on its collective allowance, incorporating assumptions about the resulting macroeconomic impacts of inflation and interest rate changes, based on information and facts available at December 31, 2022. The macroeconomic factors that affect the Credit Union expected credit loss calculations are: Saskatchewan unemployment rates, provincial housing starts, national interest rates, national GDP growth, and national oil prices. Each factor is forecast in a base case, a best case and a worst case scenario. These scenarios are weighted, and the weighted average is used to build the estimate for expected credit losses. Key assumptions of the simulations are lingering effects of COVID-19, including increasing interest rates, inflationary pressures, the quality of credit and the borrower's future ability to service debt. The information for these assumptions is based off 2022 economic forecasts. These assumptions were shocked up and down 10-30% in the best and worst case scenario.

The typical weighting used in the model is 80% base, 10% best and 10% worst case, as the base case is historically the most likely scenario. Due to uncertainties around the macroeconomic environment, the weightings chosen at December 31, 2021 and December 31, 2022 were adjusted to 50% base, 10% best and 40% worst case.

*Write-offs*

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding or the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

**Exposure to credit risk**

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9. The amounts in the table, unless otherwise indicated, represent the assets’ gross carrying amount.

Except as noted below, the gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

**18. Financial instruments** *(Continued from previous page)*

| 2022 | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| **Consumer loans and lines of credit** | | | | |
| Low risk | **79,031,238** | **-** | **-** | **79,031,238** |
| Medium risk | **-** | **825,139** | **-** | **825,139** |
| Default | **-** | **-** | **520,647** | **520,647** |
| Total gross carrying amount | **79,031,238** | **825,139** | **520,647** | **80,377,024** |
| Less: loss allowance | **151,602** | **12,762** | **401,318** | **565,682** |
| Total carrying amount | **78,879,636** | **812,377** | **119,329** | **79,811,342** |
| **Residential mortgages** | | | | |
| Low risk | **177,771,076** | **-** | **-** | **177,771,076** |
| Medium risk | **-** | **420,309** | **-** | **420,309** |
| Default | **-** | **-** | **1,725,201** | **1,725,201** |
| Total gross carrying amount | **177,771,076** | **420,309** | **1,725,201** | **179,916,586** |
| Less: loss allowance | **117,020** | **695** | **204,163** | **321,878** |
| Total carrying amount | **177,654,056** | **419,614** | **1,521,038** | **179,594,708** |
| **Commercial loans and lines of credit** | | | | |
| Low risk | **265,604,290** | **-** | **-** | **265,604,290** |
| Medium risk | **-** | **-** | **-** | **-** |
| Default | **-** | **-** | **15,312,988** | **15,312,988** |
| Total gross carrying amount | **265,604,290** | **-** | **15,312,988** | **280,917,278** |
| Less: loss allowance | **1,157,465** | **-** | **4,445,612** | **5,603,077** |
| Total carrying amount | **264,446,825** | **-** | **10,867,376** | **275,314,201** |
| **Agricultural loans and lines of credit** | | | | |
| Low risk | **368,124,540** | **-** | **-** | **368,124,540** |
| Medium risk | **-** | **3,012,896** | **-** | **3,012,896** |
| Default | **-** | **-** | **466,705** | **466,705** |
| Total gross carrying amount | **368,124,540** | **3,012,896** | **466,705** | **371,604,141** |
| Less: loss allowance | **811,809** | **9,974** | **46,592** | **868,375** |
| Total carrying amount | **367,312,731** | **3,002,922** | **420,113** | **370,735,766** |
| **Local government loans and lines of credit** | | | | |
| Low risk | **3,044,870** | **-** | **-** | **3,044,870** |
| Medium risk | **-** | **-** | **-** | **-** |
| Default | **-** | **-** | **-** | **-** |
| Total gross carrying amount | **3,044,870** | **-** | **-** | **3,044,870** |
| Less: loss allowance | **267** | **-** | **-** | **267** |
| Total carrying amount | **3,044,603** | **-** | **-** | **3,044,603** |

**18. Financial instruments** *(Continued from previous page)*

| | *2022* | | | |
|---|---|---|---|---|
| | ***12-month ECL*** | ***Lifetime ECL (not credit impaired)*** | ***Lifetime ECL (credit impaired)*** | ***Total*** |
| **Total** | | | | |
| Low risk | **893,576,014** | **-** | **-** | **893,576,014** |
| Medium risk | **-** | **4,258,344** | **-** | **4,258,344** |
| Default | **-** | **-** | **18,025,541** | **18,025,541** |
| Total gross carrying amount | **893,576,014** | **4,258,344** | **18,025,541** | **915,859,899** |
| Less: loss allowance | **2,238,163** | **23,431** | **5,097,685** | **7,359,279** |
| Total carrying amount | **891,337,851** | **4,234,913** | **12,927,856** | **908,500,620** |

| | *2021* | | | |
|---|---|---|---|---|
| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
| **Consumer loans and lines of credit** | | | | |
| Low risk | 40,059,241 | - | - | 40,059,241 |
| Medium risk | - | 428,247 | - | 428,247 |
| Default | - | - | 326,480 | 326,480 |
| Total gross carrying amount | 40,059,241 | 428,247 | 326,480 | 40,813,968 |
| Less: loss allowance | 29,194 | 3,152 | 161,653 | 193,999 |
| Total carrying amount | 40,030,047 | 425,095 | 164,827 | 40,619,969 |
| **Residential mortgages** | | | | |
| Low risk | 158,342,172 | - | - | 158,342,172 |
| Medium risk | - | 18,865 | - | 18,865 |
| Default | - | - | 840,684 | 840,684 |
| Total gross carrying amount | 158,342,172 | 18,865 | 840,684 | 159,201,721 |
| Less: loss allowance | 44,144 | 140 | 264,243 | 308,527 |
| Total carrying amount | 158,298,028 | 18,725 | 576,441 | 158,893,194 |
| **Commercial loans and lines of credit** | | | | |
| Low risk | 205,716,994 | - | - | 205,716,994 |
| Medium risk | - | 257,757 | - | 257,757 |
| Default | - | - | 5,208,961 | 5,208,961 |
| Total gross carrying amount | 205,716,994 | 257,757 | 5,208,961 | 211,183,712 |
| Less: loss allowance | 308,076 | 637 | 546,813 | 855,526 |
| Total carrying amount | 205,408,918 | 257,120 | 4,662,148 | 210,328,186 |
| **Agricultural loans and lines of credit** | | | | |
| Low risk | 326,314,655 | - | - | 326,314,655 |
| Medium risk | - | 20,958 | - | 20,958 |
| Default | - | - | 866,776 | 866,776 |
| Total gross carrying amount | 326,314,655 | 20,958 | 866,776 | 327,202,389 |
| Less: loss allowance | 388,081 | 276 | 262,430 | 650,787 |
| Total carrying amount | 325,926,574 | 20,682 | 604,346 | 326,551,602 |

## 18. Financial instruments *(Continued from previous page)*

| | 12-month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| **Local government loans and lines of credit** | | | | |
| Low risk | 2,475,439 | - | - | 2,475,439 |
| Medium risk | - | - | - | - |
| Default | - | - | - | - |
| Total gross carrying amount | 2,475,439 | - | - | 2,475,439 |
| Less: loss allowance | 193 | - | - | 193 |
| Total carrying amount | 2,475,246 | - | - | 2,475,246 |
| **Total** | | | | |
| Low risk | 732,908,501 | - | - | 732,908,501 |
| Medium risk | - | 725,827 | - | 725,827 |
| Default | - | - | 7,242,901 | 7,242,901 |
| Total gross carrying amount | 732,908,501 | 725,827 | 7,242,901 | 740,877,229 |
| Less: loss allowance | 769,688 | 4,205 | 1,235,139 | 2,009,032 |
| Total carrying amount | 732,138,813 | 721,622 | 6,007,762 | 738,868,197 |

*Concentrations of credit risk*

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

**Amounts arising from expected credit losses**

*Reconciliation of the loss allowance*

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

| | ***12-month ECL*** | ***Lifetime ECL (not credit impaired)*** | ***Lifetime ECL (credit impaired)*** | ***Total*** |
|---|---|---|---|---|
| **Consumer loans and lines of credit** | | | | |
| Balance at January 1, 2021 | **12,837** | **151** | **127,868** | **140,856** |
| Net remeasurement of loss allowance | **16,357** | **3,001** | **33,785** | **53,143** |
| Balance at December 31, 2021 | **29,194** | **3,152** | **161,653** | **193,999** |
| Net remeasurement of loss allowance | **122,408** | **9,610** | **239,665** | **371,683** |
| Balance at December 31, 2022 | **151,602** | **12,762** | **401,318** | **565,682** |
| **Residential mortgages** | | | | |
| Balance at January 1, 2021 | **42,184** | **1,925** | **394,956** | **439,065** |
| Net remeasurement of loss allowance | **1,960** | **(1,785)** | **(130,713)** | **(130,538)** |
| Balance at December 31, 2021 | **44,144** | **140** | **264,243** | **308,527** |
| Net remeasurement of loss allowance | **72,876** | **555** | **(60,080)** | **13,351** |
| Balance at December 31, 2022 | **117,020** | **695** | **204,163** | **321,878** |

**18. Financial instruments** *(Continued from previous page)*

| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
|---|---|---|---|---|
| **Commercial loans and lines of credit** | | | | |
| Balance at January 1, 2021 | 122,428 | 443,821 | 1,222,486 | 1,788,735 |
| Net remeasurement of loss allowance | 185,648 | (443,184) | (675,673) | (933,209) |
| Balance at December 31, 2021 | 308,076 | 637 | 546,813 | 855,526 |
| Net remeasurement of loss allowance | 849,389 | (637) | 3,898,799 | 4,747,551 |
| Balance at December 31, 2022 | 1,157,465 | - | 4,445,612 | 5,603,077 |
| **Agriculture loans and lines of credit** | | | | |
| Balance at January 1, 2021 | 321,191 | 7,293 | 1,155,750 | 1,484,234 |
| Net remeasurement of loss allowance | 66,890 | (7,017) | (893,320) | (833,447) |
| Balance at December 31, 2021 | 388,081 | 276 | 262,430 | 650,787 |
| Net remeasurement of loss allowance | 423,728 | 9,698 | (215,838) | 217,588 |
| Balance at December 31, 2022 | 811,809 | 9,974 | 46,592 | 868,375 |
| **Local government loans and lines of credit** | | | | |
| Balance at January 1, 2021 | 172 | - | - | 172 |
| Net remeasurement of loss allowance | 21 | - | - | 21 |
| Balance at December 31, 2021 | 193 | - | - | 193 |
| Net remeasurement of loss allowance | 74 | - | - | 74 |
| Balance at December 31, 2022 | 267 | - | - | 267 |
| **Total** | | | | |
| Balance at January 1, 2021 | 498,812 | 453,190 | 2,901,060 | 3,853,062 |
| Net remeasurement of loss allowance | 270,876 | (448,985) | (1,665,921) | (1,844,030) |
| Balance at December 31, 2021 | 769,688 | 4,205 | 1,235,139 | 2,009,032 |
| Net remeasurement of loss allowance | 1,468,475 | 19,226 | 3,862,546 | 5,350,247 |
| Balance at December 31, 2022 | 2,238,163 | 23,431 | 5,097,685 | 7,359,279 |

*Financial instruments for which the impairment requirements of IFRS 9 do not apply*

The carrying amount of SaskCentral and Concentra Bank shares, as disclosed in Note 6, best represents the Credit Union's maximum exposure to credit risk for those items. The Credit Union holds no collateral or other credit enhancements for these balances.

***Market risk***

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices, and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member needs.

***Risk measurement***

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides quarterly reports on these matters to the Credit Union's Board of Directors.

**18. Financial instruments** *(Continued from previous page)*

***Objectives, policies, and processes***

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits, and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board of Directors.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity, and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

***Interest rate risk***

Interest rate risk is the sensitivity of the Credit Union’s financial condition to movements in interest rates. 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. Interest margins reported in comprehensive income may increase or decrease in response to changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

In managing interest rate risk, the Credit Union relies primarily upon use of asset - liability and interest rate sensitivity simulation models, which is monitored by the Credit Union. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union’s financial instruments.

Sensitivity analysis is used to assess the change in value of the Credit Union’s financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a quarterly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest margin by $1,050,937 (2021 - $580,920) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest margin by $1,050,937 (2021 - $580,920) over the next 12 months.

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to the Board of Directors.

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match repricing or maturity dates of loans and investments and member deposits within policy limits. These limits are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between loans and investments and member deposits for those particular maturity dates. Certain items on the consolidated statement of financial position, such as non-interest bearing member deposits and equity, do not provide interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive in the table below.

Amounts with variable interest rates, or due on demand, are classified as on demand.

A significant amount of member loans receivable and member deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

***Interest rate sensitivity***

In the table below, the carrying amounts of financial instruments are presented in the periods in which they next reprice to market rates or mature and are summed to show the net interest rate sensitivity gap.

**18. Financial instruments** *(Continued from previous page)*

***Contractual repricing and maturity***

All financial instruments are reported in the schedule below based on the earlier of their contractual repricing date or maturity date. The schedule below does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

*(In thousands)*

| | *On demand* | *Within 3 months* | *Over 3 months to 1 year* | *Over 1 year* | *Non-interest sensitive* | ***2022* Total** | *2021 Total* |
|---|---|---|---|---|---|---|---|
| ***Assets*** | | | | | | | |
| Cash and cash equivalents | 94,708 | 20,000 | - | - | 9,614 | **124,322** | 106,857 |
| *Average yield %* | *3.82* | *4.56* | - | - | - | *3.64* | *0.32* |
| Investments | - | 1,125 | 61,835 | 32,509 | 12,916 | **108,385** | 131,333 |
| *Average yield %* | - | *4.56* | *2.57* | *1.63* | - | *2.00* | *1.17* |
| Member loans receivable | 144,240 | 15,042 | 79,376 | 659,412 | 16,373 | **914,443** | 742,756 |
| *Average yield %* | *7.38* | *3.74* | *4.25* | *3.86* | - | *4.38* | *3.72* |
| Accounts receivable | - | - | - | - | 12,382 | **12,382** | 442 |
| | **238,948** | **36,167** | **141,211** | **691,921** | **51,285** | **1,159,532** | 981,388 |
| ***Liabilities*** | | | | | | | |
| Member deposits | 350,718 | 53,593 | 101,967 | 161,696 | 397,759 | **1,065,733** | 912,858 |
| *Average yield %* | *1.98* | *2.24* | *3.30* | *2.62* | - | *1.48* | *0.78* |
| Accounts payable | - | - | - | - | 4,792 | **4,792** | 3,477 |
| Membership shares | - | - | - | - | 86 | **86** | 78 |
| | **350,718** | **53,593** | **101,967** | **161,696** | **402,637** | **1,070,611** | 916,413 |
| ***Net sensitivity*** | **(111,770)** | **(17,426)** | **39,244** | **530,225** | **(351,352)** | **88,921** | 64,975 |

***Liquidity risk***

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes. Refer to Note 6 for further information about the Credit Union's regulatory requirements.

Liquidity risk is managed through a three tiered structure consisting of the local Credit Union level, the provincial Credit Union level, and the national Credit Union level.

Locally, the Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows; and
- Contingent liquidity risk, which assesses the impact of sudden stressful events and the Credit Union’s responses thereto.

**18. Financial instruments** *(Continued from previous page)*

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with SaskCentral and others;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits;
- Monitoring of term deposits; and
- Contingency planning.

Provincially, SaskCentral manages a statutory liquidity pool of marketable investment securities on behalf of Saskatchewan Credit Unions to facilitate clearing and settlement, daily cash flow management and emergency liquidity support. Nationally, credit union centrals are represented by one central which acts as the Group Clearer, Central 1 Credit Union. The Group Clearer is a member of the Canadian Payments Association and pools provincial cash flows to settle with the Bank of Canada.

The following table details contractual maturities of financial liabilities:

**As at December 31, 2022:**

***(In thousands)***

| | **< 1 year** | **1-2 years** | **> 3 years** | **Total** |
|---|---|---|---|---|
| Member deposits | **904,037** | **83,809** | **77,887** | **1,065,733** |
| Accounts payable | **4,792** | **-** | **-** | **4,792** |
| Membership shares | **-** | **-** | **86** | **86** |
| **Total** | **908,829** | **83,809** | **77,973** | **1,070,611** |

As at December 31, 2021:

***(In thousands)***

| | **< 1 year** | **1-2 years** | **> 3 years** | **Total** |
|---|---|---|---|---|
| Member deposits | 766,519 | 54,531 | 91,808 | 912,858 |
| Accounts payable | 3,477 | - | - | 3,477 |
| Membership shares | - | - | 78 | 78 |
| **Total** | 769,996 | 54,531 | 91,886 | 916,413 |

The Credit Union manages liquidity risk on a net asset and liability basis. The following tables explain the contractual maturities of financial assets held for the purpose of managing liquidity risk.

**As at December 31, 2022:**

***(In thousands)***

| | **< 1 year** | **1-2 years** | **> 3 years** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | **124,322** | **-** | **-** | **124,322** |
| Investments | **75,876** | **12,509** | **20,000** | **108,385** |
| Member loans receivable | **255,031** | **111,727** | **547,685** | **914,443** |
| Accounts receivable | **12,382** | **-** | **-** | **12,382** |
| **Total** | **467,611** | **124,236** | **567,685** | **1,159,532** |

## 18. Financial instruments *(Continued from previous page)*

As at December 31, 2021:

***(In thousands)***

| | < 1 year | 1-2 years | > 3 years | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 106,857 | - | - | 106,857 |
| Investments | 87,208 | 24,500 | 19,625 | 131,333 |
| Member loans receivable | 229,147 | 91,032 | 422,577 | 742,756 |
| Accounts receivable | 442 | - | - | 442 |
| Total | 423,654 | 115,532 | 442,202 | 981,388 |

***Foreign currency risk***

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union maintains foreign cash balances to approximately offset deposits held in foreign funds.

Foreign currency 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 excess foreign currency denominated financial investments for an extended period.

## 19. Fair value measurements

The Credit Union classifies fair value measurements recognized in the consolidated statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

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

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

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the beginning of the reporting period, the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses net present value valuation techniques and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

***Financial assets and financial liabilities measured at fair value***

The Credit Union's financial assets and financial liabilities measured at fair value in the consolidated statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

| *(In thousands)* | ***Fair value*** | ***Level 1*** | ***Level 2*** | ***2022 Level 3*** |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| Cash | **9,614** | **9,614** | **-** | **-** |
| SaskCentral and Concentra bank shares | **8,570** | **-** | **-** | **8,570** |
| Other equity instruments | **3,813** | **-** | **3,813** | **-** |
| Total financial assets | **21,997** | **9,614** | **3,813** | **8,570** |

**19. Fair value measurements** *(Continued from previous page)*

| *(In thousands)* | *Fair value* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| | | | | *2021* |
| ***Financial assets*** | | | | |
| Cash | 16,092 | 16,092 | - | - |
| SaskCentral and Concentra bank shares | 6,811 | - | - | 6,811 |
| Other equity instruments | 2,937 | - | 2,937 | - |
| Total financial assets | 25,840 | 16,092 | 2,937 | 6,811 |

All recurring Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

For fair value measurements of Level 3 SaskCentral and Concentra Bank shares, the Credit Union has assumed that the fair value of the amounts is comparable to their amortized cost, which equals the par value of the shares. The shares are not quoted or traded, however when new shares are offered the price remains the same as the par value of all currently available shares. There was no impact of the measurement on profit or loss for the year.

***Financial instruments not measured at fair value***

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the consolidated statement of financial position are as follows:

| *(In thousands)* | ***Carrying amount*** | ***Fair value*** | ***Level 1*** | ***Level 2*** | ***Level 3*** |
|---|---|---|---|---|---|
| | | | | | ***2022*** |
| ***Financial assets measured at amortized cost*** | | | | | |
| Cash equivalents | **114,708** | **114,708** | **114,708** | **-** | **-** |
| Investments | **96,002** | **93,708** | **-** | **93,708** | **-** |
| Member loans receivable | **914,443** | **871,778** | **-** | **871,778** | **-** |
| Accounts receivable | **12,382** | **12,382** | **-** | **12,382** | **-** |
| Total financial assets | **1,137,535** | **1,092,576** | **114,708** | **977,868** | **-** |
| ***Financial liabilities measured at amortized cost*** | | | | | |
| Member deposits | **1,065,733** | **1,061,978** | **-** | **1,061,978** | **-** |
| Accounts payable | **4,792** | **4,792** | **-** | **4,792** | **-** |
| Membership shares | **86** | **86** | **-** | **-** | **86** |
| Total financial liabilities | **1,070,611** | **1,066,856** | **-** | **1,066,770** | **86** |

| *(In thousands)* | *Carrying amount* | *Fair value* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|---|
| | | | | | *2021* |
| ***Financial assets measured at amortized cost*** | | | | | |
| Cash equivalents | 90,765 | 90,765 | 90,765 | - | - |
| Investments | 121,585 | 122,255 | - | 122,255 | - |
| Member loans receivable | 742,756 | 734,236 | - | 734,236 | - |
| Accounts receivable | 442 | 442 | - | 442 | - |
| Total financial assets | 955,548 | 947,698 | 90,765 | 856,933 | - |

**19. Fair value measurements** *(Continued from previous page)*

| *(In thousands)* | *Carrying amount* | *Fair value* | *Level 1* | *Level 2* | *2021* *Level 3* |
|---|---|---|---|---|---|
| ***Financial liabilities measured at amortized cost*** | | | | | |
| Member deposits | 912,858 | 918,714 | - | 918,714 | - |
| Accounts payable | 3,477 | 3,477 | - | 3,477 | - |
| Membership shares | 78 | 78 | - | - | 78 |
| Total financial liabilities | 916,413 | 922,269 | - | 922,191 | 78 |

**Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value**

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

All Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to their amortized cost.

**20. Commitments**

In 2016, the Credit Union entered into a seven year commitment with Celero for the provision of retail banking services. In 2021, the agreement was extended another three years. The annual operating fee is calculated based on the average number of outstanding accounts throughout the year. The annual operating fees for the year ended December 31, 2022 were $474,051 (2021 - $401,367) and recorded as an expense. The annual estimated fee for the year ended December 31, 2023 is $485,103 (2022 - $474,051).

In 2018, the Credit Union entered into an agreement to purchase units in the APEX III Investment Fund. The Credit Union makes advances to the Fund when requested, which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2022 the Credit Union has advanced $1,407,013 (2021 - $732,013) of their total commitment of $1,500,000 (2021 - $1,500,000) to the APEX III Investment Fund.

In 2019, the Credit Union entered into an agreement to purchase units in the Conexus Venture Capital Fund. The Credit Union makes advances to the Fund when requested, which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2022 the Credit Union has advanced $426,428 (2021 - $376,428) of their total commitment of $500,000 (2021 - $500,000) to the Conexus Venture Capital Fund.

In 2020, the Credit Union entered into an agreement to purchase units in the Emmertech Fund. The Credit Union makes advances to the Fund when requested, which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2022 the Credit Union has advanced $87,500 (2021 - $37,500) of their total commitment of $250,000 (2021 - $250,000) to the Emmertech Fund.

In 2021, the Credit Union entered into an agreement to purchase units in the MDL Real Estate Income Fund. The Credit Union makes advances to the Fund when requested, which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2022 the Credit Union has advanced $250,583 (2021 - $135,529) of their total commitment of $500,000 (2021 - $500,000) to the MDL Real Estate Income Fund.

In 2021, the Credit Union entered into an agreement to purchase units in the Westcap MBO III Investment Fund. The Credit Union makes advances to the Fund when requested, which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2022 the Credit Union has advanced $113,000 (2021 - $nil) of their total commitment of $500,000 (2021 - $500,000) to the Westcap MBO III Investment Fund.

**20. Commitments** *(Continued from previous page)*

In 2021, the Credit Union entered into a three year commitment with DocuSign for the provision of eSignature services. The total remaining commitment for the two year period from January 15, 2023 to January 14, 2025 is $131,071.

In 2022, the Credit Union entered into an agreement to purchase units in the APEX IV Investment Fund. The Credit Union makes advances to the Fund when requested, which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2022 the Credit Union has advanced $nil of their total commitment of $1,250,000 to the APEX IV Investment Fund.

In 2022, the Credit Union entered into a five year commitment with Empyrean Solutions for software licences. The total commitment for the five year period from October 31, 2022 to October 30, 2027 is $259,153.

In 2023, the Credit Union entered into a six month commitment with Plign Digital Inc. for cloud services implementation. The total commitment for the six month period in 2023 is $289,500.

**21. Other legal and regulatory risk**

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

**22. Canada Emergency Business Account Program**

Under the Canada Emergency Business Account ("CEBA") Program, with funding provided by the Government of Canada and Export Development Canada ("EDC") as the Government of Canada's agent, the Credit Union provides loans to its business banking members. In June 2020, eligibility for the CEBA loan program was expanded to include businesses that did not meet the payroll requirements of the initial program but had other eligible non-deferrable expenses. Under the CEBA Program, eligible businesses receive a $60,000 interest-free loan until December 31, 2023. If $40,000 is repaid on or before December 31, 2022, the remaining amount of the loan is eligible for complete forgiveness. If the loan is not repaid by December 31, 2023, it will be extended for an additional 2-year term bearing an interest rate of 5% per annum. The funding provided to the Credit Union by the Government of Canada in respect of the CEBA Program represents an obligation to pass-through collections on the CEBA loans and is otherwise non-recourse to the Credit Union. Accordingly, the Credit Union is required to remit all collections of principal and interest on the CEBA loans to the Government of Canada but is not required to repay amounts that its members fail to pay or that have been forgiven. The Credit Union receives an administration fee to recover the costs to administer the program for the Government of Canada. Loans issued under the program are not recognized on the Credit Union's consolidated statement of financial position, as the Credit Union transfers substantially all risks and rewards in respect of the loans to the Government of Canada. As of December 31, 2022, the Credit Union had provided approximately 634 (2021 - 562) members with CEBA loans and had funded approximately $33.7 million (2021 - $31 million) in loans under the program.

**23. Contingent liabilities**

The Credit Union has been named in certain legal actions. These actions are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Accordingly, no provision has been made in these consolidated financial statements for any liability that may result. The Credit Union's share of settlement, if any, will be charged to expenses in the year in which the amount is determinable.

### 24. Business combination

On March 1, 2022, PCCU Insurance Ltd. purchased 100% of the common shares of Kyle Agencies Inc. The business combination took place to expand the Credit Union's reach for its insurance product offerings to more of its members.

Business acquisitions are accounted for using the acquisition method, with the Credit Union (through its subsidiary PCCU Insurance Ltd.) acquiring 100% of Kyle Agencies Inc. The results of the acquired business is included in the consolidated financial statements as from the respective date of acquisition.

On January 1, 2022 pursuant to the terms of an amalgamation agreement, all members of LeRoy Credit Union Limited exchanged their common shares for common shares of the Credit Union on a one for one basis. The business combination took place to achieve economies of scale for the combined Credit Union.

Business acquisitions are accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of LeRoy Credit Union Limited. The results of the acquired business is included in the consolidated financial statements as from the date of acquisition. No cash was transferred and no contingent consideration was provided for LeRoy Credit Union Limited. The following table summarizes the fair value (which approximates book value) of the identifiable assets acquired and the liabilities assumed at the date of acquisition:

| | **Fair value at the acquisition date** |
|---|---|
| **Acquired assets and assumed liabilities** | |
| Cash and cash equivalents | 21,302,179 |
| Investments | 37,481,278 |
| Member loans receivable | 83,561,719 |
| Other assets | 13,046 |
| Deferred tax asset | 382,938 |
| Property, plant and equipment | 415,962 |
| Member deposits | (134,590,907) |
| Other liabilities | (1,014,274) |
| **Net identifiable assets and liabilities** | 7,551,941 |

The par value of equity shares issued to former members of LeRoy Credit Union Limited was $34,750. The Credit Union recognized the excess of fair value of the net assets acquired over the par value of the equity shares issued by the Credit Union as contributed surplus in the amount of $7,517,191, which is recorded directly in members' equity.

Fair values in determining the financial assets acquired and liabilities assumed were determined based on the same criteria as outlined in Note 19 Fair Value Measurements. The fair value of property, plant and equipment was estimated using cost less accumulated depreciation.

No goodwill was recognized on the above amalgamation with LeRoy Credit Union Limited.

Incremental acquisition-related legal, professional and accounting costs of the above noted business combination have been recognized as an expense in the consolidated statement of comprehensive income.

**SCHEDULE II**

## BYLAWS
## PRAIRIE CENTRE CREDIT UNION (2006) LTD.

### SECTION 1 – MEANING OF TERMS

1.1 Defined Terms

As used in these Bylaws the following terms have the definitions set forth below:

a) "Act" means *The Credit Union Act, 1998;*
b) "At Large" means the director positions which are elected by the members for District 8, and not limited to any of Districts 1 through 7;
c) "Credit Union" means Prairie Centre Credit Union (2006) Ltd.;
d) "Basis of business done with or through the Credit Union" means and is determined in the manner set forth in *The Credit Union Act, 1998*, as amended from time to time for determining and calculating patronage returns;
e) "Business Area" means and is determined with reference to the geographical area primarily serviced by the branch and/or the residences of the members whose accounts are located at that branch;
f) "Board" means the Board of Directors of the Credit Union;
g) "Bylaws" means the bylaws of the Credit Union duly passed by it and in force from time to time;
h) "Fundamental Change" means a fundamental change as defined by the Regulations;
i) "Key Management Person" means and includes an individual who is employed in an executive management position in the Credit Union or is a Director of the Credit Union;
j) "Primary Account" means and is determined with reference to the quantity and value of services and deposits handled in that account;
k) "Proposal" means a proposal as defined by Section 85 of *The Credit Union Act, 1998;*
l) "Regulations" means the regulations to *The Credit Union Act, 1998,* as amended or enacted from time to time;
m) "Voting Period" means the period for voting for election of directors or voting on a Fundamental Change as set by the Regulations.

1.2 Other Terms

Other terms, whenever used in these Bylaws shall have the respective meanings ascribed to each such term in *The Credit Union Act, 1998,* as amended from time to time.

### SECTION 2 - MEMBERSHIP

2.1 Qualification

Subject to the Articles, membership in the Credit Union is open to all persons.

2.2 Minimum Membership Shares

All persons wishing to become a member shall hold a minimum of one membership share.

## SECTION 3 – ASSIGNMENT

3.1 Assignment

Shares and other similar interest(s) may only be assigned or transferred with the approval of the Board.

## SECTION 4 – DIRECTORS

4.1 Number of Directors

The minimum number of Directors shall be five (5) and, subject to the Articles, the maximum will be fifteen (15).

4.2 Election of Directors

a) Eligibility – In addition to the qualifications set out in the Act, nominees and directors shall have the following qualifications:

i. must have been a member of the Credit Union for at least one year.
ii. must be bondable and must agree to treat all business of the Credit Union in the strictest confidence.
iii. must not be involved in any legal action or dispute with the Credit Union.
iv. must not be a Board member of any other financial institution except as a representative of the Credit Union.
v. must not be an employee of the Credit Union or its predecessor within 24 months of the Closing Date for nominations.
vi. must not be a spouse of a Key Management Person of the Credit Union.
vii. In the last five years, must not have held substantial investment, as defined by *The Credit Union Act, 1998*, in a business, or had personal loans, which caused losses to the Credit Union, whether as a result of a write-off of an uncollectible loan balance, collection costs or legal costs, unless those amounts have been subsequently paid to the Credit Union.

b) Determination of Districts

i. Directors shall be elected by district. Districts will be defined as the following geographical areas:

1. District 1 – the trading area surrounding Eatonia and Eston
2. District 2 – the trading area surrounding Delisle, Harris, and Rosetown
3. District 3 – the trading area surrounding Beechy, Dinsmore, Elrose, and Kyle
4. District 4 – the trading area surrounding Elbow, Loreburn, and Outlook
5. District 5 – the trading area surrounding Herbert and Morse
6. District 6 – the trading area surrounding Spiritwood
7. District 7 – the trading area surrounding LeRoy
8. District 8 – the area encompassing all of Districts 1 through 7

c) Nominations

i. To represent a geographic district, a nominee must have his or her Primary Account at a service outlet situated within the geographic district. Any member may represent District 8.

ii. No person may be a nominee in more than one geographic region.

iii. No person is eligible to be elected as a director of the Credit Union unless such person is nominated for the position from a District and the nomination is in accordance with these Bylaws.

iv. A nominee must sign a nomination paper confirming that he or she consents to their nomination and qualifies under the eligibility requirements stipulated in the Act and Bylaws.

v. Nomination papers must be signed by the person nominated for the position of director (nominee) and be endorsed by the signatures of at least five members of the Credit Union who have accounts at a service outlet situated within the nominee's District.

vi. The Credit Union shall advertise for nominations for position of director for a period of two weeks beginning ~~six~~ seven weeks prior to the week of the Annual Meeting.

vii. Names of the nominees for position of director shall be placed with a Nominating Committee by noon on Monday of the week ~~two~~ three weeks preceding the Voting Period.

viii. Where the number of nominations exceeds vacancies, the names of the nominees will be published in local newspapers or posted online during the ~~three~~ two weeks preceding the Voting Period.

ix. The Board shall establish specific policies and procedures in connection with the nominating committee functions including establishing guidelines and criteria for determining suitable candidates based on skill, experience and attributes.

(d) Elections

i. Members holding their primary account in the following districts will elect directors as follows:

1. District 1 members will elect one director
2. District 2 members will elect ~~two~~ one director~~s~~
3. District 3 members will elect ~~two~~ one director~~s~~
4. District 4 members will elect one director
5. District 5 members will elect one director
6. District 6 members will elect one director
7. District 7 members will elect one director
8. District 8 members will elect ~~two~~ four At Large directors

ii. Credit Union members will only be entitled to vote for directors to represent (a) the District which includes the service outlet at which they have their Primary Account; and, (b) District 8.

iii. The Returning Officer will keep the lists of members eligible to vote in each District. Members shall vote in the location where they maintain their Primary Account. In the case where a member holds accounts in more than one location, the Returning Officer(s) may specify the location at which the member shall vote.

iv. Voting for directors will be conducted by secret ballot in the manner which is approved by the Board. The manner of voting may include but is not limited to voting polls, in branch voting, mail in ballot, electronic ballot or by any combination of or all such methods. If the Board authorizes electronic voting for directors a member may vote at a polling station within a credit union branch.

v. Secret ballots may be cast at any service outlet of the Credit Union which is situated within the District for which the election is taking place.

vi. Election of Directors will take place during the Voting Period.

vii. The Voting period will be not less than 7 days or more than 21 days in length and shall begin not more than 28 days and end not less than 7 days prior to the Annual Meeting.

viii. A photograph and a brief biography of the candidates may be posted in the offices of the Credit Union during the Voting Period.

ix. A Returning Officer shall be appointed at each Annual Meeting who will be responsible for organizing the election if one is necessary.

x. The Returning Officer shall have the authority to appoint deputies as poll clerks, who shall be members of the Credit Union and who may be paid for their services.

xi. Ballots shall be counted by the Returning Officer prior to the Annual Meeting and successful candidates will be announced at the Annual Meeting.

xii. If a meeting is scheduled at which business is to be conducted during the Voting Period for election of directors, and the credit union is permitting electronic voting, a member or shareholder shall be allowed to participate in such meeting by means of telephonic, electronic or other communication facility and vote in person if participating in the meeting in person.

4.3 Term of Office

a) After expiry of the initial term, all directors shall be elected for a term of 3 years; unless a director is elected to fill a vacancy for an unexpired term.
b) Where candidates are to be elected for varying terms, the candidates receiving the highest number of votes cast are to be declared elected for the longest or the longer term, as the case may be. Where two directors are elected by acclamation, lots will be drawn to determine the director to receive the longer term.
c) A director who has served four consecutive three year terms, shall not be eligible for re-election until one year has lapsed.

4.4 Removal of Directors

a) Any director who, during his or her term of office, does not meet all the eligibility requirements as outlined in Section 4.2 (a) of these Bylaws ceases to be a director.
b) A director who fails to attend a minimum number of three consecutive meetings without good cause is disqualified to remain a director. The Board shall determine good cause.
c) Any person removed from directorship by a 2/3 majority vote ~~of the members~~cast at a meeting of members or disqualified for failing to attend the minimum number of meetings is also disqualified from any committee or representative body that requires an individual to be a director.

4.5 Remuneration

Directors shall be reimbursed for expenses incurred in connection with Director duties. Directors may be paid a per diem for attending Board or Committee meetings or for performing official Director or Committee functions at rates established by the Board of Directors from time to time. The Board of Directors may also establish and pay reasonable annual or monthly retainer fees in addition to or in lieu of per diems.

## SECTION 5 - VACANCIES

5.1 The Board may fill a vacancy on the Board until the next Annual Meeting, provided there is a quorum.

## SECTION 6 – MEETINGS OF MEMBERS

6.1 Conduct

If approved by the Board, meetings of members may be held using telephonic, video, electronic or other communication facilities. Unless a chair is otherwise appointed, the ~~President~~ Chair or any other officer designated by the Board shall preside over all meetings of the Credit Union and the Board.

6.2 Voting

Voting at a meeting conducted using telephone, electronic or other communication facilities shall be by secret ballot or by any other means that will identify the voter and vote cast to the returning officer appointed for such location.

6.3 Location

Meetings of the Credit Union may be held at more than one location. If approved by the Board, meetings may be held separately or simultaneously at more than one location. Where arrangements are made for members to participate in meeting through electronic, video, telephonic or other communication such meeting is considered to be a meeting in one location.

6.4 Meetings at More than One Location

For meetings at more than one location members should attend meetings and vote at the location where they have their Primary Account. Members may only vote once on any question. The returning officer will keep lists of members who are registered to vote at each location and may deny registration to any member who previously registered at another location.

6.5 Resolution for Meetings at More than One Location

Votes on resolutions will be held at each meeting and the resolution will only pass if the aggregate of the votes cast in all meetings is sufficient to pass the resolution. Resolutions from the floor are not permitted.

6.6 Proposals

All Proposals must be submitted in the time and manner prescribed by *The Credit Union Act, 1998*. Resolutions that have not been presented in the time and manner required for Proposals may, at the discretion of the Chair, be presented and debated at an Annual Meeting. Any such resolution is non-binding and will be received by the Board for informational purposes only.

6.7 Annual Meeting Agenda

The Annual Meeting agenda may include the following items of business in addition to those specified by the Regulations.

(a) Announcement of successful candidates from the conduct of elections;
(b) Other business including presentment and debate of non-binding resolutions;
(c) Other specific agenda items (e.g. Amendment to Bylaws).

6.8 Notice of Meetings

Notice of Meetings may be provided by all methods authorized or permitted under the Act or Regulations.

6.9 Other Meetings

The Credit Union may hold semi-annual or other periodic meetings of the members.

6.10 Quorum

The quorum at an annual or special meeting of members:

(a) is 15 members entitled to vote; and
(b) where the meeting is held at more than one location, is not less than 10 members who are entitled to vote at each location.

6.11 Voting on a Fundamental Change

(a) Voting on a resolution respecting a Fundamental Change will be conducted by secret ballot in the manner which is approved by the Board. The manner of voting may include but not limited to in person, electronic voting, by mail or by any other approved voting method during a Voting Period established by the Board.

(b) If the Board authorizes electronic voting on a resolution to approve a Fundamental Change a member may vote at a polling station within a credit union branch.

(c) If the credit union authorizes electronic voting on a Fundamental Change during a Voting Period a member shall be allowed to participate in the meeting at which the resolution is presented and vote by means of telephonic, electronic or other communication facility and vote in person if participating in the meeting in person.

(d) Each member is entitled to one vote. All votes must be received during the Voting Period. The returning officer shall announce the results of the voting on the resolution to approve the Fundamental Change within three (3) business days of the close of the Voting Period.

(e) The meeting at which the resolution to approve a Fundamental Change is presented and considered is not concluded until after expiry of the Voting Period and the counting of all votes cast by the voting methods authorized by the Board.

## SECTION 7 – COMMITTEES

7.1 The Board may appoint to a committee a person who is not a member of the Credit Union or the Board.

## SECTION 8 – MEMBERSHIP CERTIFICATE

8.1 Membership share certificates need not be issued to members.

## SECTION 9 – SERVICES TO NON-MEMBERS

9.1 The Board may determine from time to time what services may not be provided to non-members.

## SECTION 10 – TERMINATION OF MEMBERS

10.1 On any appeal from termination of membership, a vote to rescind the decision of the Board must be passed by 75% of the members present at the membership meeting.

## SECTION 11 – REDEMPTION OF MEMBERSHIP SHARES

11.1 When a member withdraws or is terminated from the Credit Union for whatever reason, all shares and other interests in the Credit Union shall be paid to the member not later than one (1) year after the effective date of withdrawal or termination; provided the Credit Union is solvent or that such withdrawal will not cause insolvency.

11.2 Where a member has a loan with the Credit Union, all shares and other interests shall be firstly applied to the repayment of the loan with any balance remaining to be paid to the member.

## SECTION 12 – ALLOCATION OF SURPLUS

12.1 The Board shall determine annually the percentage of the patronage return allocated for members in any given financial year to be applied to the purchase of membership shares of the Credit Union.

12.2 Members shall be informed in writing of the number of shares purchased or to be purchased.

12.3 Issuance of shares shall be with the approval of the Board or in a manner approved by the Board.

12.4 The credit union may allocate a portion of surplus arising from the operation of the credit union to non-members.

12.5 Any closed or terminated account will not qualify for any dividend or patronage returns declared by the Board at a subsequent date.

## SECTION 13 – BUSINESS WITH THE CREDIT UNION

13.1 Members may do business with the credit union either electronically or at any branch of the credit union and nothing in these Bylaws is intended to or shall be interpreted to restrict the member from conducting business either electronically or at any branch.

## SECTION 14 – CHARGE AND SETOFF

14.1 The Credit Union has a charge on all membership shares including any joint membership share for a debt of the member and may apply such shares or monies standing to the credit of the members towards payment of such debt.

## SECTION 15 – HEADINGS

15.1 The section headings used in these Bylaws are not substantive and are included solely for convenience of reference only.