UNITY Credit Union

VISION

Partnering to achieve success and build a better community.

MISSION

As a financial co-operative, Unity Credit Union exceeds our members' expectations by identifying their needs and recommending solutions for the benefit of our members, the community and the credit union.

80 Years of Service

We'll always be there.

UNITY CREDIT UNION LIMITED ANNUAL GENERAL MEETING

TUESDAY, MARCH 22, 2022

ORDER OF BUSINESS

7:00 - **Pre-Meeting Items**

- Virtual Meeting Protocols and Testing of Voting Polls
- Proof of Notice of Meeting and Confirmation of Quorum
- Affidavit of Completion of Reports
- Appointment of Chairperson and Secretary

7:05 - **Annual Meeting Agenda**

- Call to Order
- Adoption of Agenda
- Adoption of Minutes of Last Meeting held March 23, 2021
- Business Arising from Minutes
- President's Message
- Credit Union Discussion and Analysis
- Auditor's Report
- Financial Statement Review
- Adoption of Reports
- Appointment of Auditors
- Nominating Committee Report
- Question/Discussion Period
  - Service Awards Announcement
  - Adjournment

80 Years of Service

1) Proof Of Notice:

CANADA	)	*I, Gerald Hauta,*
	)	*of the Town of Unity,*
PROVINCE OF SASKATCHEWAN	)	*in the Province of Saskatchewan,*
	)	*Treasurer of the Unity Credit Union Limited*

TO WIT:

That I have personal knowledge that the notice of this annual meeting was duly prepared and given to members as required by the Bylaws of the Credit Union.
NOTICE was posted in the Credit Union and on social media on February 28, 2022.

And published in "The Unity-Wilkie Press Herald"
on February 25, 2022.
Sworn before me at the Town of Unity)
In the Province of Saskatchewan)________________________
This 14th day of March, 2022.)

____
A Commissioner for Oaths in and for
Saskatchewan
My Commission expires July 31, 2022

AFFIDAVIT OF COMPLETION OF REPORTS

I, Gerald Hauta, Manager of Unity Credit Union Limited make oath and say that:

1) The Annual Financial Reports were completed by March 11, 2022.

2) The Annual Financial Reports were made available to the membership March 11, 2022, which is at least 10 days prior to the annual meeting.

Sworn before me at the Town of)
Unity, in the Province)
of Saskatchewan, this 14th day)________________________
of March, 2022.)

____
A Commissioner for Oaths in and for
Saskatchewan
My Commission expires July 31, 2022

MINUTES OF THE 2020 ANNUAL MEETING OF UNITY CREDIT UNION LIMITED

UNITY CREDIT UNION
TUESDAY, MARCH 23, 2021

At 7:01 p.m. Gerald Hauta welcomed everyone to the meeting and reviewed the Virtual Meeting Protocols. Fun polls were used to test the Voting Polls.

Due to COVID-19 the meeting was held virtually with 56 in attendance.

It was noted that the Annual Report and Financial Statement are available at the Credit Union and on the Credit Union website.

Gerald Hauta presented the Proof of Notice and the Affidavit of Completion of Reports. He confirmed that a quorum was in attendance and the meeting could proceed.

The board appointed Gerald Hauta as Chairperson and Dianne Kramer as Secretary at their last board meeting.

Gerald presented the Rules of Order since this was the first virtual meeting.

Gerald Hauta called the Annual General Meeting to order at 7:16 pm.

Gilles Colbert and Michelle Aldred moved that the agenda be adopted as presented. Carried.

Gerald presented the Minutes of the 2019 Annual Meeting held on Tuesday March 24, 2020 for the members to review.

There were no errors or omissions arising from the minutes.

Vanessa Spendelow and Sonya Willy moved that the minutes of the 2019 Annual Meeting held on Tuesday, March 24, 2020 be accepted as presented. Carried.

There was no business arising from the minutes.

Colette Lewin presented the President's Message.

Gerald Hauta and Colette Lewin presented the Credit Union Discussion and Analysis Report.

Curt Wagner of MNP presented the 2020 Auditor's Report.

Gerald Hauta and Curt Wagner presented the highlights of the Financial Statement.

There were no questions arising from the statements.

Sandra Wagner and Deon Sieben moved that the President's Message and the Credit Union Discussion and Analysis Report be accepted as presented. Carried.

Dixie Berki and Michelle Pilat moved that the Auditor's Report and Financial Statements be accepted as presented. Carried.

Colette Lewin, on behalf of the Board of Directors, recommended that MNP be appointed as Auditors for 2021.

Tom Stephenson and Sonya Willy moved that the accounting firm of MNP be appointed as the auditors for Unity Credit Union Limited for 2021. Carried.

Colette Lewin presented the Nominating Committee Report. Colette Lewin, Keith Wilson and Sharon Del Frari had their terms expire in 2021. According to policy a director can serve four consecutive terms or 12 years but then are required to leave the board for at least a year. Colette was therefore ineligible for re-election this year. Sharon Del Frari was elected as Mayor of Unity so chose to resign from her position. Clyde Drover accepted employment outside our trading area so also resigned from the board. Keith Wilson let his name stand along with Rhonda Brandle, Christine Lang and Terri McAleer. As no other nominations were received, the four candidates were declared elected by acclamation.

Michelle Aldred and Anita Parker moved that the Nominating Committee Report be accepted as presented. Carried.

Gerald Hauta presented the Bylaw Amendments.
There were no questions arising from them.

Dixie Berki and Kristine Moon moved to rescind the existing bylaws and to approve the amendments to the bylaws as presented. Carried.

During the Question/Discussion Period there was a thank you to Colette Lewin for her dedication to the board and the credit union. No questions were asked.

Gerald Hauta announced the following employees would be receiving long term service awards:

- Christy Walker – 15 years
- Andrea Eddingfield – 15 years
- Carissa Ralston – 10 years
- Sharon Del Frari, Board Member – 3 years
- Colette Lewin, Board Member – 12 years

Gerald Hauta adjourned the meeting at 8:15 p.m.

LKramer

Secretary

80 Years of Service

A message from Our PRESIDENT

Welcome to our 80th Annual General Meeting. Normally a milestone like this would have been celebrated during the year with much fanfare but the continued pandemic only allowed us to quietly mark it during Co-op Week.

2021 marked my first year as President of Unity Credit Union and to say it was interesting might be an understatement. I would prefer to use the word hampered to describe 2021. The year began with the anticipation and excitement that vaccinations might curb the Coronavirus Disease, but these expectations were hampered by the arrival and spread of new variants. There was anticipation that the agricultural industry would lead economic recovery but that anticipation was hampered by extremely hot dry weather for an extended period of time drying up crops and pastures. The projections that economic conditions were improving were hampered by prolonged challenges for members caused by the extended effects of COVID. The financial successes we experienced as a credit union were hampered by the need to book allowances for potential losses due to the economic challenges present in our world.

As an organization, we struggled to balance serving members with keeping our staff and community safe. We continued to have some staff work from home on a rotating basis. By doing this, we hoped to be able to have a team of employees available to come in and serve members in the event that our organization was hit by an outbreak amongst staff. This was trying for staff, as in the past two to three years, they have worked through the challenges of an extensive renovation followed by the challenges of a pandemic. We appreciate the member service our staff have been able to provide under less than ideal conditions and we appreciate the loyalty shown by members who have continued to use our services despite often having to obtain those services differently than ever before.

In 2021, financial successes were impeded by some financial challenges. Members continued to show trust in their credit union by continuing to utilize our services and growing their deposits. We enjoyed asset growth similar to what we experienced in 2020. We grew over $26.5 million in 2021 to end the year with an asset base of $324.7 million, the highest result in our history. Through the year, members began to borrow cautiously again, resulting in an increase in our loan portfolio for a new all-time high of $210 million. Our margin between interest received and interest paid continued to be impacted by low interest rates and a very competitive interest rate environment. In 2020, the chartered banks established large allowances for potential losses in their lending portfolios. Unity Credit Union helped members by deferring payments. Due to the extended challenges posed by the pandemic environment we had to increase our allowances in 2021, which drastically impacted our operating surplus. However, despite these challenges, we were able to absorb the increase in allowances, allocate $400,000 for member patronage, and still generate an operating surplus. As an organization, we were able to navigate a year of hampered, impeded and impacted results and still remain in a strong financial position.

Behind the scenes, the board and staff continued to use technology as never before. The new technology

80
Years of
Service

MICHAEL SOLOSKI, *President, Board of Directors*

allowed several directors and staff to participate in the National Conference as it was held virtually so no travel was required. This was a new opportunity for many. We continued to work on updating our technology and implementing new programs and processes. As with the financial results, we had some successes and some challenges but we continued to move forward. We continued to serve members through a combination of meeting face-to-face and virtually.

The future continues to be in a state of flux. There are changes coming in payment services. Open Banking Regulations are now being considered. This is significant as Open Banking has been compared to the disruption caused by the introduction of the World Wide Web. Technology projects will continue. New entrants into the financial arena continue to be many and varied. Changes continue in the credit union system locally, provincially and nationally.

We, as an organization, realize that in order to continue to serve members into the future the traditional business model needs to grow and evolve. We need to continue to embrace change without ignoring members who have been long time supporters. We want to be seen as your trusted advisors. We want to continue to educate members on how to be financially literate, be safe using technology and make the right decisions to enhance their financial well-being.

Success will not occur without continued member support. We will need support from those members who have supported us for many years and those who left the Unity area to pursue education and employment. If members continue to believe in Unity Credit Union and trust us, "We'll always be there!" We have a role to play in maintaining your confidence but you, your children and your grandchildren also have a role to play by using our services. We ask for your continued support.

Michael Soloski
President, Board of Directors

Our BOARD OF DIRECTORS

Michael Soloski
President

Sandra Wagner
Vice President

Martin Berg

Rhonda Brandle

Christine Lang

Kristine Moon

Anita Parker

Terri McAleer

Keith Wilson

JUNIOR BOARD MEMBERS

Kerrigan Bowey

Ashlyn Greenwald

The co-operative principle of democratic member control anchors the governance of Unity Credit Union. When required, directors are elected by members and hold office for three years. Our policy states that directors are eligible to serve four consecutive terms or twelve years but then are required to leave the board for at least one year. This ensures that new people are allowed to participate and bring forward new ideas. With recent changes to governance practices, we are required to qualify candidates based on financial management of their own affairs, being reputable citizens and having a good reputation around the community.

Serving on the board is a commitment requiring dedication. For this reason, obtaining candidates for vacancies can be challenging. We continue to use the succession plan for directors, which states that the nominating committee's obligation is to seek a candidate for each vacancy and that they are not obligated to obtain extra candidates to hold an election. Members are encouraged to bring forward names of candidates if they desire an election.

Every year three director terms expire. Directors whose terms expired in 2021 were Colette Lewin, Keith Wilson and Sharon Del Frari. Prior to the expiration of her term, Sharon was elected as Mayor of the Town of Unity so chose to resign from her position. We had another vacancy on the board as Clyde Drover accepted employment outside of our trading area so also resigned from the board. As she had served 12 consecutive years, Colette Lewin was ineligible for re-election. The nominating committee sought candidates to fill 3 three-year terms and 1 two-year term to fill Clyde's vacancy.

Keith Wilson was eligible for re-election and agreed to let his name stand. Rhonda Brandle, Christine Lang and Terri McAleer also agreed to let their names stand. As no other nominations were received, the four candidates were declared elected by acclamation. Christine Lang chose to fill the two year position with the other candidates filling the three year positions.

We continued our Junior Board Member Program to encourage young people to take an active part in our credit union. We feel the program has been very successful. The ultimate goal of the program is to help these young people learn more about the credit union and the services we offer and to hopefully expand their financial knowledge. Kerrigan Bowey continued as our Grade 12 representative and we welcomed Ashlyn Greenwald as the representative from grade 11. Junior board members participate in board meetings but have no voting rights. They are invited to the Strategic Planning session and Kerrigan was able to participate in 2021, bringing a fresh new perspective to the exercise.

MANDATE AND RESPONSIBILITIES

The Board of Directors has a responsibility under the Credit Union Act. Credit Union Deposit Guarantee Corporation Guidelines further outline Board Responsibilities in a high level as:

Approve and Oversee:

- Strategy
- Risk Management
- Board, Senior Management and Oversight Functions
- Audit Plans

These duties are the primary responsibilities of the board and are the main focus of the board's attention and activities.

Provide challenge, advice and guidance to the senior management of the institution, as appropriate on:

- Business Performance and Effectiveness of Risk Management

These duties are the responsibility of senior management. To fulfill its responsibility, the board relies on senior management to provide sound advice on the organizational

80 Years of Service

6 CUDA WORKSHOPS ATTENDED BY BOARD OF DIRECTORS

4 LEVEL A CUDA DIRECTORS

objectives, strategy, structure and policies of the institution.

The board is expected to be satisfied that the decisions and actions of senior management are:

- Consistent with the board-approved business plan, strategy and risk appetite of the credit union and the corresponding internal controls are sound.
- Designed to incent behaviours and outcomes that are in the best interest of the credit union, its members and stakeholders.
- Aligned with internal constraints, such as financial and operational capability, and external constraints such as competitive and economic conditions.
- In compliance with all applicable regulatory requirements.

These guidelines make it apparent that the board is not involved in the day-to-day operations of the credit union. For many years the board has not approved loans or seen members' personal information, deposit balances or financial information. These functions are handled by management and staff.

COMMITTEES

The responsibilities of the board of a financial institution encompass a comprehensive list of duties under fairly extensive regulatory oversight. Unity Credit Union maintains a number of committees comprised of directors. The establishment of committees enables a clear focus on specific areas of activity vital to the effective operation of our credit union. The board determines the skills and abilities needed on each committee and chooses its members accordingly. The board also determines each committee's terms of reference, guidelines and requirements. The President serves as an ex-officio of all committees.

- **Audit and Finance Committee**
  The Audit and Finance Committee oversees financial reporting and related processes, reviews financial statements and budgets, monitors financial performance, liaises with internal and external auditors and regulators and reviews internal control procedures. The committee consists of four directors, however the entire board is invited to attend meetings of this committee.

- **Risk & Compliance Committee**
  The Risk & Compliance Committee oversees the Enterprise Risk Management Framework, organizational-wide compliance, corporate risk profile, control framework and internal controls, conflicts of interest and non-compliance reporting. The committee meets with the Risk & Compliance Officer to ensure the credit union remains compliant with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, Market Code including the Personal Information Protection and Electronic Documents Act, Foreign Account Tax Compliance Act, Common Reporting Standards, Canadian Anti-Spam Law and Multi Material Recycling Program. The committee consists of four directors; however, the entire board is again invited to attend meetings of this committee.

- **Policy Committee**
  The Policy Committee reviews the existing

policies of Unity Credit Union, for the purpose of recommending any policy changes, deletions and/or additions to the board of directors, for their approval. The Committee consists of three directors.

- **Nominating Committee**
  The Nominating Committee oversees the nomination and election processes. The Committee consists of those directors who are not candidates for re-election.

- **Conduct Review Committee**
  The Conduct Review Committee ensures that the credit union's directors and employees act with integrity and objectivity by having in place policies, processes and practices that protect people and the organization from claims and the perception of unfair benefit to related parties or conflict of interest with related parties. The Committee consists of three directors

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- **Executive Committee**
  The Executive Committee acts in the capacity of, and on behalf of the board of directors between regular or special board meetings on all board matters except those, which the board may not delegate due to legislative requirements. The Committee consists of three directors.

- **Personnel Committee**
  The Personnel Committee works with management to establish and maintain credit union personnel policies and to develop recommendations regarding the credit union's human resource management for board consideration. The Committee consists of three directors.

Being a director continues to be an interesting mix of challenges, rewards and education. Directors have become familiar and more comfortable with virtual meetings which provides much more flexibility for holding meetings. In the highly regulated and ever-changing financial environment, it is imperative that directors remain knowledgeable and informed. Directors took part in training in 2021, but again most of this was done virtually. The Annual National Conference was held virtually which allowed opportunity for more directors to participate as travel and accommodations were not required. Directors attend regular monthly meetings throughout the year. Regular in-camera meetings are held without management personnel in attendance. All directors fulfilled their meeting attendance requirements as detailed in the bylaws. We continue to be pleased that those who represent the members continue to be very dedicated and take their responsibilities seriously.

COMPENSATION

Directors of Unity Credit Union receive remuneration for items related to credit union business or training. Allowable reimbursement expenses are for meetings, travel, meals, accommodations and mileage. In addition, Unity Credit Union pays insurance premiums on behalf of the directors. In 2021, $53,950 was paid as remuneration, which was more than the year before due to the advancement of virtual training and the virtual conference. Insurance premiums paid on behalf of directors were about $1,200.

Our MANAGEMENT & STAFF

MANAGEMENT TEAM

Gerald Hauta
Chief Executive Officer

Lynn Maze
Manager of Member Experience

Shannon Mellquist
Manager of Digital Experience

Megan Schweitzer
Manager of Marketing

Christy Walker
Manager of Lending Services

In 2021, our Management Team consisted of five positions with Shannon Mellquist returning from her maternity leave.

- **Chief Executive Officer – Gerald Hauta** – responsible for the oversight of all areas of the operation. Gerald has 35 years of credit union experience gained from various positions, credit unions and communities. In addition, he had 3 years of co-operative experience before joining the credit union system.
- **Manager of Member Experience – Lynn Maze** – responsible for member service including deposits, withdrawals, card services, fraud management, cash management, clearings, statements, all investment offerings and financial planning. Lynn has 42 years of experience in credit unions and has held several positions.
- **Manager of Digital Experience – Shannon Mellquist** – responsible for researching and implementing technology that enhances members' experiences when dealing with Unity Credit Union online, in person or over the phone. Shannon has 15 years credit union experience in various positions as well as previous experience with chartered banks.
- **Manager of Marketing - Megan Schweitzer** – responsible for advertising, communications and promotions utilizing various marketing platforms. In addition, she is accountable for corporate social responsibility. Megan has a Commerce Degree with a Major in Marketing combined with nine years of credit union experience. In 2021, Megan and Christy covered the responsibilities of Shannon's position while she was on maternity leave.
- **Manager of Lending Services – Christy Walker** – responsible for all lending and collection activities. Christy has over 16 years of credit union experience as well as experience in the chartered banks. She has held various positions through her career. Christy and Megan covered the responsibilities of Shannon's position during her maternity leave.

LENDING TEAM


Gaylene Heffner


Michelle Pilat


Carissa Ralston


Janelle Riou

MEMBER EXPERIENCE TEAM


Debra Cairns


Maria Carino-Vetter


Andrea Eddingfield


Shimon McWatters


Denise Purcell


Lisa Reddekopp


Sara Schurman


Rommel Varron


Jennifer Wilson


Griffin Wourms

INVESTMENT TEAM


Amy Close


Scott Smith


Sonya Willy

750+ HOURS VOLUNTEERED BY EMPLOYEES

3 EMPLOYEES & BOARD WHO COMPLETED INDIGENOUS AWARENESS TRAINING

SUPPORT TEAM


James Acuna


Michelle Aldred


Dixie Berki


Kerri Green


Shauna Hammer


Dianne Kramer


Rachel Loran


Vanessa Spendelow


Rajbir Volk

CREDENTIAL FINANCIAL STRATEGIES OFFICE


Ashley Hamilton


Crystal O'Brian

2 UNIVERSITY COURSES COMPLETED BY EMPLOYEES

112 DAYS EMPLOYEES DELIVERED MEALS ON WHEELS

The management team is responsible for the ongoing and detailed operationalization of board decisions. It is the responsibility of the management team to provide the board with sound advice on the organizational objectives, strategy, structure and policies of the institution. Management is expected to set out information, options, potential trade-offs, and recommendations that enables the board to focus on key issues and make informed decisions in a timely manner. The department managers report to the Chief Executive Officer who in turn reports to the Board of Directors.

Through our staff, our goal is to create and develop delighted, full relationship, profitable, lifetime members by being trusted advisors. In order to do this, staff must serve members with courtesy, competency and concern exhibiting a Duty of Care for members' financial well-being. As times change, continuous learning is important. Due to the prolonged effect of COVID, all training and opportunities in 2021 occurred through virtual means. Staff participated in the National Conference and the Saskatchewan Young Leaders Development Days. As with directors, more staff were able to participate due to the virtual nature of these events. Staff also participated in online learning and online meetings, which continued to be the norm. Staff took advantage of webinars and self-study classes to broaden their knowledge, develop support networks and gain new experiences to serve you better. With the new methods of training and the required annual training, all staff were enrolled in some form of training in 2021.

There were a few staff changes in 2021 across the organization for a variety of reasons. Luke Sperle returned as a summer student. Julia deCiutiis joined the team but left in the fall to further her education. Griffin Wourms was hired in the fall to replace Julia. Shannon Mellquist returned from her maternity leave. Deon Sieben left in December for an opportunity with another credit union. Melanie Kist and Dianne Kramer both chose to retire in 2021 after serving the credit union and members for many years. Once again, despite COVID, our HR Advisor, Shauna Hammer had a busy year.

With all the challenges and trying times created by COVID through 2021, we are very proud of our staff. They continued to show resilience, patience, a co-operative spirit, and a commitment to members as we worked through many and varied work and member service changes.

Our COMMUNITY

80
Years of
Service

Our GUIDING PRINCIPLES

CREDIT UNION MARKET CODE

Unity Credit Union voluntarily adheres to the Credit Union Market Code which was developed by Saskatchewan Credit Unions, SaskCentral and the Deposit Guarantee Corporation to ensure the protection of credit union members. A national Market Code for Credit Unions has been developed and will drive some updates to the current Market Code being followed. Among these changes are guidelines for working with vulnerable members. In general terms, the Code provides guidelines for the following areas:

- **Complaint handling** - outlining the process for dealing with all complaints regarding the service, products, fees or charges of Unity Credit Union.
- **Fair sales** - outlining the roles and relationship of staff to all members in accordance with the financial services agreement. The Credit Union provides products and services in a fair, reasonable, objective and reflective manner to members.
- **Financial planning** - outlining the process to advise members of the risks and benefits associated with financial planning services.
- **Privacy** - protecting the interests of those who do business with Unity Credit Union. Privacy is the practice of ensuring all member information is kept confidential and used only for the purpose for which it was gathered.
- **Professional standards** - preserving a positive image of Unity Credit Union among members and communities by communicating our commitment to serve members with the highest level of professionalism, knowledge and competency.
- **Vulnerable members** – protecting individuals who may be susceptible to having their financial affairs taken advantage of by other persons for various reasons.

OTHER GUIDING PRINCIPLES

- **Capital management** - ensures our capital structure aligns with our risk philosophy.
- **Financial reporting** – adheres to business and industry standards.
- **Governance practices** - adheres to the intent and stipulation of our corporate bylaws, which are approved by our membership.
- **Risk management** - ensures all risks are measured and managed in an acceptable fashion.

CO-OPERATIVE PRINCIPLES

As a true co-operative financial institution, Unity Credit Union acts in accordance with the internationally recognized principles of co-operation:

VOLUNTARY AND OPEN MEMBERSHIP
Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without any form of discrimination.

DEMOCRATIC MEMBER CONTROL
Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are organized in a democratic manner.

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

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

EDUCATION, TRAINING AND INFORMATION
Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

CO-OPERATION AMONG CO-OPERATIVES
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional, national and international structures.

CONCERN FOR COMMUNITY
Co-operatives work for the sustainable development of their communities through policies approved by their members.

Our BUSINESS STRATEGY

This discussion and analysis report is a narrative explanation from the board and management's perspective of how the credit union has performed financially as well as its financial condition and future outlook. This type of narrative is currently provided by all publicly traded companies. The Credit Union Deposit Guarantee Corporation (CUDGC) requires credit unions to have appropriate disclosure of information processes in place, supporting transparency to members and other stakeholders in regards to the credit union's operations, risks and capital adequacy. This narrative is an important component of this disclosure of information process. The following discussion and analysis on the operations and financial position of Unity Credit Union at December 31, 2021 should be read in conjunction with the Financial Statements and accompanying notes.

STRATEGY

The Vision of Unity Credit Union remains "Partnering to achieve success and build a better community". To achieve this vision our Strategic Plan outlined four Strategic Foundations. These included Human Capital, Growth, Financial and Social Responsibility. Action plans were developed under each objective to achieve the goals.

HUMAN CAPITAL

Human capital focused on our people and our workplace. After the challenges of 2020 we were hoping for a better 2021, but the challenges continued as the pandemic continued to cause havoc. We continued to have some staff work from home on a rotating basis. Staff in the office continued to work with less colleagues. Despite the challenges, staff continued to serve members with smiles and courtesy both in person and virtually. Our staff are the backbone of the organization and continued to prove this through 2021. In addition to these challenges, we saw changes in our staff complement. We saw new people join our organization as summer students. We saw people come and go. We saw people retire after successful careers. We saw people move on to other challenges. We bid farewell, filled vacancies and welcomed new staff.

From our employee engagement survey there were a few things identified as needing improvements. We tried to address these areas. One of these was our performance management process. We implemented a new process, so spent the year trying to learn how to effectively use this and coach staff accordingly.

Our staff is made up of a variety of demographics and experience levels. As an organization we are trying to be conscious of this and are taking steps to prepare staff to take on more challenging roles. We have had success in promoting from within and being able to hire good people from outside of the organization as well. In 2021, we took a look at our organization and updated our succession plan. There is always work to do in this regard, but the review was an important step.

With preparing for the future in mind, we also looked at training for staff to face the new requirements and new service offerings for members. The world continues to change. Gone are the days when members had to come into the branch or phone to complete transactions. There are all kinds of new technologies that allow members to complete all kinds of transactions without ever coming into the office. These require new ways to deal with members and provide member service. We selected a training program, but due to other projects and the constraints of COVID, we did not enroll staff during 2021.

The credit union landscape is undergoing significant change. The system and the partners we have relied on for many years are undergoing changes and these changes impact individual credit unions, especially the smaller ones. We have continued to seek ways to work with and support our neighbouring credit unions and use them for support as well. We work regularly with the credit unions in our area and slightly beyond. We struck a new deal with Accent Credit Union for financial reporting. We worked with Weyburn Credit Union to learn about the technical side of paying patronage. We struck a new agreement with Concentra Bank for investing strategies. With less support from long term partners, we must develop new working relationships to keep functioning effectively without having to merge.

GROWTH

There were several key drivers under this strategic foundation; a lot of which were carried over from 2020 and many that overlap each other. The first was the implementation of a Customer Relationship Management Program (CRM) and a Business Analytic System (BAS). The CRM program is a tool for capturing interactions with members and logging upcoming needs and communications for and with members. This helps promote needs-based products and services to members in our journey to be your trusted advisors. We were finally able to implement the program in 2021, learn how to use it and begin to use it. We are already seeing the benefits of such a program and this should expand as we use it more. The BAS program was as time consuming as trying to implement CRM the year before. The program we received did not live up to its billing. There were some technical challenges with the program and with the service provider, which was out of our control. We determined that this program would not be able to provide the analytics we would need long-term. In the end, the service provider agreed with us and we chose to terminate the contract.

With the time spent on these two programs, we did not get the chance to move forward with two other process improvement programs we had hoped to implement. These will be carried over into 2022 as we only had so much time and so many resources.

Through our newsletter we advised that our online banking program had reached its end of life. Two different options were available as replacements. Regardless of which option was chosen, the transition included a new public website, a new mobile app and a new online banking platform. We initially chose the cheaper version, but part way through the year, the service provider made a significant change in the offering and after studying the proposed changes, we chose to go with the second and more expensive option. We feel this option will better prepare us for the future including addressing open banking. We were able to transition our website to the new platform in 2021, and in 2022 will implement the new app, online banking platform and a business banking solution as well. Members will be advised of changes as we get closer to rollout of the new programs.

When the *Global Payment* card was terminated a few years ago, we continued to watch the marketplace to see what was being offered by competitors. A move has begun to co-branded cards that allow debit and credit transactions. These cards are known as a *Visa* debit card or *MasterCard* debit card. While we waited to receive information on our version of co-branded cards, we researched another form of rewards card. For 2021, we were hoping to have all the information in order to be able to compare one card to the other. Unfortunately, due to untimely delays from the service providers, we never received all the information and so this comparison of card offerings remains on our to do list for 2022.

80 Years of Service

REWARD FOR EVERY YOUTH MEMBER **$25**

Despite the low rate environment in 2021, interest rates on deposits and mortgages were very competitive. In order to be able to compete in this marketplace, we had to look at our pricing and make some changes. For some time now we have offered risk rate pricing on non-mortgage loans. In 2021, we introduced risk rating on mortgages. We now have a posted rate, but depending on your financial position and situation, you may be able to receive a better rate. In this way, we reward members with proven financial success while still earning the competitive posted rates on those whose financial situation has not reached that position yet. It continues the fair and equitable approach to pricing. We are also looking at a similar approach to pricing deposits.

Our patronage program is a form of rewards program. In the past we have paid a refund of interest paid on loans, a bonus on interest earned on deposits and a rebate of service charges paid. As we operate in a very competitive marketplace with more and more players offering financial services, we have begun to look at our patronage program with a view to enhancing or refreshing it. We researched what other credit unions are doing and have begun work to see if changes can be made. With the 2020 allocation that was paid out in 2021, we introduced one new concept and offered a $25 payment to youth account holders since these members do not see rewards until they become borrowers or have funds to invest. In the meantime, we also looked at our service offerings and made a few changes to products and offerings. We reviewed our recruit/retain strategies introduced when the CIBC was leaving town. We held sessions with staff to brainstorm new ideas to attract new members and retain current members. We are hoping to bring some of these ideas to fruition in 2022.

MEMBERSHIP

Unity Credit Union continued to be an autonomous credit union owned by our members. Under credit union legislation, Unity Credit Union is able to provide financial services to members and non-members. Unity Credit Union promotes membership, and as such, has limited non-member accounts. At the end of 2021, we served 4486 members and 14 non-members. The number of members decreased by 63 as we initiated a cleanup of dormant accounts in preparation for the youth account patronage payment. Other accounts that were closed included those related to members who have passed away, moved, are duplicate records or were operated in an unsatisfactory manner. We cleaned up these accounts to control costs as some of our costs are based on number of accounts. Accounts that are not actively being used cost us money without generating any benefit to the credit union.

Our credit union continues to serve the communities of Unity, Tramping Lake and surrounding districts. With our Credential Financial Strategies (CFS) Office, Unity Credit Union's line of service encompasses a full line of investment options including brokerage; personal insurance; all classifications of loans; card products; financial planning; and electronic banking including online banking, mobile banking and a mobile app.

FINANCIAL

For years we relied on the CEAMS Association to oversee and manage the contracts with various service suppliers. With the disbanding of CEAMS,

80 Years of Service

4486 UNITY CREDIT UNION MEMBERSHIPS

we have to transition contract management from a service organization to in-house oversight. This is a bigger project than it seems as we have to review all the contracts, and there are many of them, looking for key information, track this and then develop a system to manage the entire process. We began this extensive review in 2021 and completed the review of the main contracts.

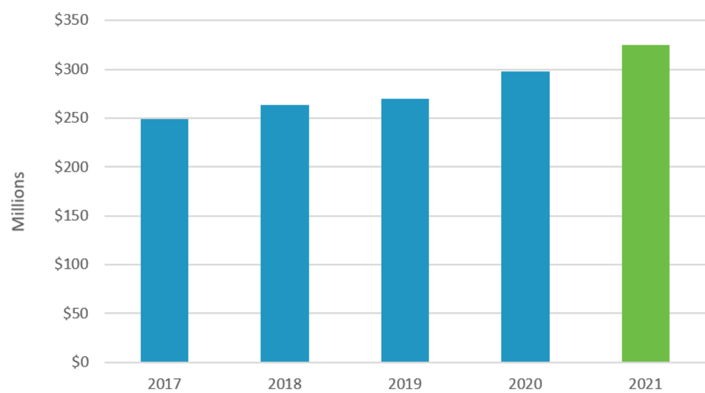
Innovation Credit Union provided financial reporting services for many years. Their organization advised that since they are still looking to become a federal credit union, they wished to terminate their contract for the provision of financial reporting services. We took time to determine if this was something we wanted to bring in-house or find an alternate provider. After review, we chose to establish a new contract with Accent Credit Union and Concentra Bank. These two providers will oversee our required financial reporting as well as our corporate investing. This will mean a transition in 2022. Innovation agreed to help us through yearend and preparing for audit and the annual meeting, but as of January 1, 2022, the new contracts will commence.

Our regulator, the Credit Union Deposit Guarantee Corporation (CUDGC) requires us to have an Enterprise Risk Management process. Enterprise Risk Management requires us to review all of our risks and either accept, avoid, mitigate or transfer the risk. We determined that our process needed an overhaul, so we began the work required to do this. We now have an updated process of tracking and reviewing risks, monitoring risks, and reporting to the board. We have determined that while we may not have a perfect solution, we are happy with the progress we have made.

In 2021, we reviewed many policies to ensure they remained relevant and effective. This is another big project as it takes time and effort to complete reviews of entire policy sections.

Each year an operating and long-term budget are prepared in support of the business plan. For the last few years, the key financial targets have been the same. Following is a summary of the credit union's financial performance results in relation to the targets:

ASSET GROWTH



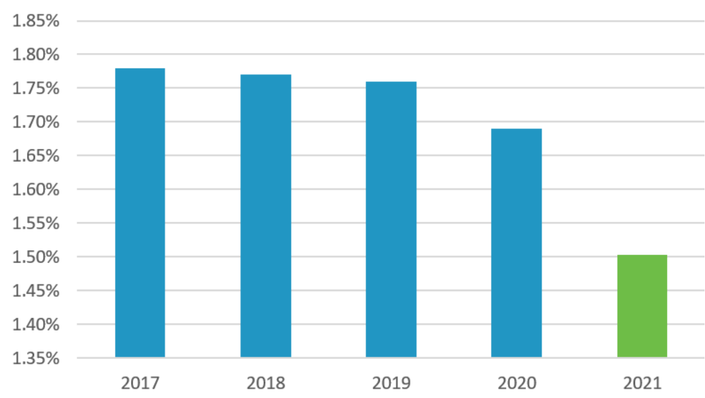
Asset growth does not occur without growth in member deposits. Member deposits provide the credit union with funds to lend to members or to invest, thereby increasing our assets. For 2021, we were not expecting asset growth to continue at the same pace seen in 2020, so our growth target was 1.93%. Despite the continued pandemic and the extended economic challenges, growth continued at a phenomenal pace. Members displayed their trust in Unity Credit Union by depositing funds. Growth came as a result of continued lowered spending due to the pandemic, less travel, receipt of government funds and good prices for commodities despite lower yields. Against what seemed a challenging backdrop, our assets increased over $26.5 million or 8.91% to end the year at a new all-time high of $324,734,212.

8.91% ASSET GROWTH

$324,734,212 ASSETS AT DECEMBER 31, 2021

This growth was very similar to last year. Our 10-year average growth was 7.4%, which was boosted by the last two years' results. Over the last nine years, we have grown from $184 million to $325 million. Capital remains one of the measures of financial stability. Growth such as we have experienced over the last couple of years would normally pose a challenge to capital, but unlike asset growth loan growth was slower. We continued to generate strong operating surpluses; a combination that has kept our capital in line. Since capital continued to be strong, despite a lower operating surplus in 2021, we chose to continue to pay patronage as we feel it is still one of the things that makes us different from our competitors.

OPERATING SURPLUS



As a financial co-operative, the credit union considers financial success in two ways. The first way is obviously being able to generate a bottom line. The second is being a strong corporate citizen contributing to the communities we serve. This dual approach means balancing the generation of an operating surplus with giving back to the community. Giving back to the community does not happen if an operating surplus is not and cannot be generated. Operating surpluses are also the only way we can build capital to ensure stability and be able to provide new services going forward, so it has to remain a prime focus. In trying to meet both these measures of success we also have to remain competitive with other financial institutions on deposit and loan rates. It is a juggling act to attain all these goals.

The credit union generated revenue through interest margin and collection of service charges and commissions. Margin was still the largest generator of revenue as we have tried to keep fees and charges minimal in comparison to our competitors, especially the chartered banks. In 2021, our margin continued to be challenged due to the continued low rate and competitive interest rate marketplace. Adding to this challenge was slower loan growth for much of the year. We qualified for the Canadian Emergency Wage Subsidy offered by the Federal Government and received $187,438 from this source, which helped to offset the margin squeeze. Our venture capital investments did very well again in 2021, which gave another boost to our margin and bottom line. Non-interest income increased on the strength of fees related to loan applications, loan prepayments and interest rate buydowns. With more time, we received more income from our new credit card offering. Our wealth management business had the best year ever. Wealth management includes our CFS Office as well as our in-house offerings. This line of business includes the services of a Certified Financial Planner, estate and tax planning, and a full range of investments including a full brokerage and a full complement of personal insurances. Combined, this line of business contributed over $100,000 of net revenue to our organization. Finally, as we do every year, we reversed a couple of over-accruals of expenses that resulted in additional revenue.

We have four broad categories of expenses. The first is interest expense. This category decreased in 2021 as rates on member deposits were reduced.

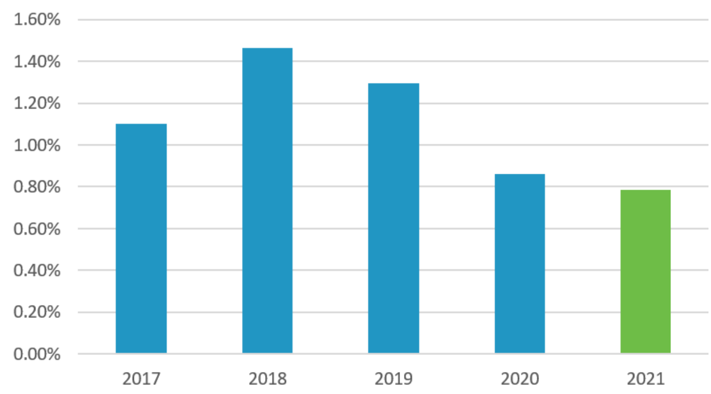
$400,000
2021 PATRONAGE ALLOCATION

0.78%
RETURN ON ASSETS

This was offset in part by the significant increase in member deposits. The second category is operating expenses. Overall, our operating expenses actually decreased, though slightly. Operating expenses were $1,249 below the 2020 result and represented 1.50% compared to 1.73% in budget. While many of our operating expenses continued despite the on-going pandemic, several operating costs were not realized or were less than they have been in the past. In 2021, we completed the landscaping around our building and built a deck in the back corner of our building for staff to enjoy on breaks. Personnel costs remained our largest operating expense as has been the case historically; however, we did not fill all the vacancies and did not hire any extra people. Due to this, our personnel expenses were $69,000 lower than last year. The third category of expense was the provision for impaired loans. In 2020, the chartered banks increased their allowances for potential loan losses. We delayed this by a year but adjusted our allowance in 2021. We were concerned about potential for losses so increased the provision expense by just under $1 million. We knew this would impact our operating surplus, but thought it was the prudent thing to do as part of our risk management process. The fourth broad category of expense is tax. Our tax allocation has increased due to changes made in the federal and provincial tax regimes for credit unions. Our tax allocation of $185,040 was less than last year due to a lower operating surplus.

The net result of revenue minus expenses left an operating surplus of $590,244 after making an allocation of $400,00 for patronage to members. The result was a decrease of $682,036 from 2020. However, it was still significantly better than the result projected in our operating budget, even after the large increase in provision expense, so we were pleased with the result.

RETURN ON ASSETS BEFORE ALLOCATIONS



Return on assets before allocations is a measure of the funds generated from day-to-day operations. It does not include provision expenses or allocations for patronage or taxes. Our budgeted expectation was 0.36%. We achieved 0.78%. This was a combination of margin, stable non-interest revenue and stable non-interest expenses. The reduced margin resulting from the continued low rate environment contributed to a lower result than in the past. Fortunately, we did experience some loan growth in the latter part of the year which should help in 2022.

In 2021, we began to research patronage programs offered by other credit unions to determine if our program needed to be updated. For the 2020 payout that took place in 2021, we made one small change. We realized that young people did not receive any benefit for belonging to Unity Credit Union other than to receive free service charges. We decided to pay $25 to everyone who had a personal youth account. We also created a Member Rewards Account. We deposited $25 into this account for young people

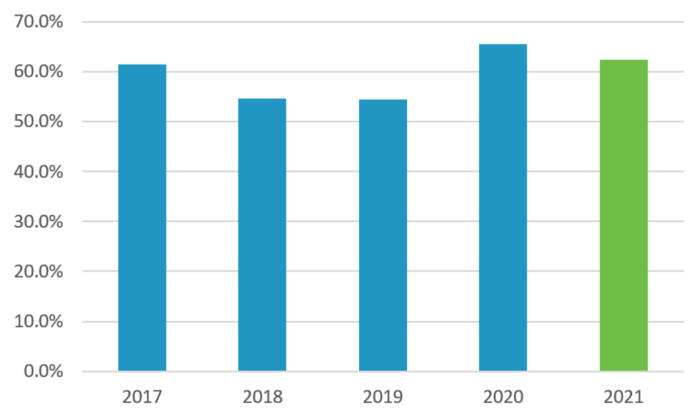
80 Years of Service

65.85% EFFICIENCY RATIO

$210 million LOAN PORTFOLIO

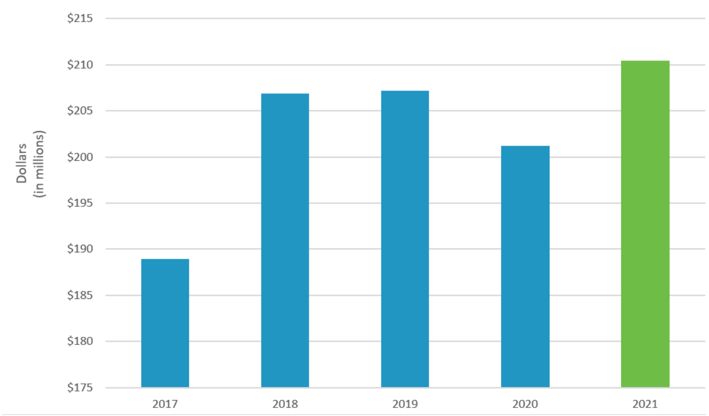
and paid the service charge rebate to this account as well. Our hope is that by creating this new account, members will see the benefit of belonging to the credit union. Members control the funds, so they can spend it when it works for them. In 2021, we also continued to pay out the rebate of loan interest and the bonus on interest earned. We distributed this payout based on business in the traditional way of providing cheques to members who qualified for a payout. Unless you are a shareholder in another financial institution, credit unions are the only ones who will pay patronage back to members who use our services because you are an owner as well.

EFFICIENCY RATIO



Efficiency is a ratio that measures the percentage of income that is spent on the operations of the organization. This ratio is an indicator of how efficiently the organization uses its resources. The lower the ratio, the more efficient the operation. A ratio above 85% is generally considered undesirable. In 2020, our organization had an efficiency ratio of 65.49%. In 2021, our efficiency was consistent at 65.85%. Like our margin, our efficiency ratio was affected by the continued low rate environment and stable loan portfolio for most of the year. Stable non-interest revenue and reasonable non-interest expenses helped us achieve the result we did.

PERFORMING LOANS



Interest margin is the difference between interest earned on loans and interest paid on deposits. This source of revenue remained our largest source of revenue allowing us to pay our expenses. For this reason, our loan target for the last few years has been about maintaining the loan portfolio as a percentage of assets rather than just focusing on growth. The target range established is between 73% and 77% of assets. Being lent out in this range allows us to generate revenue, which leads to operating surplus, which in turn is used to build the capital required to meet our capital plan. The loan portfolio saw slow and steady growth until late in the year. Late in the year, we saw our portfolio increase to over $210 million, which was a new all-time high. This was a combination of local demand, financing leases and syndicating loans with neighbouring credit unions. Part of the reason we struggled with loan growth was the availability of funds. With the increase in member deposits, line of credit usage was significantly below

$54.6 million CONVENTIONAL RESIDENTIAL MORTGAGES
$18.2 million INSURED MORTGAGES

past results. Based on all these factors, performing loans ended the year at 64.66% of assets. This percentage was also affected by the significant increase in total assets as there is a direct correlation between these two figures.

For the last few years, we have been establishing loan allowances using a forward looking, expected credit loss model. This model requires a recognition of losses expected over the contractual life of the loan rather than recognizing impairment losses when they occur. The model applies several economic factors to our loan portfolio. The factors are subject to change based on the economic climate, so the collective or general allowance has much more fluctuation than it did in the past. With the continued economic challenges throughout 2021, we continued to increase our collective allowance focusing on the risk in certain economic sectors. At the end of 2021, our specific allowance was relatively stable at $296,855 and our collective allowance was $2,397,456 for a combined total of $2,694,311. This was $1,382,270 more than last year and another reason our operating surplus was less. Allowances established during the year directly decrease our surplus, but in this case, was felt to be a prudent thing to do. Other financial institutions booked such allowance increases in 2020. We did not feel the pressure to increase our allowances until 2021.

Another recent addition in reporting is the requirement to report on mortgages and the effect of changes in property values. In 2021, the credit union held $54.6 million in conventional residential mortgages and $18.2 million in insured mortgages. Insured mortgages are those which have a Canada Mortgage and Housing Corporation (CMHC) guarantee. Backed by the guarantee, these mortgages represent less risk to the credit union than conventional mortgages.

The amortization periods for mortgages are as follows:

Residential mortgages by amortization period	Insured residential mortgages	Uninsured residential mortgages
5 years or less	$80,599	$1,347,427
More than 5 years and up to 10 years	$76,058	$3,648,589
More than 10 years and up to 15 years	$813,488	$7,394,278
More than 15 years and up to 20 years	$7,820,745	$14,139,255
More than 20 years	$9,435,501	$28,136,143

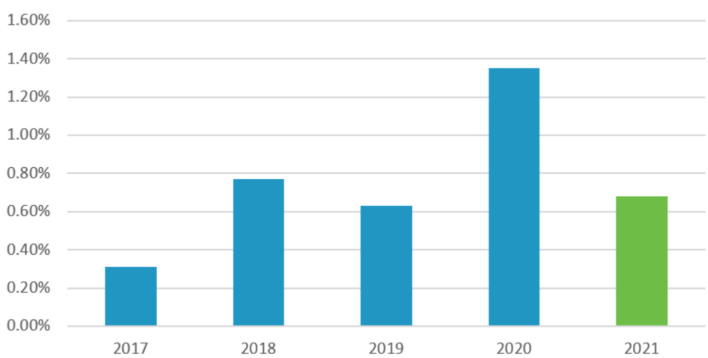
The credit union has determined that a non-conforming mortgage is a mortgage on residential property securing a loan or non-amortizing Home Equity Line of Credit that is approved with three exceptions from requirements outlined in policy and procedures. In 2021, we determined that we did not hold any non-conforming mortgages. Obviously with three exceptions to policy or procedures these types of mortgages would pose more risk to the credit union and ultimately the operating surplus so need to be monitored.

The other effect of mortgages that needs to be monitored is the value of properties in relation to the mortgages on the properties. In the 80’s, the agricultural sector experienced a rapid decline in land values compared to outstanding mortgage values. In major urban centers, the same thing has happened, therefore new monitoring and risk evaluation processes have been implemented. In our capital adequacy calculations, we now give consideration to the effect of declining values against new and existing mortgages. We have added extra capital requirements for residential mortgages and property devaluations. We still feel our values do

0.68% DELINQUENCY OVER 90 DAYS

not drop as much as in major centers. Despite this, we are required to comply and so our calculation requires us to hold an extra $408,455 in capital for such circumstances. This is subject to change on a quarterly basis due to fluctuations in the mortgage portfolio.

DELINQUENCY



We desire loan growth and portfolio stability, but we also want quality within the loan portfolio.   Without quality, the risk associated with lending increases. Risk can lead to losses, which affect our operating surplus and ultimately our ability to build capital. A sign of the quality of the portfolio is low delinquency. Delinquency over 90 days ended the year at 0.68%, which was a decrease from 2020 and thus we were pleased with the result. We thank our members for their continued commitment to making payments or suitable arrangements through challenging times. We continue to work with members as best we can and appreciate their willingness to work with us.

CAPITAL

One of the primary measures of financial strength of any financial institution is its capital position. Worldwide, financial institutions build capital to ensure that downturns in the economy can be withstood. Credit unions operate in a highly regulated environment, where the Credit Union Deposit Guarantee Corporation (CUDGC) sets regulatory guidelines to which credit unions must adhere. In order to assess capital adequacy, CUDGC follows the standards adopted by other financial institution regulators.

The Board of Directors and Management believe in maintaining a strong capital position. The credit union manages capital in accordance with its capital management plan and Board approved capital policies. The capital plan is developed in accordance with the regulatory capital framework and is regularly reviewed and approved by the Board of Directors. The credit union's capital plan is directly related to its service delivery strategies and risk philosophy. Traditionally the credit union has held a moderate appetite for risk. It has focused on traditional services, managed with a low level of risk in its loan and investment portfolio. Liquidity has been maintained within a comfortable range. This has proven to be an effective strategy through the years. We have more flexibility in our liquidity management in recent years and use this opportunity to increase yields while still meeting and exceeding all guidelines.

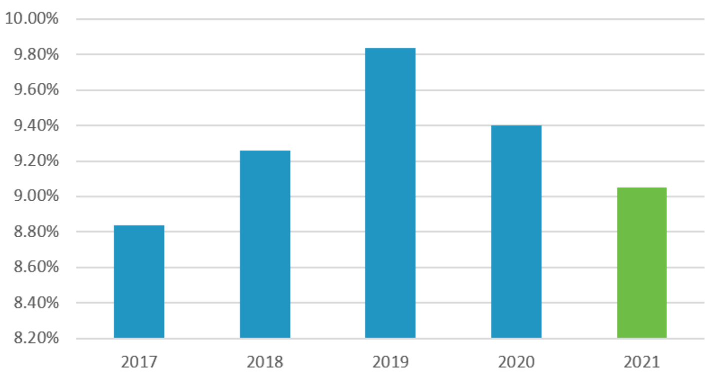
The goal of capital management is to achieve and exceed regulatory minimums, maintain an optimal level of capital, meet operational requirements, prepare for and absorb unexpected losses either through specific allowances or the collective allowance, implement long-term strategic plans and signal financial strength. Too little capital restricts the credit union's ability to grow and generate returns. It also increases the risk of having insufficient funds to cushion against unexpected losses or liquidity needs. Too much capital and it could be considered the credit union is being too cautious and not generating sufficient return on its capital.

9.05% CAPITAL - LEVERAGE TEST

15.47% RISK WEIGHTED CAPITAL

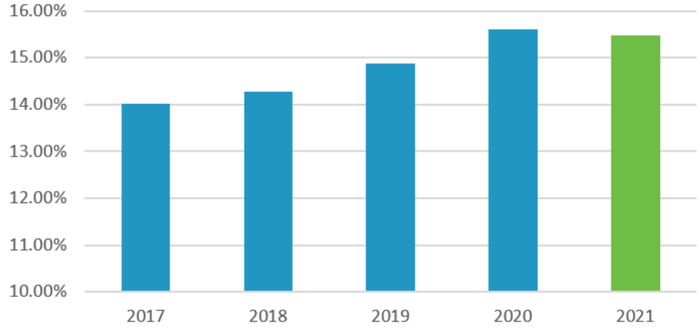
LEVERAGE TEST

Unity Credit Union builds capital through retained earnings. Capital adequacy uses two measures. The first, referred to as the leverage test, is a calculation of eligible capital to total leverage assets. The standard is 5% and we held 9.05% at yearend.



RISK WEIGHTED CAPITAL

The second measure is the risk-based test, which compares eligible capital to risk weighted assets. The standard is 10.50% and we held 15.47%. Our results remained strong but we feel a strong capital base is important, especially in the unique economic times within which we continue to operate.



LIQUIDITY

The Standards of Sound Business Practice developed by CUDGC outline the importance of liquidity and liquidity management. The regulators have raised liquidity management to the same level as capital management. In the past, statutory liquidity and operating liquidity were the only measures monitored. In the new regime, statutory liquidity, liquidity coverage ratio and liquidity stress testing are the new requirements. We are required to hold 10% of our member deposits in statutory liquidity. At the end of December, we met the statutory liquidity requirement. The liquidity coverage ratio considers the quality and market impacts on our cash holdings, SaskCentral accounts and liquidity investments. A calculation is then done to determine potential cash outflows compared to potential cash inflows. The net result of the outflows and inflows is calculated against the holdings to determine the liquidity coverage ratio. The standard is 100% coverage. At the end of December our result was 302.42%. This was much better than at the end of 2020, but there was still opportunity in this result. The goal remains to lower our ratio while improving our yield. The third measure is the stress test. Throughout 2021, our stress test determined that we had adequate liquidity to fund a two-day redemption of demand deposits.

SOCIAL RESPONSIBILITY

The co-operative principles encompass education, training and information. COVID-19 affected many public forums including our ability to offer our Each One Teach One financial literacy sessions. However, with the technology available to us, we were able to provide five different financial literacy/management sessions to various audiences. We were pleased with this result as in the prior year this focus had been largely shut down. Our investment team also partnered with Aviso to provide three virtual financial planning seminars for members.

Another co-operative principle is Concern for Community. As a credit union, we are very conscious of this principle and try to put words into action. While restrictions were lessened, they still had effects on activities in the community throughout the year. However, we were able to return to having our people get involved in the community in some way. Our staff took a regular shift delivering Meals on Wheels from both the Hospital and Parkview Place. Staff served burgers at the Unity Credit Union Aquatic Centre during Drowning Prevention Week. We sponsored Men’s Night at the Golf Course. We had volunteers at the All Candidate’s Forum. Staff helped to put up and take down the boards at the outdoor rink. Staff participated in the Adopt a Block Clean Up. We supported the CMHA fundraiser. We supported the Lights Football Game. We were runners up in the Chili Cookoff at UCHS. Director Christine Lang took it upon herself to make 80 blankets for families who used the services of the Ronald McDonald House in Saskatoon.

80
Years of
Service

We also looked for ways to support our community and some of the community charities. We made donations to the Food Bank and Regional Library. We continued with our donation to the Unity Golf Club. We continued to support initiatives in Tramping Lake as we promised. We provided our annual scholarships to the grads and supported their ceremony. We once again rewarded members through a weekly draw with a takeout meal offered through all the restaurants in town. Through our 12 Days of Christmas, we supported local entrepreneurs and businesses by purchasing every prize locally. Credit Union Day was our opportunity to let the community know we have served them for 80 years. We provided snacks in the office, as well as made deliveries around town and paid for coffee at Subway, A&W, Country Pantry, and Rise + Grind. We held a draw for our members to win tickets to the Gord Bamford concert. This year we participated in the first and new National Day for Truth and Reconciliation. We rounded out the year by participating in the Winter Lights Parade to again show support for our community.

Despite the many challenges presented in 2021, we are very proud of what we accomplished during the year and community support always ranks near the top of our list of accomplishments and sources of pride.

Our RISK MANAGEMENT

As a financial institution, Unity Credit Union must manage the risks it faces to achieve its business objectives. In doing so, it must balance the risk with the potential reward, striving for the optimum return for its effort. In dealing with any forms of risk, we have four options available:

- Risk avoidance
- Risk acceptance
- Risk transfer
- Risk mitigation

Our risk management process has evolved to the point where we:

- Identify risks to which the credit union is exposed.
- Measure our exposure to identified risks.
- Ensure that an effective risk monitoring program is in place.
- Monitor risk exposures on an ongoing basis.
- Control and mitigate our risk exposures.
- Report to the Board and Senior Management on our risk exposures.

We do this through our risk management regime, which consists of the following:

- Enterprise Risk Management (ERM) - risks are identified, tracked and monitored.
- Risk Assessment/Appetite Statement – identifies the amount and type of risk the credit union is able and willing to accept in pursuit of its business objectives.
- Internal Capital Adequacy Assessment Process (ICAAP) – determines the credit union's ability to absorb financial and economic stress given current risk profile and risk appetite.
- Capital Plan – Identifies the sources of capital and the means to build capital.
- Liquidity Plan – establishes the credit union's ability to fund its business activities and identifies the sources of liquidity in the event of liquidity stress or crisis.
- Strategic/Business Plan – sets the strategic direction and related operational plans.
- Budget - projects the effect of any steps taken through the capital and liquidity plans.

The fundamental strength of a credit union is the level of capital it holds to protect against normal, anticipated, and unexpected business events. Based on the measurements used for determining financial strength, our credit union has a moderate level of capital and therefore continues to take a moderate approach to risk. Our main objective is to preserve and build capital while maintaining market share and growing wallet share by providing our members with competitive products and being trusted advisors.

As our credit union grows and experiences further product and service diversification, the risk profile of the organization changes. Capital adequacy measurements have evolved from a straight percentage of assets, to a risk-based approach. This is based on the structure of the balance sheet, and determining the capital required based on the lines of business, operating, technology, reputation and other known risks. In today's regulatory environment, adequate capital allocations are required to offset the various risks.

A second element of risk management is liquidity. Again, rather than just a straight percentage of assets, the requirement is now to calculate a liquidity coverage ratio and complete stress testing. The objective of the new standard is to ensure that credit unions have an adequate stock of unencumbered high quality liquid assets to meet liquidity needs for a 30-calendar day stress scenario. After 30 days, it is assumed corrective actions will be taken to address the situation. These high-quality liquid assets are to consist of cash or assets that can be converted into cash at little or no loss of value.

Our risk management framework manages risks in the following categories:

STRATEGIC RISK

Strategic risk is the risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, customer preferences, product obsolescence or resource allocation, will impact our ability to meet our objectives. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals and the quality of implementation.

A key challenge facing the credit union is the changing needs of members and seeking ways to be relevant to members who use the services of Unity Credit Union in new and different ways than their parents and grandparents, while also serving members who use services in traditional ways.

Unity Credit Union has formal planning processes that result in a strategic business plan focused on strategic objectives as outlined herein. The credit union held a formal facilitated strategic planning process in 2021 which determined and set direction for the next two to three years.

The credit union uses a comprehensive reporting process to monitor performance relative to plans and provides regular updates to the Board. The ERM process further identifies emerging risks and formulates plans as risks are identified. In the past, directors attended training as well as system meetings and conferences to hear other perspectives and learn from other credit unions. In a COVID environment, these opportunities have been limited to online training, conferences and meetings.

The advances in technology are not slowing down, the cost is ever increasing, and the technology is changing the ways of doing business. It is important that Unity Credit Union has adequate resources to invest in these technologies. In our Internal Capital Adequacy Assessment Process, we changed our capital requirement related to IT concerns to include the potential of investing in technologies if the need/opportunity arose, contracting expert help to deal with potential issues and having funds to deal with potential issues. This does not protect our income statement in any fiscal year, but it does protect our capital position and thus was felt to be prudent.

The provision of services and changes in the financial industry as well as changes within the system have elevated this risk to a moderate to moderate-high position.

CREDIT RISK

Credit risk is the risk of financial loss arising from a borrower or counterparty's inability to meet its obligations. Unity Credit Union is affected primarily by its direct lending activities. In addition to lending to its members, Unity Credit Union assumes risks related to loans purchased from other credit unions and affiliates, leases financed through leasing corporations and Concentra Bank (Wyth Financial) and to a lesser extent, by holdings within its investment portfolio. Some key individual credit risks are: default risk, portfolio concentration risk, assets pledged as security risk, fluctuations in security value risk, inadequate allowance risk, economic environment risk and policy exceptions risk.

The Board of Directors sets policy to guide lending processes. These are put into practice through procedures established by management. In 2021, a comprehensive review of the lending policies was undertaken to ensure they were up-to-date and relevant. A review of procedures is the next step in this process.

Credit granting is performed in accordance with the approved policies, procedures and applicable legislation. This includes credit analysis, pricing structures, security analysis, terms and documentation. Loan pricing structures are in place to support lenders in pricing decisions and to ensure risk is offset by rates. This was expanded in 2021 to include mortgage pricing. Concentration limits by industry and size of loans have been designed to reflect our risk tolerance. A risk rating system to analyze the risk evident in the lending portfolio leads to more detailed and risk related reporting on the loan portfolio. This rating process provides a more in-depth analysis of member files. Credit risk is further mitigated through training of loans personnel. In addition, a comprehensive impaired loan assessment is completed using a proactive and forward-looking approach. This can result in more fluctuation in the allowance based on the structure of the portfolio but strengthens the credit union's risk management. Due to changes in credit card processes, credit cards have been added to the risk assessment, but the risk has lessened with time.

The credit union'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 Audit & Finance Committee as well as the Credit Union Deposit Guarantee Corporation.

With the lingering effects of COVID and a drought impacted crop in 2021, the credit risk has increased to moderate or moderately high as we wait to see if the economy and environment will improve in 2022.

MARKET RISK

Market risk is the exposure to potential loss from changes in market prices or rates and foreign exchange risk. Losses can occur when values of assets and liabilities or revenues are adversely affected by changes in market conditions, changes in interest rates or foreign exchange movement.

The credit union's market risk is impacted primarily by movements in interest rates specifically from the timing differences that exist between the re-pricing of loans, investments and deposits. The credit union's exposure to changes in interest rates is monitored by management in two ways. The first is through our contract for financial services with Innovation Credit Union, who monitor and measure our exposure and provide reports to management and the board. The second is by employing Concentra Bank (Wyth Financial) to do a review on a quarterly basis. Concentra Bank (Wyth Financial) provides a quarterly report outlining rate forecasts and assumptions, and how they affect our balance sheet. Results are reviewed by management who in turn report through the Risk & Compliance Committee to the board. Changes in market conditions are monitored through the same processes. The credit union does not make a habit of buying and selling investments for speculation. Generally, investments are purchased and held to maturity. In 2022, the contract for financial services will migrate from Innovation Credit Union to Accent Credit Union.

Foreign exchange risk occurs when members exchange Canadian funds for another currency, which are predominantly US dollars. This risk is offset by the credit union maintaining a US Dollar Account with SaskCentral. When members exchange currency, we complete a similar transaction to offset any risk exposure. Foreign exchange risk is monitored at least quarterly and adjustments to the account at SaskCentral are made as required. Our US Dollar accounts are generally stable. With less travelling outside of Canada in 2021, there was less use and purchases of foreign currencies, but outgoing international wires continued to be utilized.

In 2021, the prime rate was much more stable than 2020. We continued to operate in a very low interest rate environment, so this impacted our margin. Despite the low rates, the rate environment was very competitive. Due to the low rates and the competitiveness in the marketplace, market risk continued to be moderate or moderate-high as margin contributes the largest portion of our revenue to pay expenses. Speculation is that rates will increase in 2022, which has potential to improve this position.

LIQUIDITY RISK

Liquidity is required to meet the day-to-day cash needs and loan demands of our members. Liquidity risk arises from general funding activities and through management of our assets and liabilities. It is the risk of having insufficient cash resources, or equivalents, to meet members' demand for loans or drawdown of deposits. The credit union's liquidity risk management strategies seek to maintain sufficient liquid resources to continually fund our balance sheet commitments.

Requirements for liquidity risk management are defined by policies and regulatory standards and limits. The standards focus on the liquidity coverage ratio and the quality of liquid assets. Quality is determined by how quickly investments can be liquidated and the impact of market value fluctuations on them. We now have more ability to control our liquidity coverage ratio by the investment choices we make. Throughout 2021, we exceeded the liquidity coverage requirements. Our excess presented opportunities to invest funds to improve our yield and contribute more to overall revenue.

The current funding and liquidity management framework includes the following processes and controls:

- Development and regular review of the approved liquidity plan.
- Monitoring of large pending loan requests.
- Monitoring of requests for large withdrawal of funds.
- Through a contractual arrangement with Innovation Credit Union who monitors actual inflows and outflows of funds on a daily, weekly, monthly and annual basis. Innovation Credit Union then manages the investment of excess funds to best meet proposed needs and requirements. In 2022 the monitoring will be done by Accent Credit Union and investments will be handled by Concentra Bank (Wyth Financial).
- Establishment of borrowing facilities with SaskCentral.
- Through our contract with Concentra Bank (Wyth Financia) a liquidity stress test identifies the credit union's ability to meet a substantial withdrawal of funds over a very short period of time.
- Reviewing and reporting the credit union's liquidity position to the Management Risk Committee and through the Risk & Compliance Committee to the board.

In 2021, members continued to show their trust in the credit union and invested funds. This, combined with a steady loan demand, helped maintain a strong liquidity position for the year, which in turn left our liquidity risk at a low level. Depending on what members do with their funds and how quickly they use them could increase the risk level, so monitoring is still required and important going into the new year.

LEGAL & REGULATORY RISK

Legal and regulatory risk is the risk arising from potential violation of, or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards.

Key specific risks include knowingly not reporting suspicious transactions or any other required money laundering or terrorist financing transactions. Other risks include breaches of privacy and tax related activities.

Policies, procedures and controls are designed to ensure Unity Credit Union is compliant. Our Risk & Compliance Officer oversees our processes related to certain pieces of legislation and reports quarterly to the Risk & Compliance Committee and in turn to the board. We continue to contract Internal Audit from SaskCentral to review our processes and controls on an annual basis. In addition, our external auditors, CUDGC and FINTRAC examine processes and controls to ensure compliance.

Due to the number of regulatory processes and the implications of non-compliance, legal and regulatory, risk remains unchanged at moderate.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. Exposures to this risk arise from increasing efficiency ratios, shrinking margins, increased costs for staff, deficiencies in internal controls, technology failures, human error, employee integrity, fraud or natural disasters.

Specific risks include internal and external frauds including compromising of cards, accounts and systems, inability to attract and/or retain qualified employees, loss of operating systems and outside factors such as robbery, random attacks or disasters such as a train derailment.

Operational risk is managed through the use of policies and procedures, controls and monitoring. Control and monitoring involves segregation of duties, employee training, performance management and structured internal and external audit functions. Other mitigating factors include reviewing ways to increase revenues and decrease expenses, monitoring human resource changes and practices in the marketplace, a comprehensive business continuity plan, appropriate insurance coverage and secure technology solutions. Our banking platform is maintained offsite and includes a very complex back up and disaster recovery process. On-site backup systems complement the off-site backups. In the future, cloud backup may become the standard but we are still researching the implications before making this change.

The risks of fraud, especially external fraud through compromises or breaches continues to increase as does the dollar amount so the overall operational risk remains moderate high.

Our FUTURE

Every year we try to determine what the future might hold. As we looked into 2021, we hoped we would see positive changes. Unfortunately, we got a lot of the same as 2020. As we again look into the future, we continue to hope for positive changes and rebuilding a world that has sheltered itself away for the better part of two years. We are looking for ways to continue to evolve the way we provide service. This includes changes in the way we do things both from a personnel point of view as well as using technology. We do not anticipate that technological advances will slow down. We consider technology both for the benefit of the credit union and for members. In addition, there are a lot of changes occurring in the credit union system. These will affect our credit union going into the future. It remains our belief that Unity Credit Union must continue to evolve and change to remain relevant for our current members and our members of the future. Initiatives that we will be working on to prepare for the future include:

- New Online Banking platform
- Modernizing payment services
- Changes related to sale of Concentra Bank
- Ramifications of changes at SaskCentral
- Prepraring for Consumer Directed Finance (Open Banking)
- Effects of less credit unions & larger credit unions
- Analytics Program
- Changes in personnel
- Customer Relationship Management (CRM) system
- Promotion of our financial planning service
- Enterprise Content Management (ECM) system
- Working with other credit unions
- Increasing business with members/non-members
- Become trusted advisors to members
- Community leader

80 Years of Service

That concludes our report of activities for the year ended December 31, 2021. The same words we used to describe 2020 still seem applicable including unprecedented, challenging, taxing, tiring, stressful. That being said, while 2020 felt like a year of survival, in 2021 we once again began to take on new projects slowly trying to move the credit union forward. We thank our members for their trust in Unity Credit Union. We thank our staff for their unfailing commitment to serving members with a smile despite the many challenges. We acknowledge management for guiding the organization through strange and unusual times. Our goal is to continue to adapt and change. We strongly believe that with your continued support and commitment to Unity Credit Union, "We'll always be there."

Respectfully submitted,

Board of Directors and Management
Unity Credit Union Limited

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Annual Report Message 2021

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

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

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

Unity Credit Union Limited
Financial Statements
December 31, 2021

Page

Management's Responsibility

To the Members of Unity Credit Union Limited:

Management is responsible for the preparation and fair presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. 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 financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit and Finance 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 Finance Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over 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 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 10, 2022

Chief Executive Officer

To the Members of Unity Credit Union Limited:

Opinion

We have audited the financial statements of Unity Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2021, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Credit Union’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union’s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Saskatoon, Saskatchewan

March 10, 2022

MNP LLP

Chartered Professional Accountants

MNP

Unity Credit Union Limited
Statement of Financial Position
As at December 31, 2021

	2021	*2020*
Assets		
Cash and cash equivalents *(Note 5)*	**13,381,279**	17,212,979
Investments *(Note 6)*	**94,320,190**	73,514,897
Member loans receivable *(Note 7)*	**210,455,633**	201,213,696
Other assets *(Note 8)*	**1,846,187**	1,285,545
Property, plant and equipment *(Note 9)*	**4,730,923**	4,942,765
	324,734,212	298,169,882
Liabilities		
Member deposits *(Note 11)*	**296,447,893**	270,478,084
Other liabilities *(Note 13)*	**347,032**	315,727
Membership shares *(Note 14)*	**3,247,573**	3,274,601
	300,042,498	274,068,412
Commitments *(Note 20)*		
Members' equity		
Retained earnings	**24,691,714**	24,101,470
	324,734,212	298,169,882

Approved on behalf of the Board

Michael Soloski
Director

Director

Unity Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2021

	2021	*2020*
Interest income		
Member loans	**7,931,485**	8,523,703
Investments	**1,218,203**	1,174,804
	9,149,688	9,698,507
Interest expense		
Member deposits	**2,846,492**	3,028,414
Borrowed money	**2,892**	2,874
	2,849,384	3,031,288
Gross financial margin	**6,300,304**	6,667,219
Other income	**1,138,041**	786,276
	7,438,345	7,453,495
Operating expenses		
Personnel	**2,436,103**	2,505,394
Security	**283,205**	257,144
Organizational	**115,579**	90,976
Occupancy	**381,156**	408,602
General business	**1,666,431**	1,621,607
	4,882,474	4,883,723
Income before provision for impaired loans, patronage refund and provision for (recovery of) income taxes	**2,555,871**	2,569,772
Provision for impaired loans *(Note 7)*	**1,380,284**	423,880
Patronage refund *(Note 15)*	**400,303**	400,000
Income before provision for (recovery of) income taxes	**775,284**	1,745,892
Provision for (recovery of) income taxes *(Note 12)*		
Current	**555,735**	512,547
Deferred	**(370,695)**	(38,935)
	185,040	473,612
Comprehensive income	**590,244**	1,272,280

The accompanying notes are an integral part of these financial statements

Unity Credit Union Limited
Statement of Changes in Members' Equity
For the year ended December 31, 2021

	Retained earnings	*Total equity*
Balance December 31, 2019	**22,829,190**	**22,829,190**
Comprehensive income	**1,272,280**	**1,272,280**
Balance December 31, 2020	**24,101,470**	**24,101,470**
Comprehensive income	**590,244**	**590,244**
Balance December 31, 2021	**24,691,714**	**24,691,714**

The accompanying notes are an integral part of these financial statements

Unity Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2021

	2021	*2020*
Cash provided by (used for) the following activities:		
Operating activities		
Interest received from member loans	**8,286,835**	8,082,549
Interest received from investments	**1,157,823**	1,163,170
Other income	**1,138,041**	786,276
Cash paid to suppliers and employees	**(4,764,578)**	(4,877,354)
Interest paid on deposits	**(2,886,121)**	(2,969,753)
Interest paid on borrowed money	**(2,892)**	(2,874)
Patronage refund	**(400,303)**	(400,000)
Income taxes paid	**(432,226)**	(527,146)
	2,096,579	1,254,868
Financing activities		
Net change in member deposits	**26,009,438**	27,463,571
Net change in membership shares	**(27,028)**	(18,240)
	25,982,410	27,445,331
Investing activities		
Net change in investments	**(20,744,912)**	(32,977,564)
Net change in member loans receivable	**(10,977,571)**	6,011,249
Purchases of property, plant and equipment	**(190,341)**	(829,615)
Proceeds from disposal of property, plant and equipment	**2,135**	1,058
	(31,910,689)	(27,794,872)
Increase (decrease) in cash and cash equivalents	**(3,831,700)**	905,327
Cash and cash equivalents, beginning of year	**17,212,979**	16,307,652
Cash and cash equivalents, end of year	**13,381,279**	17,212,979

1. Reporting entity

Unity Credit Union Limited (the “Credit Union”) was formed pursuant to the *Credit Union Act, 1998* of Saskatchewan (“the Act”) and operates one Credit Union branch.

The Credit Union serves members and non-members in Unity, Saskatchewan and the surrounding community. The address of the Credit Union’s registered office is 120 2nd Avenue East, Unity, Saskatchewan.

The Credit Union operates principally in personal and commercial banking in Saskatchewan.

The Credit Union conducts its principal operations through one branch, offering products and services including deposit business, 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 investment, risk management, asset liability management, treasury operations and revenue and expenses not expressly attributed to the business units.

Statement of compliance

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

The financial statements were approved by the Audit and Finance Committee on behalf of the Board of Directors and authorized for issue on March 10, 2022.

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, 2021. Adoption of these amendments had no effect on the Credit Union’s financial statements.

- IFRS 7 *Financial Instruments: Disclosure*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases* and IAS 39 *Financial Instruments: Recognition and Measurement (Amendments)*

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

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

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

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

COVID-19 pandemic considerations

The COVID-19 pandemic has continued to evolve and the economic environment in which the Credit Union operates continues to be subject to sustained uncertainty, which could continue to negatively impact the Credit Union's financial results. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of COVID-19, as well as government economic response and support efforts. While the Canadian economic recovery has continued, momentum has been volatile amid ongoing uncertainty regarding the extent and duration of the impacts of the COVID-19 pandemic. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Credit Union's results is highly uncertain and difficult to predict at this time. Accordingly, the current environment requires particularly complex judgments and estimates in certain areas, which have a higher level of uncertainty with respect to management's judgments and estimates. The Credit Union continues to closely monitor the changing conditions and their impact.

The Credit Union has detailed policies and internal controls that are intended to ensure that these judgments and estimates are well controlled and independently reviewed, and that policies are consistently applied from period to period and as a result, the Credit Union believes that the estimates of the value of assets and liabilities are appropriate as of December 31, 2021.

The estimate most impacted by the pandemic is the measurement of the allowance for expected credit losses. Information on significant judgments impacted by the COVID-19 pandemic that have the most significant effect on the amounts recognized in the financial statements is described in Note 18.

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

The impact of COVID-19 has been partially offset by available Government programs for which the Credit Union was eligible. The Credit Union was eligible and received wage subsidies for certain periods in 2021 and 2020. Additional details of subsidies are described in Note 23.

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)*

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

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash 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 pandemic on specific sectors to which the Credit Union has credit exposures

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

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

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 SaskCentral and Concentra Bank (operating as Wyth Financial) 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.

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.

Deferred taxes

The calculation of deferred tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of financial statement preparation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future years could be material. Further details are in Note 12.

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

Useful lives of property, plant and equipment

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

4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the 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 financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Foreign currency translation

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

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

Revenue recognition

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

Service charge fees, commission and other revenue

The Credit Union generates revenue 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 member and payment by the member exceeds one year. Consequently, the Credit Union does not adjust any of the transaction prices for the time value of money.

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

Financial instruments

Financial assets

Recognition and initial measurement

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

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

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.

Debt instruments are classified as follows:

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

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

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.

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

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial 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.

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

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.

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.

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

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 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.

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 changes in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management system.

Investments

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

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

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.

Portfolio investments

Portfolio bonds are measured at amortized cost.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible 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.

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.

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 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.

Non-current assets held for sale

The Credit Union classifies a non-current asset or group of assets and related liabilities (a disposal group) as held for sale when, amongst other things, the Credit Union has committed to a plan of disposition, the asset is available for immediate sale, the plan is not expected to change significantly, and the sale is expected to occur within one year. An asset or disposal group acquired in a business combination that will be sold rather than held and used is classified as held for sale at the date of acquisition when it is probable that the Credit Union will dispose of the assets within one year. The held for sale asset or disposal group is presented within other assets on the statement of financial position.

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

An asset or disposal group classified as held for sale, including those newly acquired in a business combination, is measured at the lower of its carrying amount and its fair value less costs to sell. No assets classified as held for sale are subject to depreciation or amortization. Any initial or subsequent write-downs of the assets to fair value less costs to sell are recognized as impairment losses. Subsequent increases in fair value not in excess of the cumulative loss previously recorded are recognized as gains. An impairment loss or any subsequent gain recognized for a disposal group decreases or increases the carrying amount of the non-current assets in the group, respectively.

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 and capital improvements	10 - 40 years
Automobiles	3 years
Furniture and equipment	3 - 10 years
Parking lot	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.

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.

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

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.

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.

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

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 $119,682 (2020 – $117,359) 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*.

Government assistance

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

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, 2021 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.

IFRS 16 Leases

Amendments to IFRS 16, issued in March 2021, extend the availability of the exemption for COVID-19 related rent concessions by one year to June 30, 2022. The exemption applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided that the other conditions for applying the practical expedient are met.

The amendments are effective for transactions for annual reporting periods beginning on or after April 1, 2021. The Credit Union does not expect the amendments to have a material impact on its financial statements.

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 financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

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

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

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

IAS 12 Income Taxes

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

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

IAS 16 Property, Plant, and Equipment

Amendments to IAS 16, issued in May 2020, prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be available for use. Instead, the proceeds from selling such items, and the costs of producing those items, would be recognized in profit or loss.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union does not expect the amendments to have a material impact on its financial statements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Amendments to IAS 37, issued in May 2020, specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union does not expect the amendments to have a material impact on its financial statements.

5. Cash and cash equivalents

	2021	*2020*
Cash	**2,615,737**	6,856,353
Cash equivalents	**12,666,533**	10,356,626
Line of credit	**(1,900,991)**	-
	13,381,279	17,212,979

6. Investments

	2021	*2020*
Measured at amortized cost		
SaskCentral and Concentra Bank liquidity deposits	**21,380,391**	21,380,391
Concentra Bank term deposits	**63,675,000**	43,250,000
Portfolio bonds	**4,359,705**	4,402,363
	89,415,096	69,032,754
Measured at fair value through profit or loss		
SaskCentral and Concentra Bank shares	**2,350,000**	2,150,000
Other equity instruments	**2,300,352**	2,137,782
	4,650,352	4,287,782
Accrued interest	**254,742**	194,361
	94,320,190	73,514,897

6. Investments *(Continued from previous page)*

The table below shows the credit risk exposure on investments, excluding liquidity reserves and balances on deposit with SaskCentral and Concentra Bank. Ratings are as provided by Dominion Bond Rating Services ("DBRS") unless otherwise indicated.

	2021	*2020*
Investment portfolio rating		
AA	**-**	986,363
A	**500,000**	500,000
A-	**1,585,500**	1,585,500
BBB-	**1,830,500**	1,830,500
R1	**1,850,000**	1,650,000
Unrated	**3,244,057**	2,137,782
	9,010,057	8,690,145

SaskCentral shares are included in the R1 category above and Concentra Bank shares are included in the A category above.

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, 2021 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, 2021, the Credit Union is in compliance with regulatory requirements.

7. Member loans receivable

Principal and allowance by loan type:

	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance for expected credit losses**	**Net carrying value**
					2021
Agriculture loans	25,650,964	-	-	213,935	**25,437,029**
Commercial loans	12,103,217	15,041	15,041	2,067,734	**10,035,483**
Consumer loans	11,840,506	291,625	181,625	16,464	**11,934,042**
Lines of credit	4,663,681	-	-	18,617	**4,645,064**
Mortgages	157,446,892	55,561	55,561	80,706	**157,366,186**
	211,705,260	362,227	252,227	2,397,456	**209,417,804**
Accrued interest	1,037,829	44,628	44,628	-	**1,037,829**
	212,743,089	406,855	296,855	2,397,456	**210,455,633**

	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value
					2020
Agriculture loans	25,546,631	-	-	109,277	25,437,354
Commercial loans	11,204,068	15,041	15,041	661,155	10,542,913
Consumer loans	12,465,794	252,138	137,138	197,005	12,383,789
Lines of credit	5,760,927	-	-	19,998	5,740,929
Mortgages	145,634,371	210,959	30,959	79,760	145,734,611
	200,611,791	478,138	183,138	1,067,195	199,839,596
Accrued interest	1,374,100	63,708	63,708	-	1,374,100
	201,985,891	541,846	246,846	1,067,195	201,213,696

The allowance for loan impairment changed as follows:

	2021	*2020*
Balance, beginning of year	**1,314,041**	950,286
Provision for impaired loans	**1,380,284**	423,880
	2,694,325	1,374,166
Less: accounts written off, net of recoveries	**14**	60,125
Balance, end of year	**2,694,311**	1,314,041

8. Other assets

	2021	2020
Accounts receivable	**367,346**	263,605
Corporate income tax recoverable	**-**	35,255
Prepaid expenses and deposits	**547,563**	415,189
Deferred tax asset (Note 12)	**704,328**	333,633
Asset held for sale	**226,950**	237,863
	1,846,187	1,285,545

9. Property, plant and equipment

	Land	*Buildings and capital improve- ments*	*Auto- mobiles*	*Furniture and equipment*	*Parking lot*	*Total*
Cost						
Balance at December 31, 2019	105,645	5,542,458	27,310	1,044,515	55,041	6,774,969
Additions	-	309,320	-	309,329	210,966	829,615
Disposals	-	-	-	-	(55,041)	(55,041)
Balance at December 31, 2020	105,645	5,851,778	27,310	1,353,844	210,966	7,549,543
Additions	-	-	-	**190,341**	-	**190,341**
Balance at December 31, 2021	**105,645**	**5,851,778**	**27,310**	**1,544,185**	**210,966**	**7,739,884**
Accumulated depreciation						
Balance at December 31, 2019	-	1,670,126	4,552	562,730	55,041	2,292,449
Depreciation	-	241,931	9,103	111,304	7,032	369,370
Disposals	-	-	-	-	(55,041)	(55,041)
Balance at December 31, 2020	-	1,912,057	13,655	674,034	7,032	2,606,778
Depreciation	-	**220,541**	**9,103**	**151,443**	**21,096**	**402,183**
Balance at December 31, 2021	-	**2,132,598**	**22,758**	**825,477**	**28,128**	**3,008,961**
Net book value						
At December 31, 2020	105,645	3,939,721	13,655	679,810	203,934	4,942,765
At December 31, 2021	**105,645**	**3,719,180**	**4,552**	**718,708**	**182,838**	**4,730,923**

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

During the year ended December 31, 2021, certain software owned by the Credit Union was not yet fully implemented. Total costs included in the carrying amount of furniture and equipment is $105,000. No depreciation has been recorded in the current year on this amount as the item had not been put into use prior to year-end.

10. Line of credit

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at prime minus 0.5% (1.95% at December 31, 2021), in the amount of $6,000,000 (2020 - $5,300,000) from SaskCentral. At December 31, 2021, the Credit Union has utilized $1,900,991 (2020 - $nil) of its line of credit.

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

11. Member deposits

	2021	*2020*
Chequing, savings	**162,036,959**	139,923,530
Registered plans	**49,814,041**	47,655,640
Term deposits	**83,398,839**	81,661,231
Accrued interest	**1,198,054**	1,237,683
	296,447,893	270,478,084

Member deposits are subject to the following terms:

- Chequing and savings products are due on demand and bear interest at rates up to 1.00% (2020 - 1.00%).
- Registered plans are subject to fixed and variable rates of interest up to 4.00% (2020 - 4.00%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 5.00% (2020 - 4.00%), with interest payments due monthly, annually or on maturity.

12. Income tax

Income tax expense recognized in comprehensive income

The applicable tax rate is the aggregate of the federal income tax rate of 15% (2020 - 15%) and the provincial tax rate of 12% (2020 - 12%).

Deferred tax recovery recognized in comprehensive income

The deferred tax recovery recognized in comprehensive income for the current year is a result of the following changes:

	2021	*2020*
Deferred tax asset		
Property, plant and equipment	**49,000**	38,825
Allowance for impaired loans	**655,328**	294,808
	704,328	333,633

12. Income tax *(Continued from previous page)*

	2021	*2020*
Deferred tax asset is reflected in the statement of financial position as follows:		
Deferred tax asset	**704,328**	333,633

Reconciliation between average effective tax rate and the applicable tax rate

	2021	*2020*
Applicable tax rate	**27.00 %**	27.00 %
Non-taxable and other items	**(3.13)%**	0.13 %
Average effective tax rate (tax expense divided by profit before tax)	**23.87 %**	27.13 %

13. Other liabilities

	2021	*2020*
Accounts payable	**258,778**	315,727
Corporate income tax payable	**88,254**	-
	347,032	315,727

14. Membership shares

Authorized:

Unlimited number of Common shares, at an issue price of $5
Unlimited number of Surplus shares, at an issue price of $1

Issued:

	2021	*2020*
3,819 Common shares (2020 - 3,966)	**19,095**	19,830
3,228,478 Surplus shares (2020 - 3,254,771)	**3,228,478**	3,254,771
Total	**3,247,573**	3,274,601

All common and surplus 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.

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The Articles of Incorporation for the Credit Union disclose the conditions concerning surplus shares.

During the year, the Credit Union issued 150 (2020 - 135) and redeemed 297 (2020 - 156) common shares, and also issued 307,321 (2020 - 391,866) and redeemed 333,614 (2020 - 410,001) surplus shares.

15. Patronage

The Credit Union declared a patronage refund payable in the amount of $400,303 (2020 - $400,000), approved by the Board of Directors on December 21, 2021 to be paid by cash to the members based on lending and deposit business and as a rebate of service charges, for the year ended December 31, 2021.

The patronage refund of $400,303 (2020 - $400,000) has been reflected in the statement of comprehensive income with related tax savings of approximately $108,082 (2020 - $108,000) being reflected in the current year's provision for income taxes.

16. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") of the Credit Union are the Chief Executive Officer, Manager of Lending, Manager of Member Experience, Manager of Digital Experience, Manager of Marketing and members of the Board of Directors.

KMP remuneration includes the following expenses:

	2021	*2020*
Salaries and short-term benefits	**644,497**	635,344

Transactions with key management personnel

The Credit Union, in accordance with its policy, may grant credit to its management and staff at concessional rates of interest on their loans and facilities.

Loans made to KMP are approved under the same lending criteria applicable to members and are included in member loans on the 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 statement of financial position.

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

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.

	2021	*2020*
Aggregate loans to KMP	**1,840,277**	2,095,723
Aggregate revolving credit facilities to KMP	**122,000**	81,000
Less: approved and undrawn lines of credit	**(50,869)**	(51,552)
	1,911,408	2,125,171

	2021	*2020*
During the year the aggregate value of loans approved to KMP amounted to:		
Mortgages	**85,600**	198,571
Loans	**56,046**	54,728
	141,646	253,299

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

	2021	2020
Income and expense transactions with KMP consisted of:		
Interest earned on loans and revolving credit facilities to KMP	**72,045**	82,357
Interest paid on deposits to KMP	**5,847**	7,203

	2021	2020
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**656,161**	854,758
Term deposits	**114,346**	209,262
Registered plans	**300,978**	368,565
Total value of member deposits due to KMP	**1,071,485**	1,432,585

Directors' fees and expenses

	2021	2020
Directors' fees and committee remuneration	**53,950**	46,475
Directors' expenses	**4,364**	2,449
Meeting, training and conference costs	**5,565**	2,822

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.

The Credit Union is related to Concentra Bank, which is 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, 2021 amounted to $909,397 (2020 - $1,022,501).

Interest paid on borrowings during the year ended December 31, 2021 amounted to $2,892 (2020 - $2,874).

Payments made for affiliation dues for the year ended December 31, 2021 amounted to $18,759 (2020 - $26,176).

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 III framework, consistent with the financial industry in general.

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

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.

The following table compares CUDGC regulatory standards to the Credit Union's board standards for 2021:

	Regulatory standards	***Board standards***
Total eligible capital to risk-weighted assets	**10.50 %**	**12.00 %**
Total tier 1 capital to risk-weighted assets	**8.50 %**	**11.00 %**
Common equity tier 1 capital to risk-weighted assets	**7.00 %**	**11.00 %**
Leverage ratio	**5.00 %**	**8.00 %**

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

The following table summarizes key capital information:

	2021	*2020*
Eligible capital		
Common equity tier 1 capital	**24,455,020**	23,977,370
Additional tier 1 capital	**-**	-
Total tier 1 capital	**24,455,020**	23,977,370
Total tier 2 capital	**5,645,029**	4,341,796
Total eligible capital	**30,100,049**	28,319,166
Risk-weighted assets		
Total eligible capital to risk-weighted assets	**15.47 %**	15.60 %
Total tier 1 capital to risk-weighted assets	**12.57 %**	13.21 %
Common equity tier 1 capital to risk-weighted assets	**12.57 %**	13.21 %
Leverage ratio	**9.05 %**	9.40 %

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 Finance Committee and Conduct Review Committee.

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/or 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

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

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 represent 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.

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

	2021	*2020*
Unadvanced lines of credit	**36,784,339**	34,469,936
Guarantees and standby letters of credit	**326,000**	774,980
Commitments to extend credit	**5,912,726**	2,537,198
	43,023,065	37,782,114

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.

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

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 ECL's, 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, agriculture loans/mortgages, personal loans and lines of credit). Otherwise, expected credit losses are measured on an individual basis.

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.

As indicated in Note 3, COVID-19 and the measures taken by Canadian federal, provincial and municipal governments to limit the spread of COVID-19 have had a material adverse impact on the Canadian economy. To mitigate the economic impact, governments have enacted policy measures to provide economic stimulus and financial support to both individuals and businesses.

The Credit Union has run a number of simulations on its collective allowance, incorporating assumptions about the resulting macroeconomic impacts of the COVID-19 pandemic, based on information and facts available at December 31, 2021. The macroeconomic factors that affect the Credit Union's 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. 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 COVID-19, the weightings chosen at December 31, 2020 and December 31, 2021 were adjusted to 50% base, 10% best and 40% worst case.

Management had to use judgment in several areas to assess if the estimate the model calculated was reasonable or if an overlay was needed to increase or decrease the allowance. The negative effects of the global economic shut down, increased unemployment and volatile oil prices had to be weighed against the more positive aspects of government support programs, government loan programs, loan deferrals, and rent deferrals. In addition, sectors expected to be impacted most heavily, and expected to sustain higher long-term risks, were analysed and expected losses adjusted accordingly. This approach resulted in an increase of approximately $1,602,944 (2020 - $256,889) to the allowance for expected credit losses at December 31, 2021.

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

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, 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.

		2021		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and lines of credit				
Low risk	**16,495,860**	**-**	**-**	**16,495,860**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**303,183**	**303,183**
Total gross carrying amount	**16,495,860**	**-**	**303,183**	**16,799,043**
Less: loss allowance	**35,081**	**-**	**223,795**	**258,876**
Total carrying amount	**16,460,779**	**-**	**79,388**	**16,540,167**
Residential mortgages				
Low risk	**73,597,542**	**-**	**-**	**73,597,542**
Medium risk	**-**	**665,770**	**-**	**665,770**
Default	**-**	**-**	**302,303**	**302,303**
Total gross carrying amount	**73,597,542**	**665,770**	**302,303**	**74,565,615**
Less: loss allowance	**78,435**	**2,271**	**55,786**	**136,492**
Total carrying amount	**73,519,107**	**663,499**	**246,517**	**74,429,123**
Commercial loans				
Low risk	**37,511,348**	**-**	**-**	**37,511,348**
Medium risk	**-**	**23,726,845**	**-**	**23,726,845**
Default	**-**	**-**	**748,055**	**748,055**
Total gross carrying amount	**37,511,348**	**23,726,845**	**748,055**	**61,986,248**
Less: loss allowance	**196,206**	**1,871,528**	**17,274**	**2,085,008**
Total carrying amount	**37,315,142**	**21,855,317**	**730,781**	**59,901,240**

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

		2021		
	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Agricultural loans				
Low risk	**58,122,142**	**-**	**-**	**58,122,142**
Medium risk	**-**	**594,439**	**-**	**594,439**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**58,122,142**	**594,439**	**-**	**58,716,581**
Less: loss allowance	**203,263**	**10,672**	**-**	**213,935**
Total carrying amount	**57,918,879**	**583,767**	**-**	**58,502,646**
Total				
Low risk	**185,726,892**	**-**	**-**	**185,726,892**
Medium risk	**-**	**24,987,054**	**-**	**24,987,054**
Default	**-**	**-**	**1,353,541**	**1,353,541**
Total gross carrying amount	**185,726,892**	**24,987,054**	**1,353,541**	**212,067,487**
Less: loss allowance	**512,985**	**1,884,471**	**296,855**	**2,694,311**
Total carrying amount	**185,213,907**	**23,102,583**	**1,056,686**	**209,373,176**

		2020		
	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Consumer loans and lines of credit				
Low risk	18,163,478	-	-	18,163,478
Medium risk	-	-	-	-
Default	-	-	354,502	354,502
Total gross carrying amount	18,163,478	-	354,502	18,517,980
Less: loss allowance	217,003	-	211,642	428,645
Total carrying amount	17,946,475	-	142,860	18,089,335
Residential mortgages				
Low risk	68,041,194	-	-	68,041,194
Medium risk	-	305,214	-	305,214
Default	-	-	327,716	327,716
Total gross carrying amount	68,041,194	305,214	327,716	68,674,124
Less: loss allowance	74,294	5,466	18,939	98,699
Total carrying amount	67,966,900	299,748	308,777	68,575,425
Commercial loans				
Low risk	51,672,383	-	-	51,672,383
Medium risk	-	5,550,077	-	5,550,077
Default	-	-	1,343,071	1,343,071
Total gross carrying amount	51,672,383	5,550,077	1,343,071	58,565,531
Less: loss allowance	358,104	303,051	16,265	677,420
Total carrying amount	51,314,279	5,247,026	1,326,806	57,888,111

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

		2020		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Agricultural loans				
Low risk	54,542,491	-	-	54,542,491
Medium risk	-	423,396	-	423,396
Default	-	-	366,407	366,407
Total gross carrying amount	54,542,491	423,396	366,407	55,332,294
Less: loss allowance	100,875	8,402	-	109,277
Total carrying amount	54,441,616	414,994	366,407	55,223,017
Total				
Low risk	192,419,546	-	-	192,419,546
Medium risk	-	6,278,687	-	6,278,687
Default	-	-	2,391,696	2,391,696
Total gross carrying amount	192,419,546	6,278,687	2,391,696	201,089,929
Less: loss allowance	750,276	316,919	246,846	1,314,041
Total carrying amount	191,669,270	5,961,768	2,144,850	199,775,888

The gross carrying amount of financial guarantee contracts for which expected credit losses were recognized and are not included in the above table as at December 31, 2021 was $128,000 (2020 – $193,500).

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 Unity, 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, 2020	**212,852**	**10**	**158,345**	**371,207**
Net remeasurement of loss allowance	**4,151**	**(10)**	**53,297**	**57,438**
Balance at December 31, 2020	**217,003**	**-**	**211,642**	**428,645**
Net remeasurement of loss allowance	**(181,922)**	**-**	**12,153**	**(169,769)**
Balance at December 31, 2021	**35,081**	**-**	**223,795**	**258,876**

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

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Residential mortgages				
Balance at January 1, 2020	58,645	4,517	50,936	114,098
Net remeasurement of loss allowance	15,649	949	(31,997)	(15,399)
Balance at December 31, 2020	74,294	5,466	18,939	98,699
Net remeasurement of loss allowance	4,141	(3,195)	36,847	37,793
Balance at December 31, 2021	78,435	2,271	55,786	136,492
Commercial loans				
Balance at January 1, 2020	207,742	13,984	15,210	236,936
Net remeasurement of loss allowance	150,362	289,067	1,055	440,484
Balance at December 31, 2020	358,104	303,051	16,265	677,420
Net remeasurement of loss allowance	(161,898)	1,568,477	1,009	1,407,588
Balance at December 31, 2021	196,206	1,871,528	17,274	2,085,008
Agricultural loans				
Balance at January 1, 2020	201,787	26,258	-	228,045
Net remeasurement of loss allowance	(100,912)	(17,856)	-	(118,768)
Balance at December 31, 2020	100,875	8,402	-	109,277
Net remeasurement of loss allowance	102,388	2,270	-	104,658
Balance at December 31, 2021	203,263	10,672	-	213,935
Total				
Balance at January 1, 2020	681,026	44,769	224,491	950,286
Net remeasurement of loss allowance	69,250	272,150	22,355	363,755
Balance at December 31, 2020	750,276	316,919	246,846	1,314,041
Net remeasurement of loss allowance	(237,291)	1,567,552	50,009	1,380,270
Balance at December 31, 2021	512,985	1,884,471	296,855	2,694,311

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 owner needs.

Risk measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly 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 income by $458,000 (2020 - $275,000 decrease) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $458,000 (2020 - $275,000 increase) 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 characteristic; 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 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	2021 Total	2020 Total
Assets							
Cash and cash equivalents	10,765	-	-	-	2,616	**13,381**	17,213
Average yield %	*0.51*	-	-	-	-	*0.41*	*0.32*
Investments	4,238	17,777	39,050	33,000	255	**94,320**	73,515
Average yield %	*0.51*	*0.81*	*0.92*	*1.28*	-	*1.00*	*1.11*
Member loans receivable	63,257	4,184	15,719	127,296	-	**210,456**	201,214
Average yield %	*4.67*	*4.38*	*3.65*	*3.53*	-	*3.93*	*4.08*
Accounts receivable	-	-	-	-	367	**367**	264
	78,260	**21,961**	**54,769**	**160,296**	**3,238**	**318,524**	292,206
Liabilities							
Member deposits	135,353	16,060	40,314	68,016	36,705	**296,448**	270,478
Average yield %	*0.28*	*1.93*	*1.87*	*2.03*	-	*0.95*	*1.07*
Accounts payable	-	-	-	-	259	**259**	316
Membership shares	-	-	-	-	3,248	**3,248**	3,275
	135,353	**16,060**	**40,314**	**68,016**	**40,212**	**299,955**	274,069
Net sensitivity	**(57,093)**	**5,901**	**14,455**	**92,280**	**(36,974)**	**18,569**	18,137

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 assess 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;
- 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, 2021:

(In thousands)

	< 1 year	**1-2 years**	**> 3 years**	**Total**
Member deposits	**228,432**	**19,678**	**48,338**	**296,448**
Accounts payable	**259**	**-**	**-**	**259**
Membership shares	**-**	**-**	**3,248**	**3,248**
Total	**228,691**	**19,678**	**51,586**	**299,955**

As at December 31, 2020:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	195,058	27,099	48,321	270,478
Accounts payable	316	-	-	316
Membership shares	-	-	3,275	3,275
Total	195,374	27,099	51,596	274,069

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, 2021:

(In thousands)

	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	**13,381**	**-**	**-**	**13,381**
Investments	**61,320**	**10,394**	**22,606**	**94,320**
Member loans receivable	**83,160**	**43,114**	**84,182**	**210,456**
Accounts receivable	**367**	**-**	**-**	**367**
Total	**158,228**	**53,508**	**106,788**	**318,524**

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

As at December 31, 2020:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	17,213	-	-	17,213
Investments	38,885	9,130	25,500	73,515
Member loans receivable	83,328	23,077	94,809	201,214
Accounts receivable	264	-	-	264
Total	139,690	32,207	120,309	292,206

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 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 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***	***2021 Level 3***
Financial assets				
Cash	**2,616**	**2,616**	**-**	**-**
SaskCentral and Concentra Bank shares	**2,350**	**-**	**-**	**2,350**
Other equity instruments	**2,300**	**-**	**2,300**	**-**
Total financial assets	**7,266**	**2,616**	**2,300**	**2,350**

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

(In thousands)	*Fair value*	*Level 1*	*Level 2*	*2020* *Level 3*
Financial assets				
Cash	6,856	6,856	-	-
SaskCentral and Concentra Bank shares	2,150	-	-	2,150
Other equity instruments	2,138	-	2,138	-
Total financial assets	11,144	6,856	2,138	2,150

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 statement of financial position are as follows:

(In thousands)	***Carrying amount***	***Fair value***	***Level 1***	***Level 2***	***2021*** ***Level 3***
Financial assets measured at amortized cost					
Cash equivalents and line of credit	**10,765**	**10,765**	**10,765**	**-**	**-**
Investments	**89,670**	**89,792**	**-**	**89,792**	**-**
Member loans receivable	**210,456**	**209,394**	**-**	**209,394**	**-**
Accounts receivable	**367**	**367**	**-**	**367**	**-**
Total financial assets	**311,258**	**310,318**	**10,765**	**299,553**	**-**
Financial liabilities measured at amortized cost					
Member deposits	**296,448**	**298,541**	**-**	**298,541**	**-**
Accounts payable	**259**	**259**	**-**	**259**	**-**
Membership shares	**3,248**	**3,248**	**-**	**-**	**3,248**
Total financial liabilities	**299,955**	**302,048**	**-**	**298,800**	**3,248**

(In thousands)	*Carrying amount*	*Fair value*	*Level 1*	*Level 2*	*2020* *Level 3*
Financial assets measured at amortized cost					
Cash equivalents	10,357	10,357	10,357	-	-
Investments	69,227	70,352	-	70,352	-
Member loans receivable	201,214	200,766	-	200,766	-
Accounts receivable	264	264	-	264	-
Total financial assets	281,062	281,739	10,357	271,382	-

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

					2020
(In thousands)	*Carrying amount*	*Fair value*	*Level 1*	*Level 2*	*Level 3*
Financial liabilities measured at amortized cost					
Member deposits	270,478	273,791	-	273,791	-
Accounts payable	316	316	-	316	-
Membership shares	3,275	3,275	-	-	3,275
Total financial liabilities	274,069	277,382	-	274,107	3,275

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. 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, 2021 were $176,805 (2020 - $176,783) and recorded as an expense. The annual estimated fee for the year ended December 31, 2022 is $173,330 (2021 - $176,805).

In 2017, the Credit Union entered into an agreement to purchase units in the Westcap MBO II 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 2021 the Credit Union has advanced $857,600 (2020 - $857,600) of their total commitment of $1,072,000 (2020 - $1,072,000) to the Westcap MBO II Investment Fund.

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 2021 the Credit Union has advanced $488,009 (2020 - $263,590) of their total commitment of $1,000,000 (2020 - $1,000,000) to the APEX III Investment Fund.

In 2021, the Credit Union entered into an agreement with Celero for the provision of digital banking services. The total commitment is $210,000, half of which has been paid before December 31, 2021.

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, 2022. 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, 2022, it will be extended for an additional 3-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 statement of financial position, as the Credit Union transfers substantially all risks and rewards in respect of the loans to the Government of Canada. As of December 31, 2021, the Credit Union had provided approximately 169 (2020 - 125) members with CEBA loans and had funded approximately $8,632,070 (2020 - $5,060,000) in loans under the program.

As of January 12, 2022, the government announced an extension of the deadline for businesses to repay loans under this program to December 31, 2023.

23. Canada Emergency Wage Subsidy

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

The Credit Union has determined that it qualified for the CEWS for the following periods that were applied for during the year: Period 5: July 5 - August 1, 2020; Period 6: August 2 - August 29, 2020; Period 7: August 30 - September 26, 2020; Period 8: September 27 - October 24, 2020; Period 9: October 25 - November 21, 2020; Period 10: November 22 - December 19, 2020; Period 11: December 20, 2020 - January 16, 2021; Period 12: January 17 - February 13, 2021; Period 13: February 14 - March 13, 2021; Period 14: March 14 - April 10, 2021; Period 15: April 11 - May 8, 2021; Period 16: May 9 - June 5, 2021; and Period 17: June 6 - July 3, 2021. The Credit Union has applied for and received $187,438 (2020 - $nil) which has been reflected in the statement of comprehensive income as other income.