# 2020

## ANNUAL REPORT

Luseland

CREDIT UNION

# *AGENDA*

Luseland Credit Union Ltd
Annual Meeting

*June 22, 2021*

- Registration
- Confirmation of Quorum
- Nomination of Chairperson and Secretary
- Adoption of Agenda
- Reading and Approval of lasts year's minutes
- Business Arising from Minutes
- Election of Officers (only members 16 years and over may vote)
- President's Report
- Manager's Report
- Report of Auditors and Financial Statements
- Adoption of Reports
- Appointment of Auditors
- Other Business
- Adjournment

Luseland Credit Union Limited

Incorporated: June 5, 1963    Credit Union Charter No. 347

## OFFICERS

| | |
|---|---|
| President: | Jan Edmonds |
| Vice President: | Bob Prieston |
| Secretary: | Jean Halliday |
| Treasurer: | Adam Franko |

## STAFF

| NAME | POSITION | YEARS OF SERVICE LCU | System |
|---|---|---|---|
| Mickayla Brandle | Loans Officer | 3 | 3 |
| Michelle Eurich | Documentation Clerk | 15 | 15 |
| Adam Franko | General Manager | 13 | 18 |
| Micheal Hagel | Loans Officer | 1 | 1 |
| Jean Halliday | Controller | 41 | 44 |
| Ryley Magnus | Junior Controller | 3 | 3 |
| Megan Meier | Member Service Representative | 3.5 | 3.5 |
| Angela Reiter | Loans Officer | 23 | 23 |
| Alyssa Underdahl | Office Manager | 11.5 | 11.5 |

## DIRECTORS

| NAME | OCCUPATION | COMMITTEE | TERM |
|---|---|---|---|
| Jan Edmonds | Retired Farmer | Executive/Governance | 2021 |
| Brian Gottfried | Farmer | Audit/Risk/Conduct Review | 2021 |
| Debra Scholer | Photographer/ Receptionist | Governance/Workplace Violence & Harassment | 2021 |
| Nona Holtz | Store Owner | Audit/Risk/Conduct Review | 2022 |
| Shirley Knorr | Retired Banker | Executive/Governance | 2022 |
| Robert Prieston | Engineer | Executive/Governance/Audit/ Risk/Conduct Review | 2022 |
| Daniel Holman | Farmer | Policy/Scholarship | 2023 |
| Karen Mitzel | Housing Manager | Policy/Scholarship | 2023 |
| Alan Olfert | Farmer | Policy/Scholarship | 2023 |



# SUPPORTING OUR COMMUNITY

At LCU we love to support the community that we are so proud to be a part of. As a staff, we support a number of different community initiatives. Unfortunately due to COVID-19, our volunteering this last year was cut back. However, we were still able to take part in the Canada Day celebrations, Santa Claus Day celebrations, delivering Meals on Wheels, and the opening of the Luseland Credit Union Community Swimming Pool.

# SUPPORTING OUR MEMBERS

At LCU we stay up to date on the latest advancements in technology. This year members were introduced to Auto Deposit and International Transfers. Transferring funds online has never been so safe and secure.

We also keep members up to date by organizing education opportunities. This year members learned about Agriculture markets and financial fitness.

AUTO DEPOSIT


INTERNATIONAL TRANSFERS

701 Grand Ave.
P.O.Box 518
Luseland, SK
S0L 2A0

Minutes of the 56th Annual Meeting of the
Luseland Credit Union Ltd: March 24, 2020

General Manager Adam Franko opened the 56th Annual Meeting at 7:30 pm by welcoming everyone to the meeting. It was noted that a quorum was present and the meeting could proceed.

Franko called the annual meeting to order and opened the floor for nominations for chairman. Debra Scholer and Bob Prieston nominated Deanne Campbell. Nona Holtz moved nominations cease. Deanne Campbell welcomed everyone to the annual meeting and encouraged them to take an active part in the meeting. Moved by Brian Gottfried and Alyssa Underdahl, that Jean Halliday be nominated for secretary. Lyle Honeker moved nominations ceased.

**Adoption of Agenda**: Moved by Bob Prieston and Nona Holtz the agenda be adopted as presented. Carried.

**Minutes:** The minutes of the March 19, 2019 meeting were read. Moved by Alyssa Underdahl/Lyle Honeker the minutes be adopted as read. Carried.

**Election of Officers:** Deanne Campbell on behalf of the nominating committee, presented the following names: Daniel Holman, Karen Mitzel and Alan Olfert. Moved by Deanne Campbell/Debra Scholer they be elected by acclimation. Carried.

PRESENTATION OF REPORTS
**President's Report:** Deanne Campbell presented the President's Report.

**Manager's Report:** Adam Franko presented the Manager's Report reviewing the financial highlights for 2019.

**Auditors Report:** Adam Franko reviewed the Auditors Report and thanked the staff and the Audit and Risk Committee for their help during the audit.

**Financial Statement:** Franko also presented the Financial Statement for the year ended December 31, 2019 to the membership. He commended the Credit Union on another successful year.

**Adoption of Reports:** Moved by Alyssa Underdahl and Nona Holz the reports be adopted as presented. Carried.

**Appointment of Auditors:** Moved by Nona Holz, Chair of the Audit and Risk Committee/ Brian Gottfried we appoint MNP LLP as Auditors for 2020. Carried.

Moved by Nona Holz that we adjourn at 7:50. Carried. Attendance: 15



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# PRESIDENT'S REPORT

Welcome to the 57th Annual General Meeting of the Luseland Credit Union Limited (LCU). The success of the annual general meeting depends on the participation of our members. It is my pleasure to present my report to the membership.

Our assets finished this year at $139,428,940; an increase of $13.2 million from the 2019 results of $126,194,736. Although the Covid-19 pandemic began early in the year, LCU was still able to generate a net profit above the Saskatchewan CU system average. In addition, LCU was proud to be able to support our members and our community through these tough times by offering CEBA loans and payment deferrals.

In 2020, LCU held a joint RRSP information session with Credential, the Financial Fitness event in the park, and our annual Ag Outlook session. We also had a bit of fun with our Frozen 2 movie at the theatre, LCU Rock Hunt, and 12 days of giving activities.

The board and staff continue to enjoy the space and conveniences of the new building. The damage to the building from the storm in 2019 was repaired along with the replacement of the front side walk and the cement into the entrance. This work was not completed correctly at the time of the build.

Once again we paid a patronage rebate and this time $100,000 was returned to our members. This patronage was paid on February 24th as a rebate on interest paid by members on loans and lines of credit, as well as a bonus on interest received by the members in Regular Savings, Plan 24, and Term Deposit accounts in 2020. This proves that we are in a profitable and sustainable financial position.

Micheal Hagel joined our staff this year and was a welcome addition. Our staff, once again, went above and beyond in providing outstanding service to our members. Once Covid hit us, the staff proved again and again that they still had more to give as they had to deal with changes almost daily.

Adam, along with his senior management team were unwavering in their dedication and commitment to keeping your Credit Union running as smoothly as possible once it was apparent that Covid-19 was not going to be a short term problem. At the end of 2020, LCU continues to strive to keep the staff and any members entering the Credit Union as safe as possible. Hopefully Covid-19 will soon only be a memory.

It is important to give back to our community and this year we were pleased to donate $15,941 to numerous organizations and projects in our area. Our goal is to help reduce the financial stress typically associated with the operation of these groups and projects. They are a vital part of our community and keeping the entire area vibrant and growing.

As I step away from the board at the end of my term I would like to thank the board and Staff for all the support I received while I was a member of the Board. Adam's support and encouraging words were very much appreciated over the years. Fellow board members, it is your time and commitment that keeps our Credit Union one of the few standalone Credit Unions and I thank you for that.

I want each member to know that your support and loyalty is valued and appreciated. It is you who make us successful as well.

Thank you,

Jan Edmonds, President of the Board of Directors

# Management Discussion and Analysis

## *Mission*

**Inspiring** your dreams. **Financing** your goals. **Building** our community.

## *Our Corporate Values*

**Community:** Involved in every aspect.

**Service:** Quality beyond expectation.

**Knowledgeable:** We have the answer.

**Responsibility:** Accountable to our members.

**Respect:** Everyone is equal.

**Team:** Successful together.

## *Credit Union Market Code*

LCU voluntarily adheres to the Credit Union Market Code. This code has been jointly developed by Saskatchewan credit unions, SaskCentral and Credit Union Deposit Guarantee to ensure the protection of credit union members. The code sets forth guidelines for the following areas:

- Complaint handling, which outlines the process for dealing with all complaints regarding the service, products, fees or charges of LCU.
- Fair sales by outlining the roles and relationship of staff to all member/clients and in accordance with the Financial Services Agreement.
- Financial planning process to advise member/clients on the risks and benefits associated with financial planning services.
- Privacy to protect the interests of those who do business with LCU. Privacy is the practice to ensure all member/client information is kept confidential and used only for the purpose for which it was gathered.
- Professional standards to preserve a positive image of LCU among our members, clients and communities.
- Capital management to ensure our capital structure aligns with our risk philosophy.
- Financial reporting to adhere to business and industry standards.
- Governance practices to adhere to the intent and stipulation of our corporate bylaws, which are approved by the membership of LCU.
- Risk management to ensure all risks are measured and managed in an acceptable fashion.

## *Our Co-operative Principles*

As a true co-operative financial institution, LCU acts in accordance with 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 gender, social, racial, political or religious 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 also 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-held 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, national, regional and international structures.

*Concern for Community*
Co-operatives work for the sustainable development of their communities through policies approved by their members.

## *Who We Are*

LCU is an independent Saskatchewan credit union owned by our members. Under the current credit union legislation, LCU is able to provide financial services to members and non-members. As at December 31, 2020, LCU had 1625 members and 0 non-members. Non-members do not participate in the democratic processes of the credit union nor the patronage program.

LCU serves the community of Luseland and surrounding area through a single branch. In this community and surrounding area we provide a range of financial services including personal, agricultural and commercial accounts, loans, mortgages, creditor insurance, and investment products.

## *Where Are We Going*

The vision of LCU is to be the leading provider of a complete range of financial services in the town and surrounding area of Luseland, Saskatchewan. To monitor specific objectives throughout the year that support this vision, we have developed a strategic plan that outlines short and long term goals for LCU. Progress to the plan is measured by quarterly reporting back to the board by management on the completion of specific goals.

Our key strategic objectives in 2020, were:

1) Maintain profitability and sustainable growth,
2) Continue to build strong relationships with our members and community,
3) Ensure we have the products and services our members want and identify opportunities to collaborate with others to deliver those services, and
4) Continue to make sure we have effective people in place to deliver the best member service.

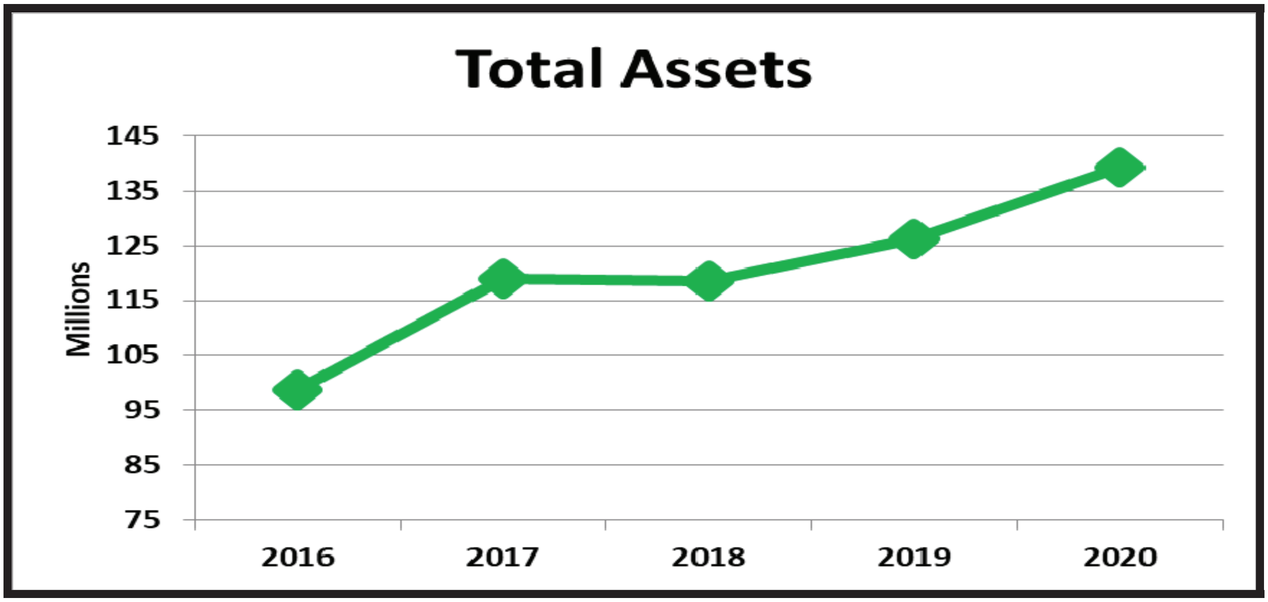
We, at LCU, are pleased to continue to meet and exceed our strategic objectives in 2020. We were able to generate a profit before patronage of $848,893 and grew our assets by 10.35% and equity by 6.92%. We continue to build strong relationships by welcoming 83 new members to LCU, granting 294 loans to our members, donating almost 16 thousand dollars to worthwhile causes, and being a leader at community events whenever we can. We welcomed Micheal Hagel as our new Loans Officer in April 2020 and he quickly became a valuable member of the team.

Building and maintaining strong relationships is at the core of our business. Meeting the goal of our vision requires LCU to always continue to focus on relationships; relationships with potential members, current members, other Credit Unions, our staff, our community and many more. We look forward to continuing to building, strengthening our relationships.

# Financial Performance

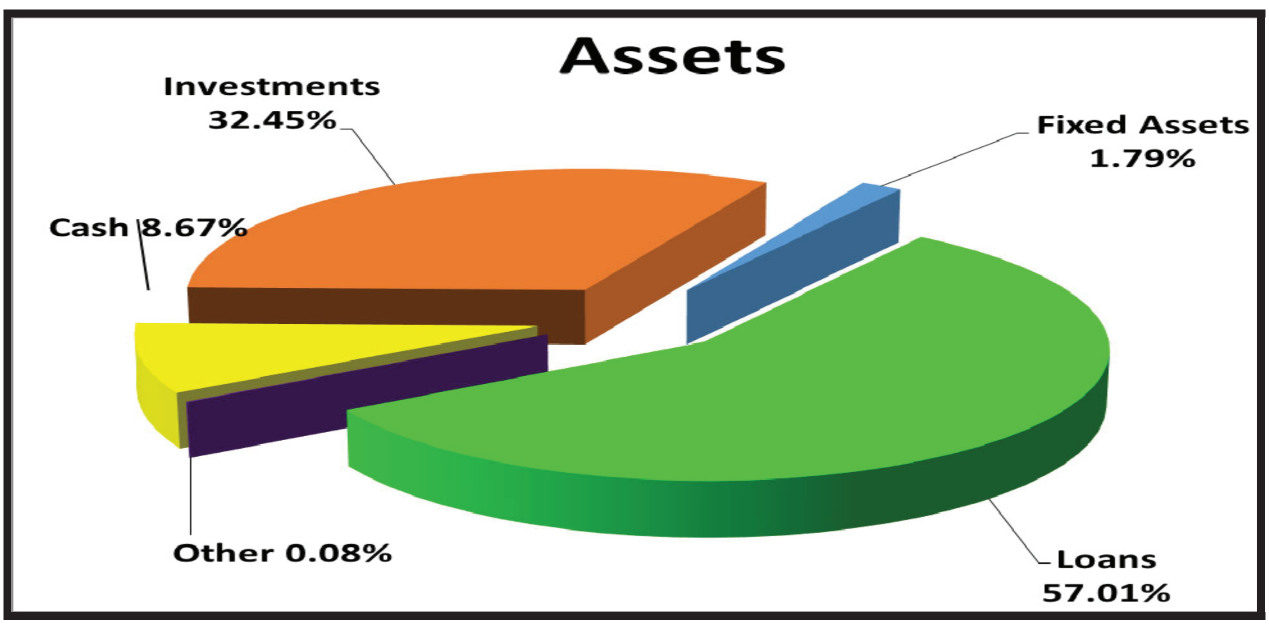
## Statement of Financial Position

The total assets continued upwards in 2020 and increased 10.35% or $13.07 million (2019 – 6.48% or $7.67 million). This positive growth trend resulted in a final asset value of $139.26 million (2019 - $126.19 million).



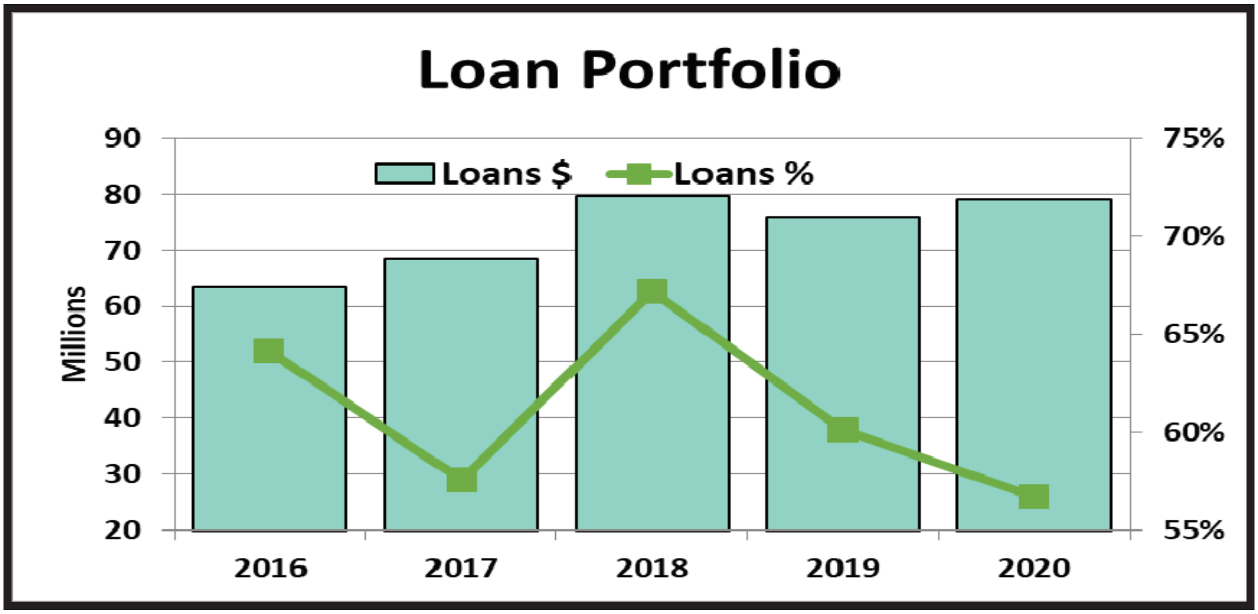

## Assets

LCU's asset composition followed the same trend as 2019 with a decrease in the loan portfolio percentage. This ratio fell to 57.01% of total assets in 2020 (2019 – 60.79%) despite an overall monetary increase in loans. The amount of corporate investments held by LCU increased to 32.45% (2019 – 24.40%) due to the growth in total assets outpacing the growth in the loan portfolio. LCU continues to look for opportunities to increase its loan portfolio as loans typically generate a higher rate of return when compared to corporate investments.



## Loan Portfolio

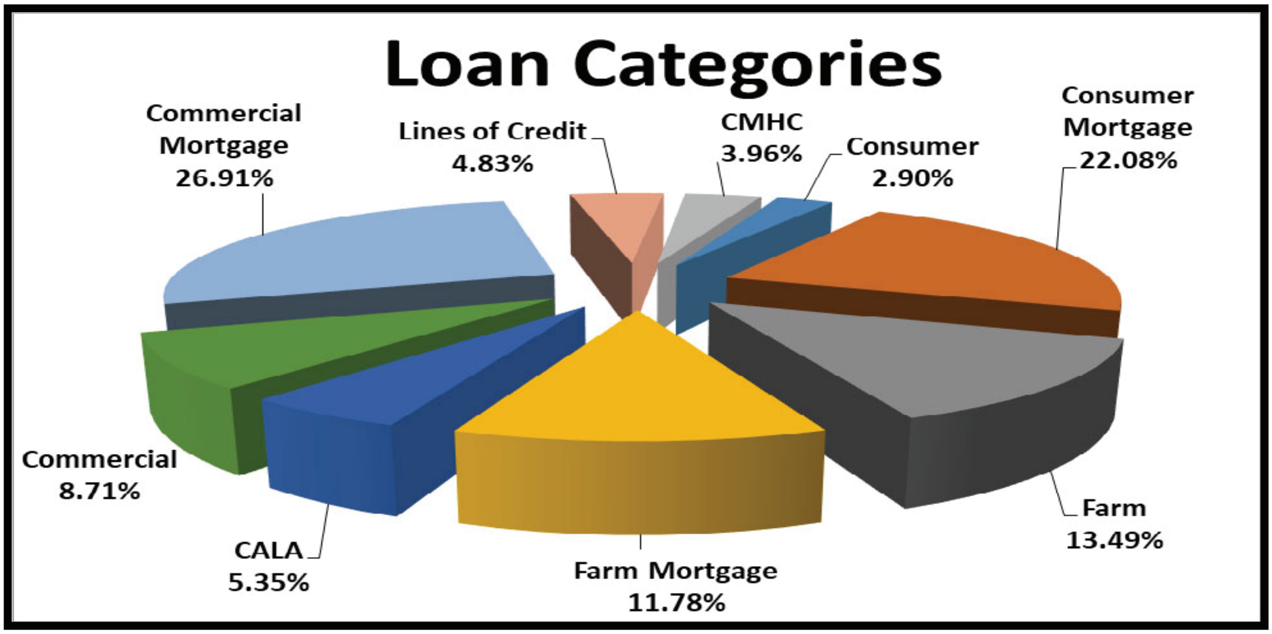
The loan portfolio increased 3.49% in 2020 (2019 – decreased 3.99%) and the primary driver behind that growth was an increase in local loan demand spread across the agricultural, consumer and commercial categories. The total amount of loans outstanding at the end of the year was $79.39 million (2019 –$76.71 million). During the 2020 year, LCU's lenders approved 294 new loans and lines of credit for almost $32 million dollars. In addition to those new credits, our lending team also helped our members through this difficult year with 75 extensions totaling nearly $25 million. LCU continues to look for opportunities to increase our loan portfolio by seeking out local lending opportunities, purchasing loans from other Credit Unions, and offering interest rate specials when feasible.




Our loan portfolio remained well diversified in 2020, with relatively equal parts lent in the sectors of agriculture (33.12%), commercial (35.59%), and consumer (31.29%). Compared to our 2019 percentages, of 32.87%, 35.09%, and 32.04% respectively, there was not a significant change. The strength of the portfolio improved throughout the year with 74.81% of the portfolio secured by mortgage collateral (2019 – 73.35%) and 0% delinquency over 90 days (2019 – 0.02%). LCU's staff work diligently and continue using strong, prudent credit granting policies that reduce the probability of credit losses.

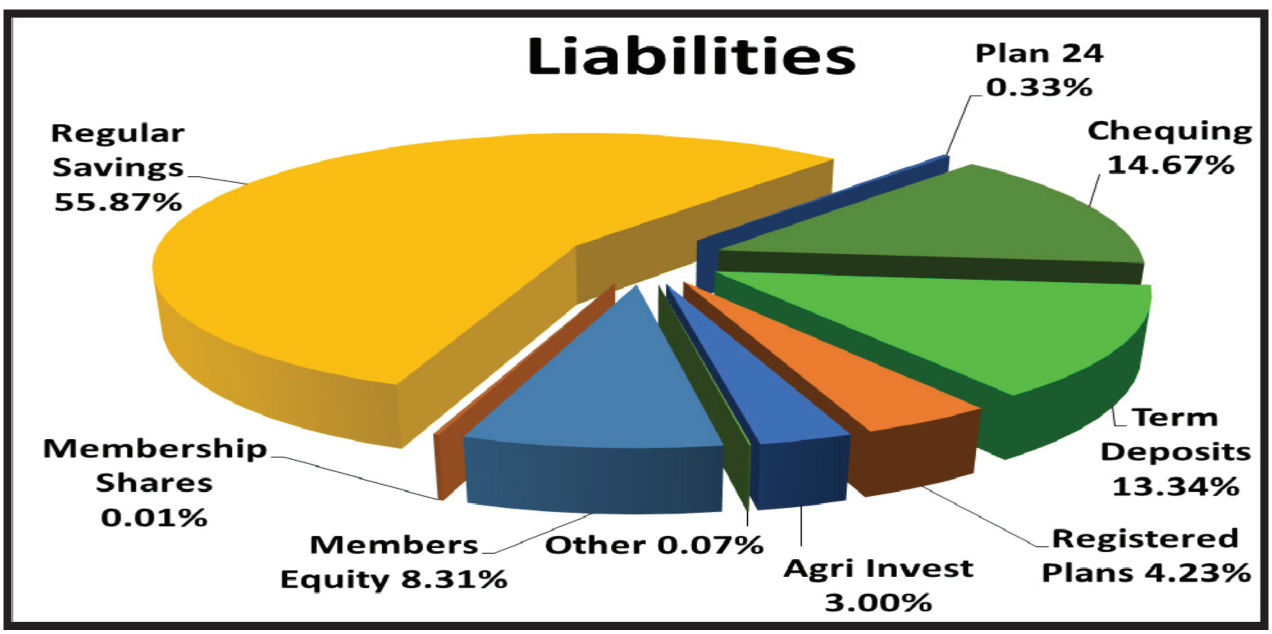
LCU has allowances for potential loan losses split into two categories, specific and general. There are two loans that make up LCU's specific allowance of which total principal and interest impaired is $2,204,332. While this amount is up significantly from 2019 figures ($13,771), LCU anticipates if these two loans were to default the total loss would be $100,000. This amount is what LCU has set aside as our specific allowance. LCU's general allowance for 2020 remained unchanged at $178,199 and has been the same since a new process was mandated in 2018.

At yearend, LCU had one foreclosed property with an estimated value of $85,000 (three at $335,000 in 2019). The property is currently leased to two tenants and the revenue earned offsets the ongoing carrying costs of the property excluding any repairs. LCU continually evaluates opportunities to sell the property.




## Liabilities

In 2020, member deposits increased 10.67% (2019 – increased 6.06%). LCU's liability composition remained similar to 2019 with a small amount of movement between categories. Year over year the majority of member deposits remained in regular savings at 55.87% (2019 – 56.89%) of liabilities.



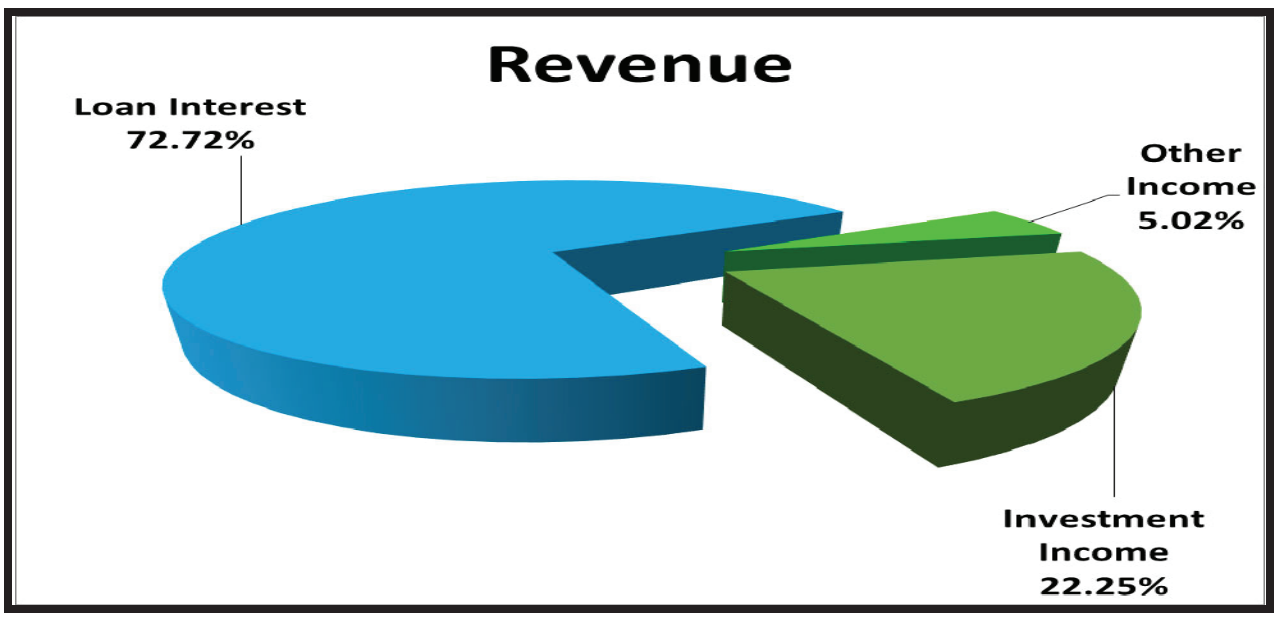
## Statement of Comprehensive Income

For LCU, 2020 was a year unlike any other. The impacts of the COVID-19 pandemic were felt by our members, our community, our staff, the Credit Union, and everyone else. Physical distancing, plexiglass, hand sanitizer, masks, etc have all become a part of our "pandemic-normal", pandemic or not LCU's focus will always be to serve the member to the best of our ability.

## Revenue

LCU's revenue is generated from three primary categories: Loan Interest, Investment Income, and Other Income. Due to the effects of the pandemic on interest rates and asset growth that outpaced loan growth, LCU experienced a reduction in the percentage of revenue generated by the loan portfolio to 72.72% (2019 - 77.20%). In 2020, much like in 2019, LCU experienced robust deposit growth throughout the year and this put continued downward pressure on LCU's loans to assets ratio. LCU continues to explore options to increase the loans to assets ratio to ensure long term profitability.

The rate of return on the loan portfolio decreased to 3.77% (2019 - 4.67%) and LCU's rate of return on investment income decreased to 1.80% in 2020 (2019 – 2.32%). These rates of return are directly impacted by changes in the interest rate market and as a result of the economic impact of the COVID-19 pandemic. LCU's prime rate decreased 1.50 percentage points in March 2020 from 3.95% to 2.45%. The prime rate follows the Bank of Canada's rate and is expected to remain at the same level into 2022. Other income is typically service charges and commissions. It remains a small part of the total revenue for 2020 at 5.02% (2019 – 3.39%) and LCU is very proud of this fact. The bulk of the increase in 2020 can be attributed to a recovery on a prior credit loss. Our members still enjoy a virtually service charge free environment coupled with outstanding service.



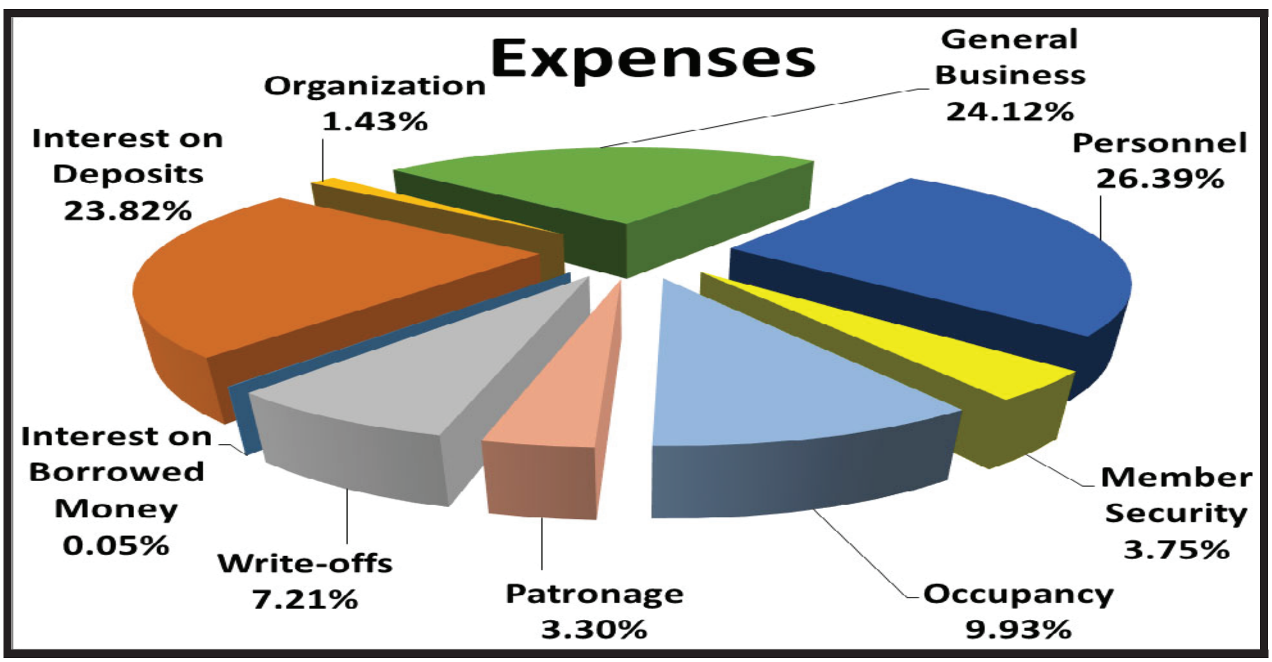
## Expenses

Interest expense on member deposits decreased in 2020 to 23.82% (2019 – 28.18%) as a percentage of total expenses. This decrease is directly related to the impact of the COVID-19 pandemic on interest rates. Personnel expenses increased to 26.39% in 2020 (2019 – 22.98%) as a percentage of total expenses. In nominal dollars personnel expenses decreased in 2020, by $71,455, as a result of not having a full complement of staff for the entire year. General business expenses as a percentage of total expenses increased to 24.12% (2019 – 21.83%). In nominal dollars general business expenses decreased $96,503 primarily due to one-time costs incurred in 2019 that were not incurred in 2020.

In 2020, LCU recorded write-offs of $118,095 (2019 - $473,126, 2018 - $31,540). These write-offs are primarily losses associated with loans defaulting. LCU's policies and procedures are designed to minimize loss and mitigate risks and LCU's team strictly adheres to these policies and procedures. However, not all risks can be mitigated unfortunately and there are many factors outside our control that can cause a good credit file to become delinquent and potentially a write off. Historically LCU's write-offs have been significantly less than in 2020 and 2019.

LCU continues to manage its expenses well and has one of the most efficient operations in the province. LCU continues to ward off fraud by proactively embracing new technologies that are proven to reduce fraud, by training staff in how best to protect member deposits, and by educating members on current fraud trends and tactics to avoid fraud. As a part of LCU's provision for impaired loans – write-offs for 2020 included $5,053 for losses that resulted from fraud (2019 - $1,238, 2018 - $9,807).

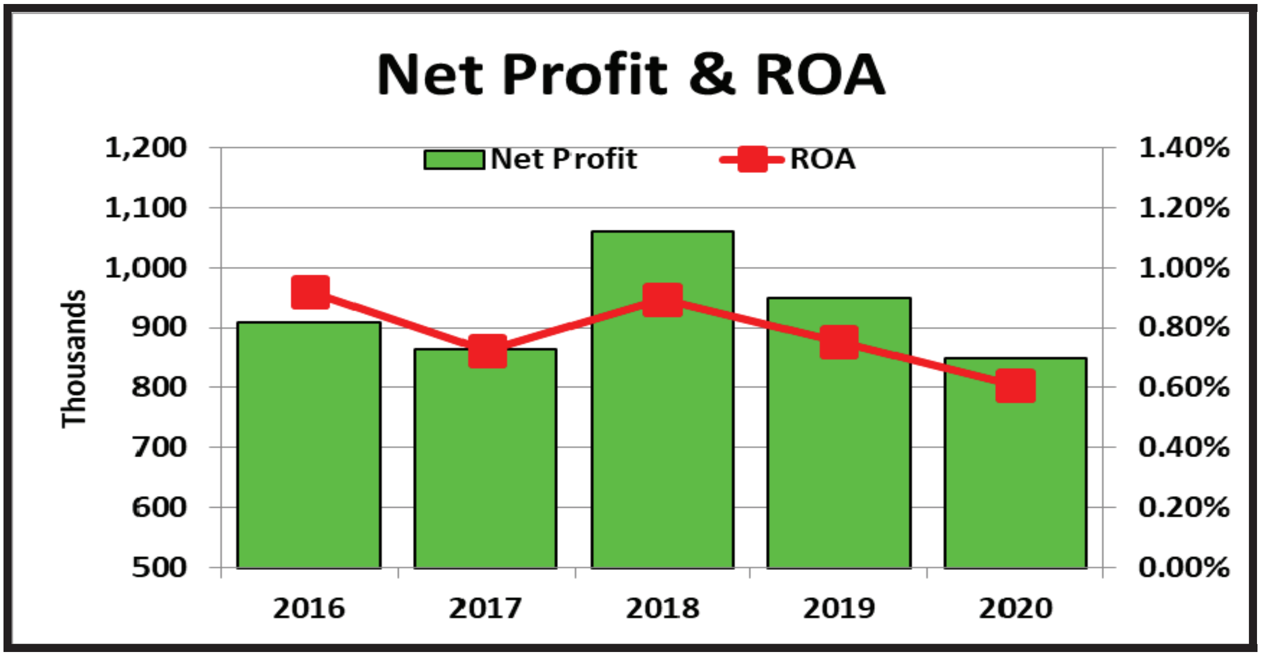
General business expenses were up as a percentage of the total expenses to 24.12% (2019 – 21.83%), but fell nearly $100,000 from the prior year. The driving factor behind the decrease were the changes to depreciation of the new building computers and the completion of our donation commitment to the Luseland Credit Union Community Swimming Pool. LCU's occupancy expenses were higher in 2020 to 9.93% (2019 – 5.53%) due to the repair costs associated with the hail storm of 2019 and replacement of the concrete out front.



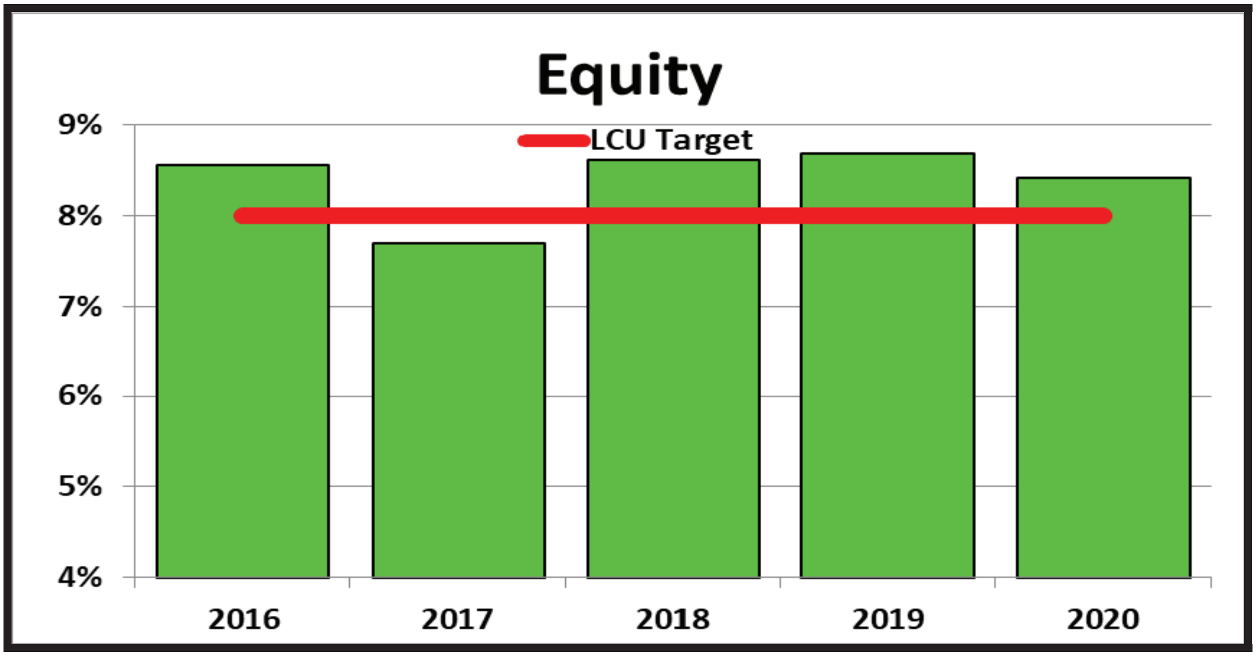
## Comprehensive Income & Equity

Comprehensive income decreased 3.20% in 2020 (2019 – decreased 15.03%) and the main driver for the decrease was the downward pressure on interest rates from the economic impacts of the COVID-19 pandemic. To get a better understanding of COVID-19's financial impact on LCU, LCU's Gross Financial Margin decreased 12.52% or $435,829 in 2020. Gross Financial Margin is calculated as the interest collected from members' loans, plus the interest earned on LCU investments, less interest paid on members' deposits, and less any interest LCU paid on its own line of credit. This is also referred to as our Net Interest Margin.

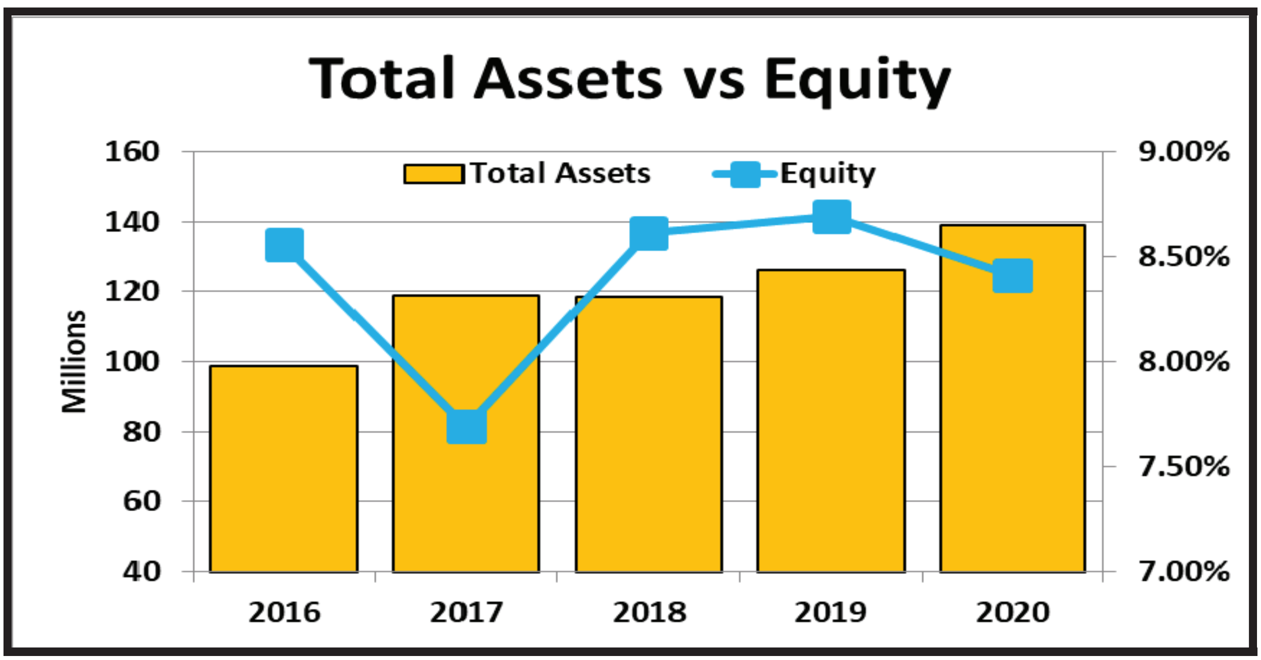
Looking at LCU's 5-year historic net profit and return on assets (ROA), we see that 2020 had the lowest net profit and ROA in that period. In 2020, LCU achieved a ROA of 0.61% and net profit of $848,893 (2019 – ROA: 0.75%; net profit: $948,635). One thing to note is that if we add back the credit losses from the past two years our ROA would be 1.13% for 2019 and 0.69% for 2020. This further illustrates the effects of the pandemic on our bottom line. Net profit and ROA have been normalized for this analysis by adding back patronage payments. Continuing to achieve financial success during the COVID-19 pandemic could not have been accomplished without the continued support of our members.




LCU's regulatory equity (now called leverage) requirement is 5.00%. LCU's equity ratio is a measure of members' equity as a percentage of total assets. LCU aims to surpass its regulatory requirement by setting its own equity target at 8.00% and its policy minimum at 7.00%. LCU maintains a strong equity position to ensure we can meet the growing needs of our growing membership. In 2020, LCU's equity ratio was 8.41% (2019 – 8.69%) and experienced downward pressure from the rapid growth in member deposits and the financial effects of the COVID-19 pandemic. LCU also monitors its Risk Weighted Capital (RWC) which is a measure of assets and their specific levels of riskiness compared to LCU's equity reserves. RWC for 2020 was 14.16% (2019 – 13.68%), which was ahead of our regulatory requirement of 10.50% and LCU's internal requirement of 12.00%. LCU's RWC increased in 2020 for two reasons: 1) LCU's increased assets in 2020 were primarily invested into low-risk term deposits and 2) LCU recorded a net profit during the year.




When comparing LCU’s equity to assets we can validate our success in 2020 by continuing to maintain our capital position well above our regulatory and LCU targets. LCU’s assets experienced significant growth at 10.35% which outpaced our equity growth at 6.92%. LCU’s still strong equity position allowed LCU to pay patronage of $100,000 to members on February 24, 2021 (2020 - $175,000). This patronage represents members’ participation in LCU’s success through a bonus on deposit interest and a rebate on loan interest. The payment also serves as a thank you to members for their continued support and loyalty.



## *Enterprise Risk Management*

Each year our credit union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our community now and in the future. This process is called Enterprise Risk Management or ERM for short, and is a requirement of credit unions in Saskatchewan as laid out by Credit Union Deposit Guarantee Corporation. The board and management are tasked with completing the ERM process on an annual basis by holding a special meeting in conjunction with the strategic planning session. Through this process, the following risks have been identified according to their potential impact on the Luseland Credit Union.

**Strategic Risks**

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.

Specific strategic risk and their action plans are outlined below:

- Risk that costs of current support systems will become too great or be eliminated.
  - Monitor events and strategic direction of system partners.
  - Maintain awareness of support alternatives.
  - Find creative alternatives where possible.

- Risk that we will no longer remain relevant to our members' needs and wants.
  - Continue to utilize member surveys and informal interactions to gauge relevance.
  - Continue to stay ahead of the curve with respect to new technology offerings.

**Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error, employee integrity, or natural disasters.

Specific operational risks and their action plans are outlined below:

- Risk that above average growth will negatively affect capital.
  - Make informed decisions based on growth, capital, and profit.
  - Make prudent spending decisions, re: patronage allocations.

- Risk that volatility in the oil and agricultural sectors will negatively impact capital.
  - Stay knowledgeable of economic conditions and commodity prices.
  - Continue to work with members to resolve stress issues.

- Risk of hijack/ransom of our digital platform.
  - Maintain strong procedures and controls.
  - Carry insurance to protect against loss.
  - Communicate with members should an event occur.

- Risk of financial loss from card skimming, fraud, wire transfer etc.
  - Maintain strong procedures and controls.
  - Carry insurance to protect against loss.
  - Communicate with members should an event occur.

- Continue to educate members in fraud awareness.

- Risk of being unable to attract or retain staff in key positions.
  - Continue to recruit qualified staff for the Credit Union.
  - Train staff interested in career advancement.
  - Contract temporary resources if necessary.

**Liquidity Risk**
Liquidity risk is the potential inability to meet obligations, such as liability maturities, deposit withdrawals, or funding loans without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

Specific operational risks and their action plans are outlined below:

- Risk of significant and rapid changes to our capital ratios from an influx of deposits from other Credit Unions.
  - Monitor for indications of other credit union amalgamations.
  - Strategies will be implemented to address the potential increase in market share.

- Risk LCU will not be able to maintain adequate liquidity to meet regulatory requirements or fund member obligations as they come due.
  - Set liquidity targets and ranges that exceed regulatory minimums.
  - Be conscious of liquidity needs when making investment or syndication decisions.

In 2020, LCU experienced significant increase in member deposits which continues to support LCU's historical trend of above average amounts of excess liquidity. LCU was successful in being able to meet all of its liquidity needs while improving our Liquidity Coverage Ratio.

LCU cultivates a balanced, prudent approach to managing the exposure to liquidity risk. There is always a cost/benefit trade-off between holding lower levels of liquidity in an effort to maximize an optimal return, typically through funding member loans, and higher levels of liquidity, through low yielding assets such as short-term investment deposits. LCU maintains, and continually reviews and revises, Capital and Liquidity Management Plans. The utilization of those, as well as a regular review of an Internal Capital Adequacy Assessment Program (ICAAP), allows for the assessment of the organization's liquidity strategies and contingency plans, under normal, slightly stressed, and more strained projected operating conditions. This contingency planning and related liquidity management process provides a unified liquidity management course of action, to ensure LCU holds liquidity risks to a tolerable measure.

The management of liquidity risk by LCU has a number of key aspects, which would include the following:

- Statutory Liquidity. LCU maintains a minimum level of monies on deposit with SaskCentral based on regulatory requirements (10%). These amounts are updated on a quarterly basis. As such, SaskCentral is a fundamental partner in LCU's liquidity risk management.
- Policies. The board sets policy that, among other things, establishes targets for minimum liquidity levels, determines a monitoring system, and defines authority levels and responsibilities.

- Monitoring. Activity in loans and deposits are regularly reviewed, and any trends used to project forward appropriate liquidity levels. Monitoring of the external environment is also effected, using a variety of sources of data.
- Patterning. LCU's liquidity plan forecasts cash-flow in the organization, over a variety of projected risk situations.
- Diversification of funding. LCU maintains reporting on the diversity of its deposit liabilities by source, term, and deposit type. In addition, a credit facility is maintained with SaskCentral as an additional source of funds.
- Stress testing. LCU regularly performs stress testing on elements of the organization, which includes the CUDGC prescribed Liquidity Coverage Ratio (LCR), in order to measure the possible effect of various disrupters (both on an organization-specific level and a more macro level).

The organization keeps a number of liquidity risk fundamentals in mind, including:
- Maintaining a suitable balance between the levels of liquidity held by the organization, and the potential costs of liquidity risk management abatement, factoring in the potential consequences of liquidity stress events.
- Maintaining and growing our base of member deposits.
- Cultivating a flexible liquidity position, to manage both present operations and future growth needs, while keeping the soundness of the organization top of mind

CUDGC has set the minimum for LCR at 100% for 2020 (2019 – 100%) and LCU surpassed the target with 217.71% (2019 – 192.28%). For 2021, the minimum LCR will continue to be 100% and LCU does not anticipate any challenges with exceeding this threshold.

**Credit Risk**
Credit risk is the risk of loss arising from a borrower or counterparty's inability or unwillingness to meet their credit obligations. Strategies to mitigate this risk include maintaining up to date policies and procedures based on strong credit underwriting and monitoring processes. Within those processes there are a number of tools that LCU utilizes to evaluate and monitor the credit portfolio as follows.

LCU has a robust credit analysis and submission program that also includes a component for risk rating not only the current loan, but the entire member file. A variation of this program is used for all consumer, agricultural, and commercial loans to ensure the lending decision is based on high quality data that is repeatable.

The semiannual loans analysis program further evaluates our largest files along with any files with a risk rating above a certain threshold. As part of this review, member information is updated and all of the member's accounts with LCU are scrutinized to ensure they are operating satisfactorily.

LCU also monitors high risk accounts semiannually to evaluate whether or not further action is warranted. That action can include increased information requirements, additional loan covenants, or even commencement of collection activity.

The ICAAP process sets aside a provision in its calculations for the impact of credit risk. This provision is based on the probability and impact of credit losses as well as numerous stress tests that explore scenarios and what the effect would be on LCU's capital position as a whole.

Through the IFRS 9 – loan impairment process, which utilizes historical delinquency data from the provincial system as well as our own, LCU held its general allowance for credit impairment at $178,199 (2019 - $178,199) and increased its specific allowance to $100,000 (2019 - $nil).

A syndicated loan is one that LCU has purchased from another credit union as part of management's strategy to maintain the loans to assets ratio at or near 65%. LCU also purchases individual leases and lease packages as another method to maintain our loan portfolio. These loans and leases are evaluated in the same manner as our member generated loan requests and deemed to be of the same quality.

Delinquency is within acceptable parameters at present. Due to strong policies and procedures, along with robust analysis practices, LCU remains focused on carefully managing this area. Delinquency standards for loan delinquency over 90 days are a maximum of 1.00% of assets and as mentioned earlier in this report, LCU ended the year no delinquency over 90 days (2019 – 0.02%). Policies and procedures are in place to ensure due diligence is maintained in assessing the credit portfolio, including but not limited to having strategies to limit the potential impact of an economic downturn on mortgage loans and HELOCs. All audit reports, Internal, Financial Statement, and Regulatory, have shown that good lending controls are in place.

As per guidelines set out by CUDGC, LCU is required to provide additional credit disclosures as regards the residential mortgage portfolio. LCU has a maximum lending value when providing residential mortgages of a maximum of 80% of the collateral value. While lending beyond that loan-to-value (LTV) may be considered, it then requires the use of default insurance, which is a contractual coverage that protects LCU's residential portfolio against potential losses as caused by borrower default. LCU utilizes the Canada Mortgage Housing Corporation (CMHC) to provide this coverage as required.

LCU's residential mortgage portfolio may be viewed in the following manner:

| **Type of Credit** | **Total - 2020** | **% of Residential Mortgage Portfolio - 2019** | **Total - 2019** | **% of Residential Mortgage Portfolio - 2018** |
|---|---|---|---|---|
| Conventional (uninsured) | $ 17,440,108 | 83.24% | $ 17,145,784 | 80.45% |
| CMHC (insured) | $ 3,127,942 | 14.93% | $ 3,831,538 | 17.98% |
| HELOC (Home Equity Lines Of Credit) | $ 385,000 | 1.83% | $ 335,000 | 1.57% |
| **Total** | **$ 20,953,050** | **100.00%** | **$ 21,312,322** | **100.00%** |

LCU completes regular reviews, called stress tests, to aid in identifying the impact of a significant decline in the housing market on the residential mortgage portfolio. There are two main components considered in evaluating such consequences in regards to an economic downturn: the potential increase in member defaults, and the potential decrease in the value of the collateral. As shown in the table above, LCU holds a small amount of HELOCs as part of the residential mortgage portfolio. The majority of the portfolio is comprised of conventional term mortgages. As we would require a minimum of 20% down, or alternatively hold default insurance, in those cases, the residential mortgage portfolio accordingly does have a certain level of protection.

**Emerging Risk**

Emerging risk includes the inability to afford or manage future technological changes as they materialize. The speed of change is ever increasing and LCU must be able to keep pace with this trend if it wants to fully serve its members long into the future.

Specific emerging risks and their action plans are outlined below:

- Risk of continued system mergers/changes potentially increase costs:
    - Continue to maintain excellent profitability.

    - Keep current on technological change.
    - Stay involved in system discussions and encourage collaboration with our peers.

- Risk of decreasing amount of personal interactions with our members due to macro events, such as a global pandemic:
    - Employ new ways to interact with our members when they no longer visit the physical branch.

**Legal and Regulatory & Market Risk**
No specific risks were identified in these two categories during our ERM process.

## *Regulatory Matters*

LCU complies with the regulatory obligations identified under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Our compliance processes are designed for an organization of our size, and corresponding exposure to such activity. Every year, the Credit Union's compliance officer (with the assistance of an outsourced compliance audit) provides a report to the Board of Directors on at least an annual basis as to the Credit Union's compliance with this and other legislation.

LCU is committed to prudent operations, and follows the Standards of Sound Business Practices as set out by the Credit Union Deposit Guarantee Corporation.

## *Corporate Structure and Governance*

The governance of LCU is anchored in the co-operative principle of democratic member control. The Credit Union maintains a professional approach in its operations, and accountability to our membership. LCU strives to meet the highest standards in its conduct, consistently seeking to maintain or improve its professional, legal, and ethical reputation.

**Code of Conduct** LCU's code of conduct provides guidance for employees and directors of the credit union with respect to acceptable business behavior, and the desired ethical culture required to maintain the trust of members and customers, and protect the credit union's reputation in the marketplace. All credit union employees and directors shall adhere to the principles of ethical conduct and responsible business behavior as reflected in the Code of Conduct.

**Market Code** LCU's market code ensures sound market practices in relation to soliciting, providing, promoting, advertising, marketing, selling, or distributing of credit union products and services, to maintain member trust while adhering to the co-operative principles on which the credit union was founded.

**Privacy** LCU protects the confidentiality of those who do business with the credit union to ensure the fair handling of personal information that is made available in the course of conducting business with the credit union.

### Board of Directors

*Mandate and Responsibilities*
The board is responsible for the strategic oversight, business direction and supervision of management of Luseland Credit Union. In acting in the best interests of the credit union and its members, the board's actions adhere to the standards set out in *The Credit Union Act 1998*, the *Standards of Sound Business Practice* and other applicable legislation.

Key roles include:

- Exercising the powers of the credit union directly, or indirectly, through employees
- Directing the management of the business affairs of the credit union
- Acting honestly and in good faith with a view to the best interests of the credit union at the exclusion of other interests
- Exercising the care, diligence and skill of a prudent person in directing the credit union's affairs
- Establishing and maintaining prudent policies for the operation of the credit union

The board of directors is accountable to the members of the credit union for directing the affairs of the credit union and maintaining policies which are responsive to their needs and the needs of the credit union for sound operations.

*Board Composition*
The board is composed of 9 individuals elected by the members of the credit union. Board members are elected for 3 year terms. Nominations are accepted by the Governance Committee, who is also responsible for finding candidates to fill any vacant positions. Voting is by paper ballot at LCU's annual general meeting and election results are announced at the same meeting.

*Committees*
The responsibilities of the board of a modern financial services organization involve an ever-growing list of duties. Luseland Credit Union maintains a number of committees comprised of directors. This partitioning of responsibilities enables a clear focus on specific areas of activity vital to the effective operation of our credit union.

- Audit Committee
  The Audit oversees the financial reporting process, reviews financial statements, and liaises with external auditors and regulators. The committee consists of at least 3 directors. The board determines the skills and abilities needed on the committee and chooses its members accordingly. For 2020, the committee members were: Nona Holtz (chair), Brian Gottfried, and Bob Prieston.

- Conduct Review Committee
  The Conduct Review Committee ensures that Luseland Credit Union acts with the full integrity and objectivity of its directors and employees, by having in place policies, processes and practices that protect people and the organization from claims and from the perception of unfair benefit or conflict of interest. For 2020, the committee members were: Nona Holtz (chair), Brian Gottfried, and Bob Prieston.

- Crisis Management Committee:
  The Crisis Management Committee was formed as a part of Luseland Credit Union's Business Continuity Plan in response to the COVID-19 pandemic. The Crisis Management Committee is responsible to make decisions for workplace health and safety. For 2020, the committee members were: Adam Franko (chair), Jan Edmonds, Jean Halliday, and Shirley Knorr.

- Executive Committee
  The Executive Committee acts in the capacity of, and on behalf of the board of directors between regular and special board meetings on all board matters except those which the board may not, in compliance with legislative requirements, delegate. The committee consists of the President, Vice-President, and one other member of the board. For 2020, the committee members were: Jan Edmonds (chair), Shirley Knorr, and Bob Prieston.

- Governance Committee
  The Governance Committee oversees director nominations, director elections, director qualification reviews, governance review process, board evaluation, director training, education, and development, board committee review, director orientation, director compensation review, and director insurance. For 2020, the committee members were: Debra Scholer (chair), Jan Edmonds, Shirley Knorr, and Bob Prieston.

- Policy Committee
  The Policy Committee reviews the existing policies of Luseland Credit Union on a three year rotational basis, for the purpose of recommending any changes, deletions and/or additions to the board of directors, for their approval. For 2020, the committee members were: Daniel Holman (chair), Karen Mitzel, and Alan Olfert.

- Risk Committee
  The Risk Committee provides oversight over all risks Luseland Credit Union may encounter, liaises with internal auditors, and reviews internal audit findings. For 2020n the committee members were: Nona Holtz (chair), Brian Gottfried, and Bob Prieston.

- Scholarship Committee
  The Scholarship committee is tasked with reviewing the submissions received for the two annual scholarships presented by the Credit Union to graduating students. From these submissions the winners are chosen with the presentations being made at the graduation ceremonies. For 2020, the committee members were: Daniel Holman (chair), Karen Mitzel, and Alan Olfert.

- Workplace Violence & Harassment Review Committee
  The Workplace Violence & Harassment Review Committee investigates any violent incidents, complaints of harassment, or instances of unethical behavior within LCU and make recommendations to the board. The committee will procure the services of the RCMP or professional external investigator as required. The Workplace Violence & Harassment Review Committee is comprised of board, management, and staff. For 2020, the committee members were: Debra Scholer (chair), Adam Franko, and Ryley Magnus.

*Compensation and Attendance*
Director compensation is found in the notes to the financial statement. All directors are required to attend at least 75% of the board meetings annually. In any event, a director shall not miss more than two consecutive meetings unless excused for reasonable cause by the board. Failure to meet attendance expectations may disqualify a director from continuing in office. In 2020, the Board of Directors held twelve regular meetings and seventeen committee meetings. Attendance for regular board meetings ranged from a high of 100% to a low of 75% with the average being 94%.

*Director Training*
The credit union will provide the necessary opportunities for personal and professional development of directors and board committee members.

The credit union will pay related tuition costs, expenses and remuneration for training and development opportunities, as outlined in the director remuneration policy of the credit union.

It is acknowledged that the Credit Union Director Achievement (CUDA) program is the starting point for all director development. All new directors will be enrolled in this program. Individual attendance at the various modules of this program will be strongly encouraged.

*Evaluation*
The board will monitor and discuss the board's progress and performance at each meeting as required. Additionally, the board completes an annual self-assessment survey with the results shared with the entire board.

## Executive Management

The executive management team consists of Adam Franko, General Manager, and Jean Halliday, Controller. There have not been any changes in the management team in the last 13 years and there has been significant work completed to ensure our succession plan is relevant.

## *Corporate Social Responsibility (CSR)*

Luseland Credit Union has always placed an emphasis on being a good corporate citizen in our community and providing much more than just financial services. This commitment is illustrated by not only the financial contributions made, but the many volunteer hours our staff donate to various local organizations. Donations to initiatives in the amount of $500 and over include: Luseland & District Discovery Daycare, Luseland & District Food Bank, Luseland Golf Club, Luseland Minor Hockey, Luseland School, Saskatchewan Co-operatives Association, and West Central Crisis Centre In 2020, a total of $15,941 in monetary donations were made and this does not include the countless napkins, cups, door prizes, silent auction items, etc.

## *Capital Management*

Luseland Credit Union management and board place a high priority on member service and feel that the best way to maintain the existing high level of service is to remain autonomous. In order to retain control of our local credit union it is important to manage the capital position of the operation. The Credit Union Deposit Guarantee Corporation (CUDGC) has set out minimum standards for all Credit Unions to adhere to. These standards are listed in the Standards for Sound Business Practice (SSBP) and are as follows:

- Total eligible capital / risk-weighted assets = 10.50%
- Tier 1 capital / risk-weighted assets = 8.50%
- Common equity tier 1 capital / risk-weighted assets = 7.00%
- Minimum leverage ratio = 5.00%

CUDGC does expect that credit unions will not only meet these standards, but maintain capital levels appropriate for their individual operation and risk profile. The board of LCU has developed its own targets for capital and these are listed below.

- Total eligible capital / risk-weighted assets = 12.00% with a target range of 12.00 – 15.00%
- Tier 1 capital / risk-weighted assets = 12.00% with a target range of 12.00 – 14.00%
- Common equity tier 1 capital / risk-weighted assets = 12.00% with a target of 14.00%
- Minimum leverage ratio = 7.00% with a target range of 8.00 – 10.00%

LCU's capital position at the end of 2020 was as follows:

- Total eligible capital / risk-weighted assets = 14.16% (2019 – 13.68%)
- Tier 1 capital / risk-weighted assets = 13.94% (2019 – 13.45%)
- Common equity tier 1 capital / risk-weighted assets = 13.94% (2019 – 13.45%)
- Leverage ratio = 8.41% (2019 – 8.69%)

As per policy, the board makes a decision as to the allocation of the net profit for the year based on the following order of priority:

- Retained earnings until CUDGC standards have been achieved
- Build retained earnings to support growth, development, and financial stability of the credit union
- Patronage, equity contributions and/or dividends.

LCU utilizes an Internal Capital Adequacy process (ICAAP) to further assist the board and management with capital management. This process began in 2011 and has been expanded and revised to provide greater value to the board and management. The six main principles of ICAAP are:

- board and senior management oversight
- sound capital assessment and planning
- comprehensive assessments of risk
- stress testing
- monitoring and reporting
- internal control review

LCU's calculated ICAAP requirement for Q4 2020 was 12.94% (Q4 2019 - 12.56%) and we are pleased to report we have exceeded the requirement with an eligible capital level of 14.16% (2019 – 13.68%).

# People

## Members

In 2020, the membership of LCU increased to 1,625. There were 83 new members for the year and 82 memberships closed. LCU is proactive in closing dormant accounts and that partially offset the new memberships.

## Directors

There are 3 positions expiring in 2021 and they are Jan Edmonds, Brian Gottfried, and Debra Scholer. Jan Edmonds retired from the board after 6 years serving the members, with 3 of those in the president position. The board, management, and the entire staff would like to thank Jan for his support in making LCU as great as it is today. Brian Gottfried, Debra Scholer, and Debra Vetter were elected to the board by acclamation. The board has had a productive year with regular meetings and committee meetings.

## Staff

The Credit Union is very proud of its staff and the time that they volunteer to various community activities and associations. This continued dedication to our community is just one of the many ways LCU remains committed to our community. In 2020, we welcomed Micheal Hagel as our new Loans Officer in April and he has risen to the challenge of learning a new position in a time when there were a lot of challenges due to the COVID-19 pandemic.

Respectfully submitted,

Adam Franko, General Manager

# Luseland Credit Union Limited
## Financial Statements
*December 31, 2020*

# Contents

*For the year ended December 31, 2020*

## Management's Responsibility

To the Members of Luseland 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 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 Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the 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.

April 8, 2021

General Manager

To the Members of Luseland Credit Union Limited:

### Opinion

We have audited the financial statements of Luseland Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2020, 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, 2020, 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.



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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

April 8, 2021

MNP LLP

Chartered Professional Accountants

# Luseland Credit Union Limited
## Statement of Financial Position
*As at December 31, 2020*

| | **2020** | 2019 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents *(Note 5)* | **12,068,706** | 15,884,557 |
| Investments *(Note 6)* | **45,193,600** | 30,787,607 |
| Member loans receivable *(Note 7)* | **79,393,969** | 76,712,912 |
| Other assets *(Note 8)* | **118,347** | 159,778 |
| Property, plant and equipment *(Note 9)* | **2,486,733** | 2,649,882 |
| | **139,261,355** | 126,194,736 |
| **Liabilities** | | |
| Member deposits *(Note 11)* | **127,580,461** | 115,278,184 |
| Other liabilities *(Note 13)* | **97,290** | 81,846 |
| Membership shares *(Note 14)* | **8,125** | 8,120 |
| | **127,685,876** | 115,368,150 |
| **Commitments** *(Note 20)* | | |
| **Members' equity** | | |
| Retained earnings | **11,575,479** | 10,826,586 |
| | **139,261,355** | 126,194,736 |

**Approved on behalf of the Board**

**Director** **Director**

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

# Luseland Credit Union Limited
## Statement of Comprehensive Income
*For the year ended December 31, 2020*

| | **2020** | *2019* |
|---|---|---|
| **Interest income** | | |
| Member loans | **2,884,178** | 3,635,984 |
| Investments | **882,563** | 914,151 |
| | **3,766,741** | 4,550,135 |
| **Interest expense** | | |
| Member deposits | **720,750** | 1,067,321 |
| Borrowed money | **1,490** | 2,484 |
| | **722,240** | 1,069,805 |
| **Gross financial margin** | **3,044,501** | 3,480,330 |
| **Other income** | **199,195** | 159,843 |
| | **3,243,696** | 3,640,173 |
| **Operating expenses** | | |
| Personnel | **798,724** | 870,179 |
| Security | **113,472** | 107,643 |
| Organizational | **43,334** | 55,314 |
| Occupancy | **300,411** | 209,465 |
| General business | **730,030** | 826,533 |
| | **1,985,971** | 2,069,134 |
| **Income before provision for impaired loans, patronage refund and provision for (recovery of) income taxes** | **1,257,725** | 1,571,039 |
| **Provision for impaired loans** *(Note 7)* | | |
| Change in loan allowance | **100,000** | - |
| Write-offs | **118,095** | 473,126 |
| | **218,095** | 473,126 |
| **Patronage refund** *(Note 15)* | **100,000** | 175,000 |
| **Income before provision for (recovery of) income taxes** | **939,630** | 922,913 |
| **Provision for (recovery of) income taxes** *(Note 12)* | | |
| Current | **203,152** | 186,065 |
| Deferred | **(12,415)** | (36,787) |
| | **190,737** | 149,278 |
| **Comprehensive income** | **748,893** | 773,635 |

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

| | *Retained earnings* | *Total equity* |
|---|---|---|
| **Balance December 31, 2018** | **10,052,951** | **10,052,951** |
| Comprehensive income | **773,635** | **773,635** |
| **Balance December 31, 2019** | **10,826,586** | **10,826,586** |
| Comprehensive income | **748,893** | **748,893** |
| **Balance December 31, 2020** | **11,575,479** | **11,575,479** |

# Luseland Credit Union Limited
## Statement of Cash Flows
*For the year ended December 31, 2020*

| | **2020** | *2019* |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Interest received from member loans | **2,887,830** | 3,597,494 |
| Interest received from investments | **805,331** | 845,236 |
| Other income | **199,195** | 159,843 |
| Cash paid to suppliers and employees | **(1,739,241)** | (1,874,657) |
| Interest paid on deposits | **(729,977)** | (1,023,749) |
| Interest paid on borrowed money | **(1,490)** | (2,484) |
| Patronage refund | **(100,000)** | (175,000) |
| Income taxes paid | **(199,012)** | (269,095) |
| | **1,122,636** | 1,257,588 |
| **Financing activities** | | |
| Net change in member deposits | **12,311,504** | 6,943,239 |
| Net change in membership shares *(Note 14)* | **5** | 120 |
| | **12,311,509** | 6,943,359 |
| **Investing activities** | | |
| Net change in investments | **(14,328,761)** | (6,701,469) |
| Net change in member loans receivable | **(2,902,804)** | 2,757,241 |
| Purchases of property, plant and equipment *(Note 9)* | **(18,431)** | (83,729) |
| | **(17,249,996)** | (4,027,957) |
| **Increase (decrease) in cash and cash equivalents** | **(3,815,851)** | 4,172,990 |
| **Cash and cash equivalents, beginning of year** | **15,884,557** | 11,711,567 |
| **Cash and cash equivalents, end of year** | **12,068,706** | 15,884,557 |

## 1. Reporting entity

Luseland 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 Luseland, Saskatchewan and the surrounding community. The address of the Credit Union's registered office is 701 Grand Avenue, Luseland, 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 Committee on behalf of the Board of Directors and authorized for issue on April 8, 2021.

## 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, 2020. Adoption of these amendments had no effect on the Credit Union's financial statements.

- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

## 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 Canadian economy has experienced significant disruption and market volatility related to the ongoing global COVID-19 pandemic. 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. The COVID-19 pandemic continues to evolve and the economic environment in which the Credit Union operates in continues to be subject to sustained volatility, which could continue to negatively impact the Credit Union's financial results, as the duration of the COVID-19 pandemic and the effectiveness of steps undertaken by governments and central banks in response to the COVID-19 pandemic remain uncertain. 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, there is a higher level of uncertainty with respect to management's judgments and estimates. 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, 2020.

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.

***Classification of financial assets***

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail members 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.

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

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

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

- 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 shares approximates its cost based on the terms that the equity investments can not be transferred, the shares can not be sold and new shares are issued at par value of all currently held shares.

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

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

***Deferred taxes***

The calculation of deferred tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of 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.

***Income taxes***

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

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

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 are included in the financial instruments section of Note 4.

***Financial instruments***

***Financial assets***

**Recognition and initial measurement**

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

**Classification and subsequent measurement**

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

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

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 investments, member loans receivable and accrued interest thereon, and accounts receivable.

- 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.

**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.

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

**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.

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.

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

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.

**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.

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

**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.

**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.

Investments in other equity instruments are measured at fair value, with adjustments recognized in profit or loss.

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

***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 as outlined in Note 7.

***Property, plant and equipment***

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

All assets having limited useful lives are depreciated using the declining-balance 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 | 5-6 % |
| Computer equipment | 33 % |
| Furniture and equipment | 20 % |

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

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

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.

***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 $43,902 (2019 – $48,103) 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*.

***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, 2020 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

*IAS 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 has not yet determined the impact of these amendments on its financial statements.

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

*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 has not yet determined the impact of these amendments on its financial statements.

**5. Cash and cash equivalents**

| | **2020** | 2019 |
|---|---|---|
| Cash | **3,404,041** | 9,247,229 |
| Cash equivalents | **8,664,665** | 6,637,328 |
| | **12,068,706** | 15,884,557 |

**6. Investments**

| | **2020** | 2019 |
|---|---|---|
| Measured at fair value through profit or loss | | |
| SaskCentral and Concentra Bank shares | **1,685,000** | 1,685,000 |
| Other equity instruments | **1,001,783** | 787,850 |
| | **2,686,783** | 2,472,850 |
| Measured at amortized cost | | |
| SaskCentral and Concentra Bank deposits | **31,115,259** | 14,115,259 |
| Portfolio investments | **10,955,657** | 13,840,829 |
| | **42,070,916** | 27,956,088 |
| Accrued interest | **435,901** | 358,669 |
| | **45,193,600** | 30,787,607 |

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.

| | **2020** | 2019 |
|---|---|---|
| **Investment portfolio rating** | | |
| AAA- | **250,000** | 250,000 |
| AA | **4,849,000** | 5,603,982 |
| A | **5,500,000** | 7,500,000 |
| BBB | **152,155** | 159,331 |
| R1 | **1,185,000** | 1,185,000 |
| Unrated | **1,706,285** | 1,615,366 |
| | **13,642,440** | 16,313,679 |

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

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

**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, 2020 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, 2020, the Credit Union is in compliance with regulatory requirements.

**7. Member loans receivable**

Principal and allowance by loan type:

| | | | | | ***2020*** |
|---|---|---|---|---|---|
| | **Principal performing** | **Principal impaired** | **Allowance specific** | **Allowance for expected credit losses** | **Net carrying value** |
| Agriculture loans | 9,776,500 | - | - | 29,002 | **9,747,498** |
| Commercial loans | 21,458,931 | 2,138,627 | 34,295 | 119,364 | **23,443,899** |
| Consumer loans | 2,082,717 | - | - | 2,663 | **2,080,054** |
| Lines of credit | 3,839,327 | - | - | 6,235 | **3,833,092** |
| Mortgages | 39,726,469 | - | - | 20,935 | **39,705,534** |
| | 76,883,944 | 2,138,627 | 34,295 | 178,199 | **78,810,077** |
| Foreclosed assets | 85,000 | - | - | - | **85,000** |
| Accrued interest | 498,892 | 65,705 | 65,705 | - | **498,892** |
| | 77,467,836 | 2,204,332 | 100,000 | 178,199 | **79,393,969** |

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

*2019*

| | Principal performing | Principal impaired | Allowance for expected credit losses | Net carrying value |
|---|---|---|---|---|
| Agriculture loans | 10,329,021 | - | 40,424 | 10,288,597 |
| Commercial loans | 22,131,841 | - | 99,245 | 22,032,596 |
| Consumer loans | 2,083,146 | 13,286 | 3,060 | 2,093,372 |
| Lines of credit | 3,407,478 | - | 7,003 | 3,400,475 |
| Mortgages | 38,073,090 | - | 28,467 | 38,044,623 |
| | 76,024,576 | 13,286 | 178,199 | 75,859,663 |
| Foreclosed assets | 285,000 | - | - | 285,000 |
| Accrued interest | 567,764 | 485 | - | 568,249 |
| | 76,877,340 | 13,771 | 178,199 | 76,712,912 |

The allowance for loan impairment changed as follows:

| | ***2020*** | *2019* |
|---|---|---|
| Balance, beginning of year | **178,199** | 291,688 |
| Provision for impaired loans | **218,095** | 473,126 |
| | **396,294** | 764,814 |
| Less: accounts written off, net of recoveries | **118,095** | 586,615 |
| Balance, end of year | **278,199** | 178,199 |

**8. Other assets**

| | ***2020*** | *2019* |
|---|---|---|
| Accounts receivable | **-** | 50,000 |
| Prepaid expenses and deposits | **15,791** | 19,637 |
| Deferred tax asset | **102,556** | 90,141 |
| | **118,347** | 159,778 |

## 9. Property, plant and equipment

| | *Land* | *Buildings* | *Computer equipment* | *Furniture and equipment* | *Total* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at December 31, 2018 | **131,250** | **2,862,607** | **173,985** | **215,416** | **3,383,258** |
| Additions | **-** | **83,729** | **-** | **-** | **83,729** |
| Balance at December 31, 2019 | **131,250** | **2,946,336** | **173,985** | **215,416** | **3,466,987** |
| Additions | **-** | **18,431** | **-** | **-** | **18,431** |
| Balance at December 31, 2020 | **131,250** | **2,964,767** | **173,985** | **215,416** | **3,485,418** |
| **Accumulated depreciation** | | | | | |
| Balance at December 31, 2018 | **-** | **352,460** | **115,860** | **101,020** | **569,340** |
| Depreciation | **-** | **153,995** | **58,125** | **35,645** | **247,765** |
| Balance at December 31, 2019 | **-** | **506,455** | **173,985** | **136,665** | **817,105** |
| Depreciation | **-** | **145,944** | **-** | **35,636** | **181,580** |
| Balance at December 31, 2020 | **-** | **652,399** | **173,985** | **172,301** | **998,685** |
| **Net book value** | | | | | |
| At December 31, 2019 | 131,250 | 2,439,881 | - | 78,751 | 2,649,882 |
| **At December 31, 2020** | **131,250** | **2,312,368** | **-** | **43,115** | **2,486,733** |

## 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, 2020), in the amount of $2,500,000 (2019 - $1,800,000) from SaskCentral. As at December 31, 2020, $nil was advanced (2019 - $nil).

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

## 11. Member deposits

| | ***2020*** | *2019* |
|---|---|---|
| Chequing, savings, plan 24 | **103,307,368** | 92,590,805 |
| Registered savings plans | **5,456,926** | 5,196,916 |
| Term deposits | **18,576,856** | 17,241,925 |
| Accrued interest | **239,311** | 248,538 |
| | **127,580,461** | 115,278,184 |

**11. Member deposits** *(Continued from previous page)*

Member deposits are subject to the following terms:

- Chequing, savings and plan 24 products are due on demand and bear interest at rates up to 0.75% (2019 - 1.63%).
- Registered savings plans are subject to fixed and variable rates of interest up to 2.50% (2019 - 2.50%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 2.25% (2019 - 2.25%), 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 9% on income under $310,385 and 15% on income greater than $310,385 (2019 - 9% and 15%, under/over $309,956) and the provincial tax rate of 1.5% on income under $372,462 and 12% on income over $372,462 (2019 - 2% and 12%, under/over $371,947).

***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:

| | ***2020*** | *2019* |
|---|---|---|
| **Deferred tax asset** | | |
| Property, plant and equipment | **58,612** | 48,532 |
| Allowance for impaired loans | **43,944** | 41,609 |
| | **102,556** | 90,141 |
| **Net deferred tax asset is reflected in the statement of financial position as follows:** | | |
| Deferred tax asset | **102,556** | 90,141 |

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

| | ***2020*** | *2019* |
|---|---|---|
| Applicable tax rate | **27.00 %** | 27.00 % |
| Small business deduction | **(16.50)%** | (16.00)% |
| Income not eligible for deduction | **10.85 %** | 9.48 % |
| Non-deductible and other items | **(1.05)%** | (4.31)% |
| Average effective tax rate (tax expense divided by profit before tax) | **20.30 %** | 16.17 % |

In December 2020, the provincial government announced changes to the small business tax rate. Effective October 1, 2020, the provincial small business income tax rate will temporarily decrease from 2% to 0% until July 1, 2022. This rate will increase by 1% increments on July 1, 2022 and July 1, 2023.

**13. Other liabilities**

| | ***2020*** | *2019* |
|---|---|---|
| Accounts payable | **80,161** | 68,857 |
| Corporate income tax payable | **17,129** | 12,989 |
| | **97,290** | 81,846 |

## 14. Membership shares

Authorized:

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

| Issued: | ***2020*** | *2019* |
|---|---|---|
| 1,625 Common shares (2019 - 1,624) | **8,125** | 8,120 |

All common shares are classified as liabilities.

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

During the year, the Credit Union issued 83 (2019 - 104) and redeemed 82 (2019 - 80) common shares.

## 15. Patronage

The Credit Union declared a patronage refund payable in the amount of $100,000 on December 17, 2020 (2019 - $175,000), to be paid by cash to the members based on participation for the year ended December 31, 2020.

The patronage refund of $100,000 (2019 - $175,000) has been reflected in the statement of comprehensive income with related tax savings of approximately $27,000 (2019 - $47,250) 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 General Manager, Controller and members of the Board of Directors. KMP remuneration includes the following expenses:

| | ***2020*** | *2019* |
|---|---|---|
| Salaries and short-term benefits | **331,334** | 345,957 |

***Transactions with key management personnel***

The Credit Union, in accordance with its policy, may grant credit to its directors, 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.

| | ***2020*** | *2019* |
|---|---|---|
| Aggregate loans to KMP | **1,853,574** | 2,698,443 |
| Aggregate revolving credit facilities to KMP | **136,800** | 136,800 |
| Less: approved and undrawn lines of credit | **(111,429)** | (74,610) |
| | **1,878,945** | 2,760,633 |

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

| | **2020** | 2019 |
|---|---|---|
| During the year the aggregate value of loans and lines of credit approved to KMP amounted to: | | |
| Revolving credit | **-** | 50,000 |
| Mortgages | **1,039,265** | 780,000 |
| Loans | **104,216** | 218,960 |
| | **1,143,481** | 1,048,960 |

| | **2020** | 2019 |
|---|---|---|
| Income and expense transactions with KMP consisted of: | | |
| Interest earned on loans and revolving credit facilities to KMP | **65,791** | 114,458 |
| Interest paid on deposits to KMP | **20,165** | 52,591 |

| | **2020** | 2019 |
|---|---|---|
| The total value of member deposits from KMP as at the year-end: | | |
| Chequing and demand deposits | **4,669,477** | 4,958,544 |
| Term deposits | **917,400** | 90,623 |
| Registered plans | **81,787** | 78,186 |
| Total value of member deposits due to KMP | **5,668,664** | 5,127,353 |

***Directors' fees and expenses***

| | **2020** | 2019 |
|---|---|---|
| Directors' expenses | **5,356** | 4,791 |
| Meeting, training and conference costs | **4,865** | 7,760 |

***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, 2020 amounted to $511,699 (2019 - $461,224).

Interest paid on borrowings during the year ended December 31, 2020 amounted to $1,490 (2019 - $2,484).

Payments made for affiliation dues for the year ended December 31, 2020 amounted to $9,824 (2019 - $17,960).

***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 are based on the Basel III framework, consistent with the financial industry in general.

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

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

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

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

The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2020:

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

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

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

The following table summarizes key capital information:

| | **2020** | *2019* |
|---|---|---|
| ***Eligible capital*** | | |
| Common equity tier 1 capital | **11,575,479** | 10,826,586 |
| Additional tier 1 capital | **-** | - |
| Total tier 1 capital | **11,575,479** | 10,826,586 |
| Total tier 2 capital | **186,324** | 186,319 |
| Total eligible capital | **11,761,803** | 11,012,905 |
| ***Risk-weighted assets*** | | |
| Total eligible capital to risk-weighted assets | **14.16 %** | 13.68 % |
| Total tier 1 capital to risk-weighted assets | **13.94 %** | 13.45 % |
| Common equity tier 1 capital to risk-weighted assets | **13.94 %** | 13.45 % |
| Leverage ratio | **8.41 %** | 8.69 % |

**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 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, except as it relates to COVID-19 payment deferrals.

***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.

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

**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

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.

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

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

| | ***2020*** | *2019* |
|---|---|---|
| Unadvanced lines of credit | **7,081,634** | 8,091,948 |
| Guarantees and standby letters of credit | **220,000** | 220,000 |
| Commitments to extend credit | **342,178** | 338,220 |
| | **7,643,812** | 8,650,168 |

**Inputs, assumptions and techniques**

*Definition of default and assessments of credit risk*

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

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

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

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

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

*Payment deferrals*

In response to the COVID-19 pandemic, the Credit Union considered payment deferral requests from eligible members. The agreement to a payment deferral on its own does not represent a significant increase in credit risk, and the loan does not automatically move from Stage 1 to Stage 2 for IFRS 9 purposes. Facilities with payment deferrals are not considered past due. Loans with deferrals that have moved from Stage 1 to Stage 2 have experienced a significant increase in credit risk due to the adverse shift in economic conditions. In assessing credit risk, the Credit Union monitors the credit quality of impacted borrowers using sound credit risk management practices. The loan modifications due to payment deferrals did not result in any modification gains or losses. Details regarding the number and balance of loans under payment deferral terms within Stages 1 and 2 are as follows:

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

**As at December 31, 2020**

| **Loan type** | **Number of loans deferred** | **Value of loans deferred** |
|---|---|---|
| Agriculture loans | 1 | 80,698 |
| Commercial loans | 1 | 1,786,372 |
| Consumer loans | 1 | 45,885 |
| Mortgages | 3 | 1,727,541 |
| Total deferred loans | 6 | 3,640,496 |

*Measurement of expected credit losses*

The Credit Union measures expected credit losses 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, 2020. The macroeconomic factors that affect the Credit Union expected credit loss calculations are: Saskatchewan unemployment rates, provincial housing starts, national interest rates, national GDP growth, and national oil prices. Each factor is forecast in a base case, a best case and a worst case scenario. These scenarios are weighted, and the weighted average is used to build the estimate for expected credit losses. The information for these assumptions is based off 2021 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 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 depressed oil prices had to be weighed against the more positive aspects of government support programs, government loan programs, loan deferrals, and rent deferrals. At December 31, 2020, management booked an overlay of $nil.

**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 or the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

**Exposure to credit risk**

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

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

| | | *2020* | | |
|---|---|---|---|---|
| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
| **Consumer loans and lines of credit** | | | | |
| Low risk | 6,084,653 | - | - | 6,084,653 |
| Moderate risk | - | 45,885 | - | 45,885 |
| Total gross carrying amount | 6,084,653 | 45,885 | - | 6,130,538 |
| Less: loss allowance | 8,769 | 129 | - | 8,898 |
| Total carrying amount | 6,075,884 | 45,756 | - | 6,121,640 |
| **Residential mortgages** | | | | |
| Low risk | 20,395,315 | - | - | 20,395,315 |
| Moderate risk | - | 172,735 | - | 172,735 |
| Total gross carrying amount | 20,395,315 | 172,735 | - | 20,568,050 |
| Less: loss allowance | 20,449 | 486 | - | 20,935 |
| Total carrying amount | 20,374,866 | 172,249 | - | 20,547,115 |
| **Commercial loans** | | | | |
| Low risk | 24,221,717 | - | - | 24,221,717 |
| Moderate risk | - | 769,916 | - | 769,916 |
| Default | - | - | 2,138,627 | 2,138,627 |
| Total gross carrying amount | 24,221,717 | 769,916 | 2,138,627 | 27,130,260 |
| Less: loss allowance | 103,781 | 15,421 | 100,000 | 219,202 |
| Total carrying amount | 24,117,936 | 754,495 | 2,038,627 | 26,911,058 |
| **Agricultural loans** | | | | |
| Low risk | 24,108,697 | - | - | 24,108,697 |
| Moderate risk | - | 80,698 | - | 80,698 |
| Total gross carrying amount | 24,108,697 | 80,698 | - | 24,189,395 |
| Less: loss allowance | 28,441 | 561 | - | 29,002 |
| Total carrying amount | 24,080,256 | 80,137 | - | 24,160,393 |

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

| | 12-month ECL | 2020 Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| **Local government loans** | | | | |
| Low risk | **1,004,328** | **-** | **-** | **1,004,328** |
| Total gross carrying amount | **1,004,328** | **-** | **-** | **1,004,328** |
| Less: loss allowance | **162** | **-** | **-** | **162** |
| Total carrying amount | **1,004,166** | **-** | **-** | **1,004,166** |
| **Total** | | | | |
| Low risk | **75,814,710** | **-** | **-** | **75,814,710** |
| Moderate risk | **-** | **1,069,234** | **-** | **1,069,234** |
| Default | **-** | **-** | **2,138,627** | **2,138,627** |
| Total gross carrying amount | **75,814,710** | **1,069,234** | **2,138,627** | **79,022,571** |
| Less: loss allowance | **161,602** | **16,597** | **100,000** | **278,199** |
| Total carrying amount | **75,653,108** | **1,052,637** | **2,038,627** | **78,744,372** |

| | 12-month ECL | 2019 Lifetime ECL (credit impaired) | Total |
|---|---|---|---|
| **Consumer loans and lines of credit** | | | |
| Low risk | 5,685,833 | - | 5,685,833 |
| Default | - | 13,286 | 13,286 |
| Total gross carrying amount | 5,685,833 | 13,286 | 5,699,119 |
| Less: loss allowance | 10,063 | - | 10,063 |
| Total carrying amount | 5,675,770 | 13,286 | 5,689,056 |
| **Residential mortgages** | | | |
| Low risk | 20,977,322 | - | 20,977,322 |
| Total gross carrying amount | 20,977,322 | - | 20,977,322 |
| Less: loss allowance | 28,467 | - | 28,467 |
| Total carrying amount | 20,948,855 | - | 20,948,855 |
| **Commercial loans** | | | |
| Low risk | 25,185,224 | - | 25,185,224 |
| Total gross carrying amount | 25,185,224 | - | 25,185,224 |
| Less: loss allowance | 99,040 | - | 99,040 |
| Total carrying amount | 25,086,184 | - | 25,086,184 |
| **Agriculture loans** | | | |
| Low risk | 23,876,197 | - | 23,876,197 |
| Total gross carrying amount | 23,876,197 | - | 23,876,197 |
| Less: loss allowance | 40,424 | - | 40,424 |
| Total carrying amount | 23,835,773 | - | 23,835,773 |

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

| | 2019 | | |
|---|---|---|---|
| | *12-month ECL* | *Lifetime ECL (credit impaired)* | *Total* |
| **Local government loans** | | | |
| Low risk | 300,000 | - | 300,000 |
| Total gross carrying amount | 300,000 | - | 300,000 |
| Less: loss allowance | 205 | - | 205 |
| Total carrying amount | 299,795 | - | 299,795 |
| **Total** | | | |
| Low risk | 76,024,576 | - | 76,024,576 |
| Default | - | 13,286 | 13,286 |
| Total gross carrying amount | 76,024,576 | 13,286 | 76,037,862 |
| Less: loss allowance | 178,199 | - | 178,199 |
| Total carrying amount | 75,846,377 | 13,286 | 75,859,663 |

The gross carrying amount of financial guarantee contracts and letters of credit for which expected credit losses were recognized and are not included in the above table as at December 31, 2020 was $346,500 (2019 – $352,000).

*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 Luseland, 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, 2019 | **8,891** | **-** | **-** | **8,891** |
| Net remeasurement of loss allowance | **1,172** | **-** | **-** | **1,172** |
| Balance at December 31, 2019 | **10,063** | **-** | **-** | **10,063** |
| Net remeasurement of loss allowance | **(1,294)** | **129** | **-** | **(1,165)** |
| Balance at December 31, 2020 | **8,769** | **129** | **-** | **8,898** |
| **Residential mortgages** | | | | |
| Balance at January 1, 2019 | **20,143** | **-** | **20,333** | **40,476** |
| Net remeasurement of loss allowance | **8,324** | **-** | **(20,333)** | **(12,009)** |
| Balance at December 31, 2019 | **28,467** | **-** | **-** | **28,467** |
| Net remeasurement of loss allowance | **(8,018)** | **486** | **-** | **(7,532)** |
| Balance at December 31, 2020 | **20,449** | **486** | **-** | **20,935** |

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

| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
|---|---|---|---|---|
| **Commercial loans** | | | | |
| Balance at January 1, 2019 | 95,331 | 730 | 99,406 | 195,467 |
| Net remeasurement of loss allowance | 3,709 | (730) | (99,406) | (96,427) |
| Balance at December 31, 2019 | 99,040 | - | - | 99,040 |
| Net remeasurement of loss allowance | 4,741 | 15,421 | 100,000 | 120,162 |
| Balance at December 31, 2020 | 103,781 | 15,421 | 100,000 | 219,202 |
| **Agricultural loans** | | | | |
| Balance at January 1, 2019 | 46,854 | - | - | 46,854 |
| Net remeasurement of loss allowance | (6,430) | - | - | (6,430) |
| Balance at December 31, 2019 | 40,424 | - | - | 40,424 |
| Net remeasurement of loss allowance | (11,983) | 561 | - | (11,422) |
| Balance at December 31, 2020 | 28,441 | 561 | - | 29,002 |
| **Local government loans** | | | | |
| Balance at January 1, 2019 | - | - | - | - |
| Net remeasurement of loss allowance | 205 | - | - | 205 |
| Balance at December 31, 2019 | 205 | - | - | 205 |
| Net remeasurement of loss allowance | (43) | - | - | (43) |
| Balance at December 31, 2020 | 162 | - | - | 162 |
| **Total** | | | | |
| Balance at January 1, 2019 | 171,219 | 730 | 119,739 | 291,688 |
| Net remeasurement of loss allowance | 6,980 | (730) | (119,739) | (113,489) |
| Balance at December 31, 2019 | 178,199 | - | - | 178,199 |
| Net remeasurement of loss allowance | (16,597) | 16,597 | 100,000 | 100,000 |
| Balance at December 31, 2020 | 161,602 | 16,597 | 100,000 | 278,199 |

*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 quarterly reports on these matters to the Credit Union's Board of Directors.

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

***Objectives, policies and processes***

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

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

***Interest rate risk***

Interest rate risk is the sensitivity of the Credit Union’s financial condition to movements in interest rates. Cash flow interest rate risk is the risk that the future cash flows of the Credit Union’s financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in comprehensive income may increase or decrease in response to changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

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

Sensitivity analysis is used to assess the change in value of the Credit Union’s financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a quarterly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $117,012 (2019 - $105,777) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest margin by $117,102 (2019 - $105,777) 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 | 2020 Total | 2019 Total |
|---|---|---|---|---|---|---|---|
| ***Assets*** | | | | | | | |
| Cash and cash equivalents | 8,665 | - | - | - | 3,404 | **12,069** | 15,885 |
| *Average yield %* | *0.25* | - | - | - | - | *0.18* | *1.46* |
| Investments | 13 | 14,099 | 10,291 | 18,670 | 2,121 | **45,194** | 30,788 |
| *Average yield %* | *0.25* | *1.16* | *1.66* | *2.10* | - | *1.61* | *1.88* |
| Member loans receivable | 52,842 | 3,011 | 8,149 | 14,743 | 649 | **79,394** | 76,713 |
| *Average yield %* | *3.49* | *4.71* | *3.65* | *3.87* | - | *3.59* | *4.65* |
| Accounts receivable | - | - | - | - | - | **-** | 50 |
| | **61,520** | **17,110** | **18,440** | **33,413** | **6,174** | **136,657** | 123,436 |
| ***Liabilities*** | | | | | | | |
| Member deposits | 64,506 | 2,892 | 8,258 | 31,155 | 20,769 | **127,580** | 115,278 |
| *Average yield %* | *0.25* | *1.49* | *1.26* | *0.94* | - | *0.47* | *1.00* |
| Accounts payable | - | - | - | - | 80 | **80** | 69 |
| Membership shares | - | - | - | - | 8 | **8** | 8 |
| | **64,506** | **2,892** | **8,258** | **31,155** | **20,857** | **127,668** | 115,355 |
| ***Net sensitivity*** | **(2,986)** | **14,218** | **10,182** | **2,258** | **(14,683)** | **8,989** | 8,081 |

### *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, 2020:**

*(In thousands)*

| | < 1 year | 1-2 years | > 3 years | Total |
|---|---|---|---|---|
| Member deposits | **96,425** | **4,672** | **26,483** | **127,580** |
| Accounts payable | **80** | **-** | **-** | **80** |
| Membership shares | **-** | **-** | **8** | **8** |
| **Total** | **96,505** | **4,672** | **26,491** | **127,668** |

As at December 31, 2019:

*(In thousands)*

| | < 1 year | 1-2 years | > 3 years | Total |
|---|---|---|---|---|
| Member deposits | 84,367 | 4,196 | 26,715 | 115,278 |
| Accounts payable | 69 | - | - | 69 |
| Membership shares | - | - | 8 | 8 |
| **Total** | 84,436 | 4,196 | 26,723 | 115,355 |

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, 2020:**

*(In thousands)*

| | < 1 year | 1-2 years | > 3 years | Total |
|---|---|---|---|---|
| Cash and cash equivalents | **12,069** | **-** | **-** | **12,069** |
| Investments | **26,524** | **7,115** | **11,555** | **45,194** |
| Member loans receivable | **64,651** | **2,895** | **11,848** | **79,394** |
| **Total** | **103,244** | **10,010** | **23,403** | **136,657** |

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

As at December 31, 2019:

***(In thousands)***

| | < 1 year | 1-2 years | > 3 years | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 15,885 | - | - | 15,885 |
| Investments | 13,057 | 9,938 | 7,793 | 30,788 |
| Member loans receivable | 56,435 | 7,067 | 13,211 | 76,713 |
| Accounts receivable | 50 | - | - | 50 |
| Total | 85,427 | 17,005 | 21,004 | 123,436 |

**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:

| | | | | ***2020*** |
|---|---|---|---|---|
| *(In thousands)* | ***Fair value*** | ***Level 1*** | ***Level 2*** | ***Level 3*** |
| ***Financial assets*** | | | | |
| Cash | **3,404** | **3,404** | **-** | **-** |
| SaskCentral and Concentra Bank shares | **1,685** | **-** | **-** | **1,685** |
| Other equity instruments | **1,002** | **-** | **1,002** | **-** |
| Total financial assets | **6,091** | **3,404** | **1,002** | **1,685** |

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

| *(In thousands)* | *Fair value* | *Level 1* | *Level 2* | *2019 Level 3* |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| Cash | 9,247 | 9,247 | - | - |
| SaskCentral and Concentra Bank shares | 1,685 | - | - | 1,685 |
| Other equity instruments | 788 | - | 788 | - |
| Total financial assets | 11,720 | 9,247 | 788 | 1,685 |

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*** | ***2020 Level 3*** |
|---|---|---|---|---|---|
| ***Financial assets measured at amortized cost*** | | | | | |
| Cash equivalents | **8,665** | **8,665** | **8,665** | **-** | **-** |
| Investments | **42,507** | **43,563** | **-** | **43,563** | **-** |
| Member loans receivable | **79,394** | **79,368** | **-** | **79,368** | **-** |
| Total financial assets | **130,566** | **131,596** | **8,665** | **122,931** | **-** |
| ***Financial liabilities measured at amortized cost*** | | | | | |
| Member deposits | **127,580** | **127,645** | **-** | **127,645** | **-** |
| Accounts payable | **80** | **80** | **-** | **80** | **-** |
| Membership shares | **8** | **8** | **-** | **-** | **8** |
| Total financial liabilities | **127,668** | **127,733** | **-** | **127,725** | **8** |

| *(In thousands)* | *Carrying amount* | *Fair value* | *Level 1* | *Level 2* | *2019 Level 3* |
|---|---|---|---|---|---|
| ***Financial assets measured at amortized cost*** | | | | | |
| Cash equivalents | 6,637 | 6,637 | 6,637 | - | - |
| Investments | 28,315 | 28,556 | - | 28,556 | - |
| Member loans receivable | 76,713 | 76,330 | - | 76,330 | - |
| Accounts receivable | 50 | 50 | - | 50 | - |
| Total financial assets | 111,715 | 111,573 | 6,637 | 104,936 | - |

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

| *(In thousands)* | *Carrying amount* | *Fair value* | *Level 1* | *Level 2* | *2019 Level 3* |
|---|---|---|---|---|---|
| ***Financial liabilities measured at amortized cost*** | | | | | |
| Member deposits | 115,278 | 114,975 | - | 114,975 | - |
| Accounts payable | 69 | 69 | - | 69 | - |
| Membership shares | 8 | 8 | - | - | 8 |
| Total financial liabilities | 115,355 | 115,052 | - | 115,044 | 8 |

**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, 2020 were $60,454 (2019 - $58,831) and recorded as an expense. The annual estimated fee for the year ended December 31, 2021 is $59,818 (2020 - $60,454).

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 2020 the Credit Union has advanced $131,795 (2019 - $56,175) of their total commitment of $500,000 (2019 - $500,000) to the APEX III Investment Fund.

In 2018 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 2020 the Credit Union has advanced $400,000 (2019 - $250,000) of their total commitment of $500,000 (2019 - $500,000) to the Westcap MBO II Investment Fund.

In 2020, the Credit Union entered into a commitment with Central 1 Credit Union for the implementation of Forge digital banking services. The initial implementation fee for the year ended December 31, 2020 was $10,000. There is a commitment to pay the remaining implementation fee of $40,000 in the year ended 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 up to 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, 2020, the Credit Union had provided approximately 37 members with CEBA loans and had funded approximately $1,480,000 in loans under the program.

**Eligibility of a Director**

The following conditions are to apply when determining the eligibility of an individual to become a director of the credit union:

- Must be a member of the credit union for one year
- Must maintain membership with the credit union
- Must be eligible for bonding
- Must not have loans in arrears with the credit union, other credit unions or other financial organizations
- Must not be an employee of the credit union
- Must not be involved in any legal action or dispute with the credit union
- Must not be a board member of any other financial institution except as a representative of the credit union
- Must be of legal age (18)
- Must be able to attend a minimum of 75% of regular board meetings, and keep up to date with Credit Union Director Training program, as per Board Policy
- Must be prepared to conduct a significant portion of the business with the credit union in order to demonstrate confidence in the credit union

**Tenure**

A board member will be eligible to sit on the board of directors for an unlimited number of terms.

**Removal of a Director**

A director may be removed from the board if he/she did not disclose information as outlined by credit union policy (and Credit Union Act) prior to coming on the board or is in contravention of any of the other conditions outlined in the section "Eligibility of a Board Member."

# Facts About Saskatchewan Credit Unions

- Today there are 36 credit unions in Saskatchewan serving 208 communities through 234 service outlets.
- Credit unions offer financial products and services to more than 486,000 members.
- Saskatchewan credit union assets reached over $26.5 billion with revenue of over $1.04 billion.
- Credit union lending amounts were over $19.3 billion.
- There are 349 board members who are locally elected by members of each credit union to provide strategic direction to their management teams.
- As independent financial institutions owned and controlled by their members, credit unions are shaped by community needs. Saskatchewan credit unions range in asset size from $26 million to more than $6 billion.
- In 2020, Saskatchewan credit unions returned over $6.07 million to their members in the form of patronage equity contribution and dividends.
- Credit unions are a major contributor to Saskatchewan's economy, employing over 3,200 people.
- Funds held on deposit in Saskatchewan credit unions are fully guaranteed through the Credit Union Deposit Guarantee Corporation. The full guarantee is made possible through a comprehensive deposit protection regime that is focused on prevention.

# CREDIT UNION DEPOSIT GUARANTEE CORPORATION

## ANNUAL REPORT MESSAGE 2020

**January 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.