



2021

ANNUAL

REPORT

Inspiring your dreams. 

Financing your goals. 

Building our community. 

AGENDA

Luseland Credit Union Ltd Annual Meeting

April 5, 2022

- Registration
- Confirmation of Quorum
- Nomination of Chairperson and Secretary
- Adoption of Agenda
- Reading and Approval of last 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
- Presentations of Long Service
- Adjournment
- Coffee & Dessert

Luseland Credit Union Limited

Incorporated: June 5, 1963

Credit Union Charter No. 347

OFFICERS

President:	Robert Prieston
Vice President:	Debra Scholer
Secretary:	Ryley Magnus
Treasurer:	Adam Franko

STAFF

<u>NAME</u>	<u>POSITION</u>	<u>YEARS OF SERVICE</u>	
		LCU	System
Donna Bartelen	Member Services Representative	1	1
Mickayla Belliveau	Loans Officer	4	4
Michelle Eurich	Documentation Clerk	16	16
Adam Franko	General Manager	14	19
Jean Halliday	Member Services Representative	42	45
Greg Mackie	Loans Officer	1	9
Ryley Magnus	Controller	4	4
Megan Meier	Member Service Representative	5	5
Angela Reiter	Loans Officer	24	24
Alyssa Underdahl	Office Manager	13	13

DIRECTORS

<u>NAME</u>	<u>OCCUPATION</u>	<u>COMMITTEE</u>	<u>TERM</u>
Nona Holtz	Store Owner	Audit/Risk/Conduct Review	2022
Shirley Knorr	Retired Banker	Crisis Management/ Executive/Governance	2022
Robert Prieston	Engineer	Audit/Risk/Conduct Review Crisis Management/Executive	2022
Daniel Holman	Farmer	Audit/Risk/Conduct Review	2023
Karen Mitzel	Housing Manager	Governance/Policy/Scholarship	2023
Alan Olfert	Farmer	Policy/Scholarship	2023
Brian Gottfried	Farmer	Governance/Workplace Violence & Harassment	2024
Debra Scholer	Photographer/ Receptionist	Executive/Governance Workplace Violence & Harassment	2024
Deb Vetter	Secretary	Policy/Scholarship	2024



Inspiring your dreams.

Financing your goals.

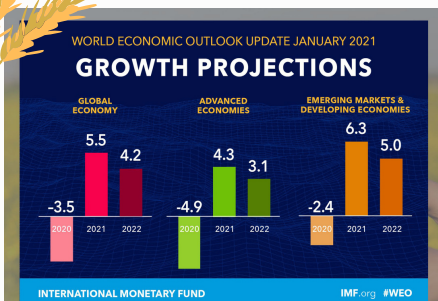
Building our community.

LCU is committed to keeping our members up to date by offering educational events. Our youth spent an interactive time in the park learning about the basics of banking. The high school students enjoyed pizza and gained information on fraud risks that are so prevalent in our current day and age.



Financial Literacy in the Park!

Our annual Ag Outlook Session, with presenter Brad Magnesson was held virtually. Trends for the agriculture sector were reviewed in detail, giving the farmers a heads up for the coming year.



Ag Outlook Virtual Session

At LCU we love to be active and supportive in our community. Throughout the year we created some fun, interactive events in the community and as well as taking the time to bring some Christmas joy to our seniors. Other activities included our annual LCU BBQ, CU Day goodie bags, the Gingerbread House competition, Christmas Handchimes, deliveries to farmers in the field and apple cider for Santa Claus Day.

Easter Egg Hunt



Drive-Thru MS BBQ Fundraiser!

School Clock Replacement Donation.



Staff Caroling at Kerrobert Long Term care.

Minutes of the 57th Annual Meeting of the
Luseland Credit Union Ltd: June 22, 2021

General Manager Adam Franko opened the 57th Annual Meeting at 7:30 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. Bob Prieston/Nona Holtz nominated Jan Edmonds. Debra Scholer moved nominations cease. Carried. Jan Edmonds welcomed everyone to the annual meeting and encouraged them to take an active part in the meeting. Nona Holtz/Angela Reiter nominated Jean Halliday as Secretary. Marj Reiter moved nominations cease. Carried.

Adoption of Agenda: Moved by Deanne Campbell/Shirley Knorr the agenda be adopted as presented. Carried.

Minutes: The minutes of the March 24, 2020 meeting were read. Moved by Karen Mitzel/Alyssa Underdahl the minutes be adopted as read. Carried.

Election of Officers: Debra Scholer, on behalf of the Governance Committee, presented the following names: Debra Scholer, Brian Gottfried, Debra Vetter. Moved by Alyssa Underdahl/Bob Prieston they be elected by acclamation. Carried.

PRESENTATION OF REPORTS

President's Report: Jan Edmonds presented the President's Report.

Manager's Report: Adam Franko presented the Manager's Report reviewing the financial highlights for 2020.

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, 2020 to the membership. He commended the Credit Union on another successful year.

Adoption of Reports: Moved by Brian Gottfried/Nona Holtz the reports be adopted as presented. Carried.

Appointment of Auditors: Moved by Nona Holtz, Chair of the Audit and Risk Committee/
Karen Mitzel we appoint MNP LLP as Auditors for 2021. Carried.

Other Business: Staff Changes: Franko thanked Micheal Hagel for his contribution to LCU over the past year. Micheal Hagel feels teaching is his real passion and will be returning to teaching this fall. LCU has hired Greg Mackie to fill the lending position. Greg comes to us with 13 years of lending experience and will begin work at LCU on July 2, 2021. Donna Bartelen is our new MSR, taking over from Megan who is on maternity leave.

Presentations: Bob Prieston thanked Jan Edmonds for his contributions to the board over the past 6 years, including 3 as president.

Moved by Nona Holtz that the meeting be adjourned at 8:10 pm. Carried.

Attendance: 22

President's Report

Welcome to the 58th Annual General Meeting of Luseland Credit Union Limited (LCU). The success of the Annual General Meeting depends on the participation of our members and we appreciate your time and attendance this evening.

Our assets finished this year at \$151,484,678; an increase of \$12 million from the 2020 results of \$139,261,355. As our community, along with the entire world, continued to navigate through the challenges associated with the COVID-19 pandemic so did LCU. The board was very happy with these financial results during the pandemic. In addition, we are proud to remain one of the few credit unions to have no service charges associated with most items or services offered.

Once again, we paid a patronage rebate and this time \$100,000 was returned to our members. This patronage was paid on February 17th as a rebate on interest paid by members on loans and lines of credit, as well as a bonus on interest paid to members. This shows that LCU continues to remain in a profitable and sustainable financial position.

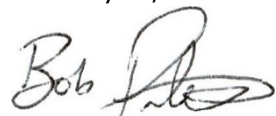
The board and management created a new mission and values in 2021 to give LCU a new mandate and core beliefs. Together we coined our new mission: ***Inspiring your dreams. Financing your goals. Building our community.*** In line with that Mission, it continues to remain important to give back and remain involved in our community. This year we were pleased to donate \$38,258 to numerous organizations and projects in our area that are a vital part of our community in keeping the entire area vibrant and growing. We also were proud to provide volunteer support time to community initiatives such as the MS Bike Ride for the Cure BBQ, Grade 12 Fraud Awareness Lunch & Learn, Brown Bag Event in the Park, and Community Caroling at the Kerrobert Long Term Care Centre.

This year, Micheal Hagel moved on to another opportunity. On behalf of the board, I would like to thank Micheal for his contributions to the continued success of LCU in his time with us. Greg Mackie joined us as a Loans Officer and Donna Bartelen joined us as a Member Services Representative, and both are very welcome additions to our team. Our staff continued to go above and beyond in providing outstanding service to our members through the constantly changing challenges of COVID-19, all the while contributing to our success and maintaining our friendly atmosphere.

Thank you to my fellow board members for your commitment to our Credit Union and for meeting each new challenge and keeping yourself educated about the overall operation of the Credit Union. On their retirements from the board, I would also like to make a special mention to acknowledge and thank Nona Holtz for 9 years, Shirley Knorr for 3 years and Debra Vetter for 1 year of service and dedication to LCU's Board of Directors.

Finally, 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,



Bob Prieston
President of the Board of Directors

Management's 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 Corporation 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 provides financial services to members and non-members. At December 31, 2021, LCU had 1696 members and 0 non-members (2020 – 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 to the board by management on the completion of specific goals.

Our key strategic objectives in 2021, 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 highly trained, effective people in place to deliver the best member service.

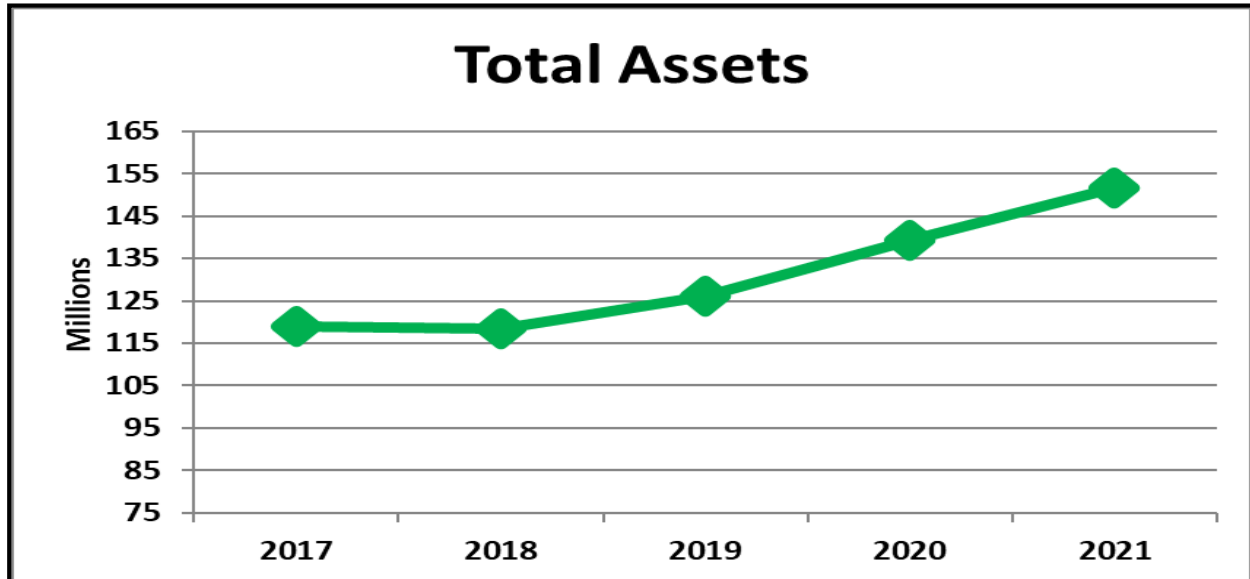
We, at LCU, are pleased to continue to meet and exceed our strategic objectives in 2021. We were able to generate a profit before patronage of \$1,007,095 and grew our assets by 8.78% and equity by 7.84%. We continued to build strong relationships by welcoming 132 new members to LCU, granting 308 loans to our members, donating over \$38,000 dollars to worthwhile causes, and being a leader at community events whenever we can. We are moving towards a new online banking platform called Xpress which will be ready for our members to use in Summer 2022.

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 build upon and strengthen our relationships.

Financial Performance

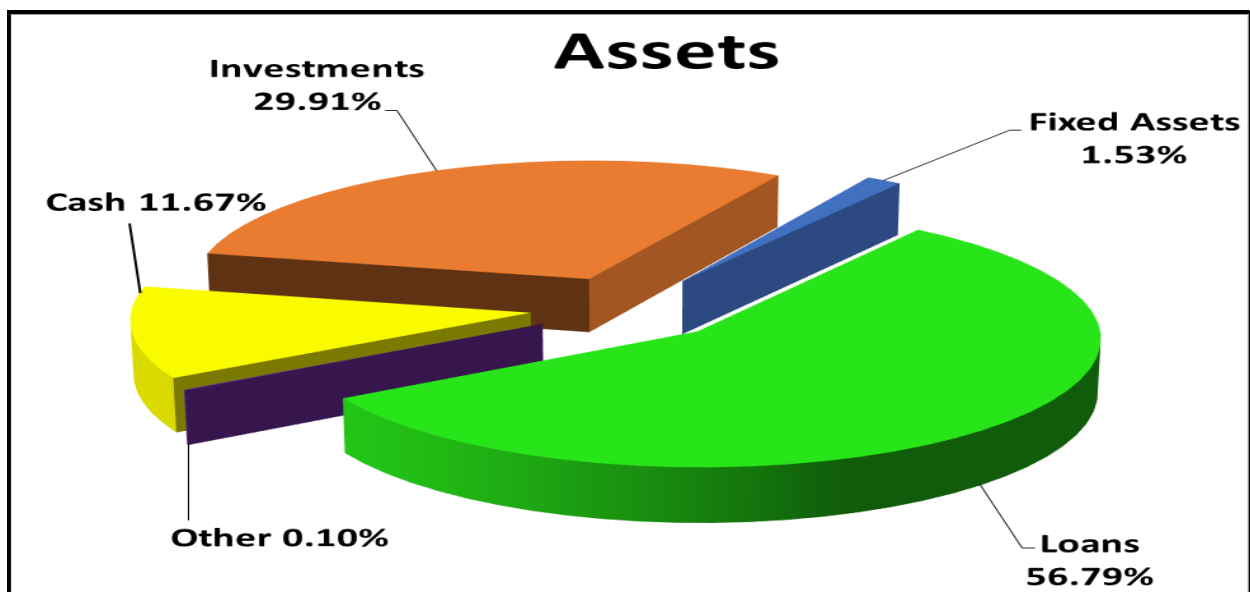
Statement of Financial Position

In 2021, the total assets increased for the third consecutive year with a gain 8.78% or \$12.22 million (2020 – 10.35% or \$13.07 million). This upward movement resulted in a final asset value of \$151.48 million (2020 – \$139.26 million). Since 2016, LCU has grown more than 53% or \$52.71 million (2016 – \$98.77 million).



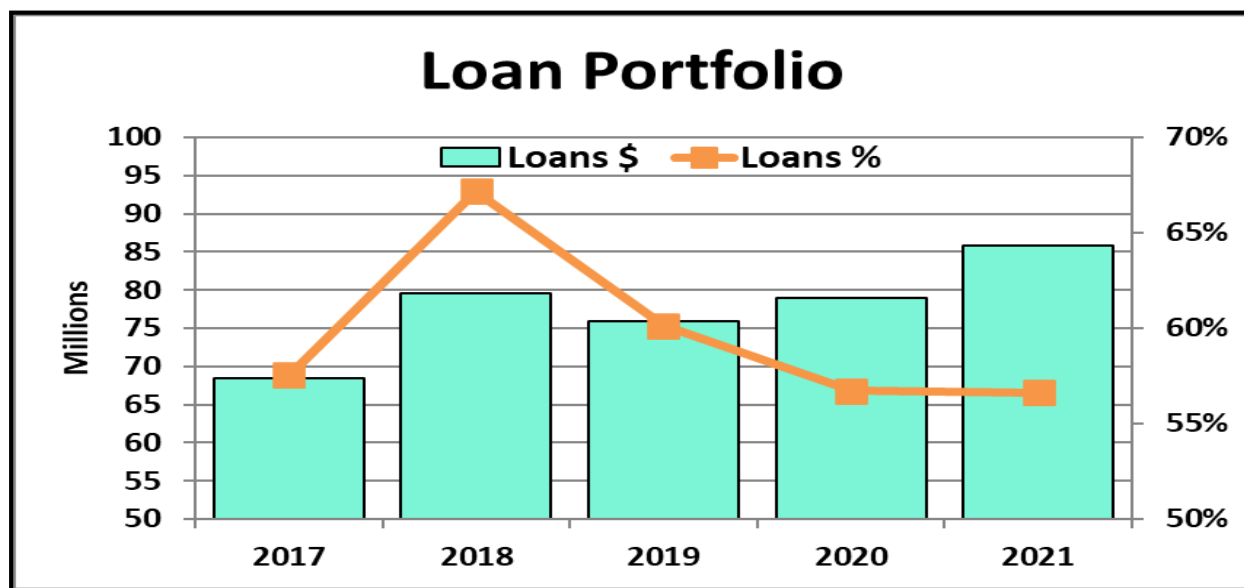
Assets

LCU's asset composition for 2021 remained relatively stable. The loan portfolio increased \$6.64 million, however the percentage of total assets decreased to 56.79%. (2020 – 57.01%). The amount of corporate investments held by LCU decreased to 29.91% (2020 – 32.45%) due to carrying \$5 million in a high-interest savings account, which is classified as a cash equivalent for financial reporting. LCU continues to look for opportunities to increase its rate of return on its investments as well as increase the size of the loan portfolio. Loans typically generate a higher rate of return when compared to corporate investments.



Loan Portfolio

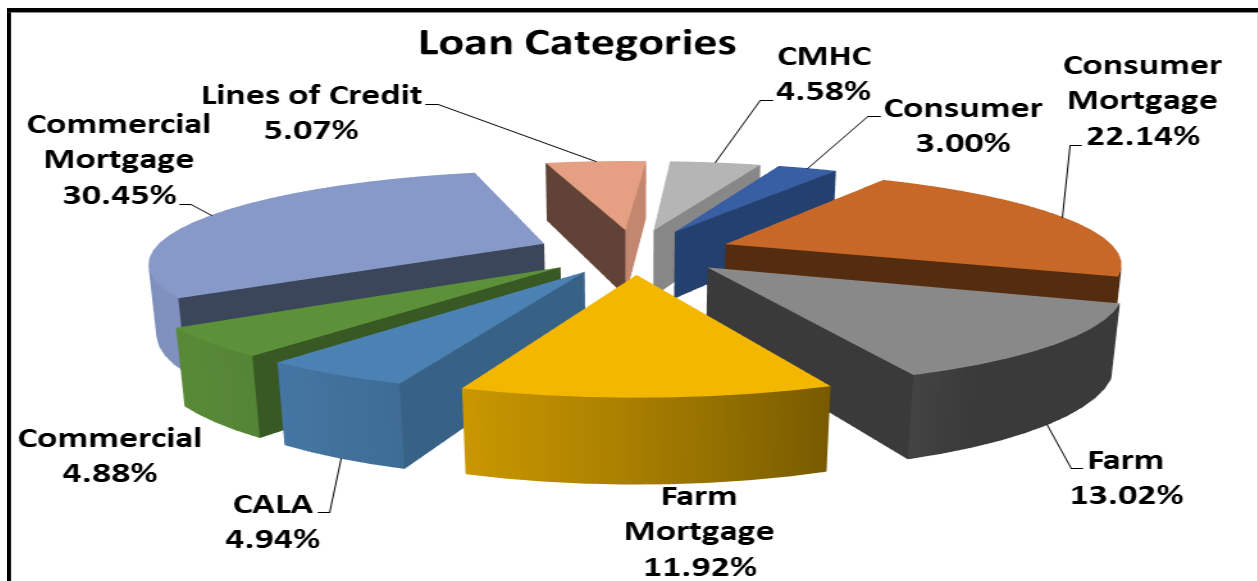
The loan portfolio increased 8.36% in 2021 (2020 – 3.49%), with member loans being the largest contributing factor. This demand was spread across the agricultural, consumer and commercial categories. The total amount of loans outstanding at the end of the year was \$86.03 million (2020 – \$79.39 million). During the year, LCU’s lenders approved 308 new loans and lines of credit for over \$46 million dollars (2020 – \$32 million). The lending department continues to look for new loan prospects by seeking out local lending opportunities, purchasing loans from other Credit Unions, offering interest rate specials, and in 2021, began working with a commercial broker to generate additional loans.



Our loan portfolio continued to be diversified across the three sectors in 2021. There were relatively equal parts lent to our agriculture (31.48%), commercial (37.21%), and consumer (31.31%) members. Compared to our 2020 percentages, of 33.12%, 35.59%, and 31.29% respectively, there was a small increase in commercial loans vs agricultural and consumer loans. The strength of the portfolio improved throughout the year with 79.10% of the portfolio secured by mortgage collateral (2020 – 74.81%) and 0% delinquency over 90 days (2020 – 0%). LCU’s staff work diligently and use strong, prudent credit granting policies that reduce the probability of credit defaults.

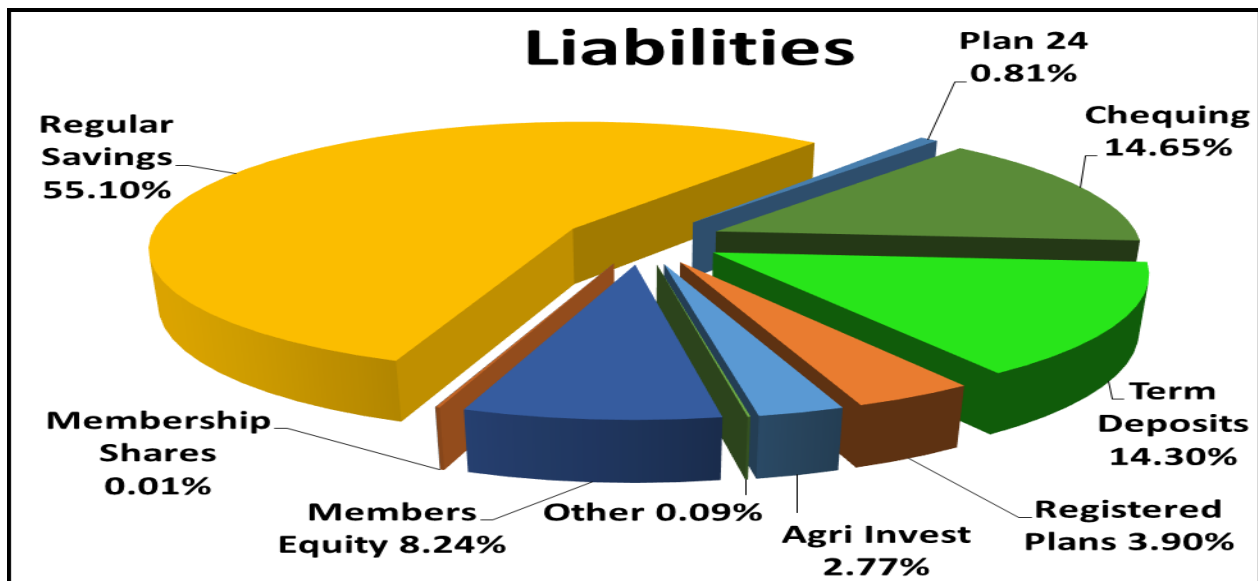
LCU establishes an allowance for potential loan losses, and it is split into specific and general categories. There was one loan that comprised LCU’s specific allowance in 2021 and the total principal and interest impaired was \$1,556,238 (2020 – two loans totaling \$2,204,332). Of the two loans impaired in 2020, one loan was paid down by 95% and the other loan had scheduled payments applied throughout the year. LCU anticipates that if the one remaining impaired loan were to default the total loss would be \$70,000. This amount is what LCU has set aside as a specific allowance. LCU’s general allowance represents the risk that loans in our portfolio may default and the risk of loss. LCU’s general allowance for 2021 increased to \$208,199 (2020 – \$178,199) due to an increased monetary value of loans and changes to financial-economic indicators that predict the likelihood of a loan defaulting.

At yearend, LCU had one foreclosed property with an estimated value of \$50,000 (2020 – one at \$85,000). The property is currently leased to two tenants and the revenue earned offsets the ongoing carrying costs of the property excluding any significant repairs. LCU continually evaluates opportunities to sell the property.



Liabilities

In 2021, member deposits increased 8.84% (2020 – 10.67%). LCU's liability breakdown changed very little between categories and remained similar to 2020. Year over year most member deposits continued to be placed in regular savings accounts at 55.10% (2020 – 55.87%) of liabilities.



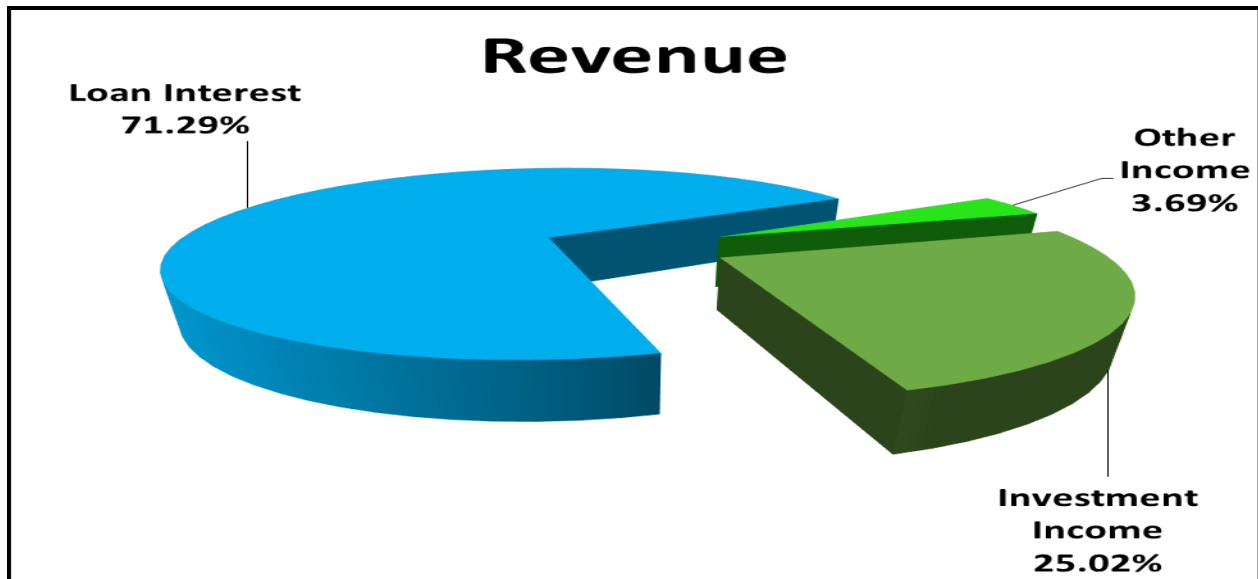
Statement of Comprehensive Income

LCU experienced challenges in 2021, much like in 2020, that were unprecedented. The COVID-19 pandemic continued to impact our members, our community, our staff, the Credit Union, and everyone else. Physical distancing, plexiglass, hand sanitizer, masks, etc were all a part of our daily lives. Despite these pandemic requirements, LCU's focus was, and will always be, to serve our members to the best of our ability.

Revenue

LCU's primary business as a financial institution is to provide deposit accounts to our members and then to use those funds to generate loans and invest the remaining amount. The revenue from those activities can be split into three primary categories: Loan Interest, Investment Income, and Other Income. In 2021, the pandemic continued to disrupt the economy and stifle revenue growth as LCU operated in a depressed interest rate environment. LCU experienced a slight reduction in the percentage of revenue generated by the loan portfolio to 71.28% (2020 – 72.72%). In 2021, much like in 2020, LCU experienced strong growth in member deposits and this put 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 and experienced measurable success in 2021.

The rates of return on the loan and investment portfolios both experienced a downward pressure in 2021 finishing the year at 3.45% (2020 – 3.77%) and 1.70% (2020 – 1.80%) respectively. These rates of return are directly impacted by the low interest rate market and further economic impacts of the pandemic. LCU's prime rate remained at 2.45% throughout the fiscal year and follows the Bank of Canada's rate, which increased by 0.25% on March 2, 2022. Further prime rate increases are forecasted in 2022. Other income remained a small part of total revenue for 2021 at 3.69% (2020 – 5.02%) and LCU is very proud that we can remain virtually service charge free, while providing member service that is second to none.



Expenses

Interest expense on member deposits decreased in 2021 to 20.34% (2020 – 23.82%) as a percentage of total expenses. This decrease is directly related to the continued impact of the COVID-19 pandemic on interest rates.

Personnel expenses increased to 32.83% in 2021 (2020 – 26.39%) as a percentage of total expenses. In nominal dollars personnel expenses increased in 2021, by \$115,877, from having a full complement of staff for most of 2021 compared to 2020.

Security expenses increased to 4.60% in 2021 (2020 – 3.75%) as a percentage of total expenses. In nominal dollars security expenses increased in 2021, by \$14,805, from increases to fees paid to Credit Union Deposit Guarantee Corporation for their guarantee on members' funds as well as increases to our business insurance premium.

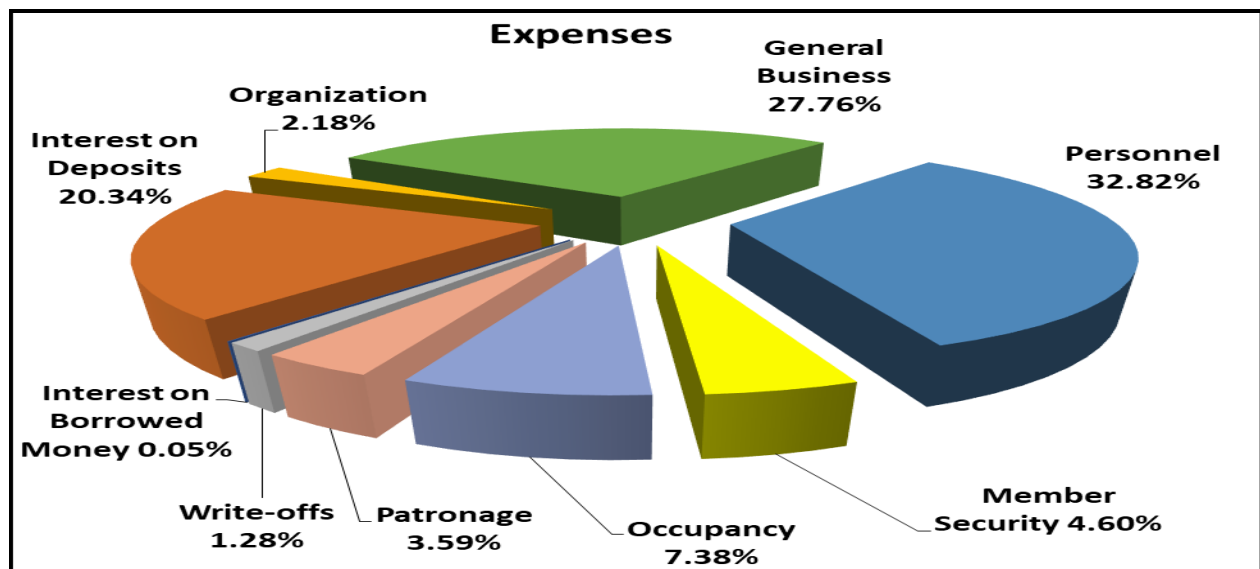
Organizational expenses increased to 2.18% in 2021 (2020 – 1.43%) as a percentage of total expenses. In nominal dollars, organizational expenses increased \$17,334 in 2021 because of increased director remuneration. LCU increased its director remuneration rates to align with market rates and the directors took part in more training in 2021.

Occupancy expenses decreased to 7.38% in 2021 (2020 – 9.93%) as a percentage of total expenses. In nominal dollars occupancy expenses decreased in 2021, by \$94,733, as there were one-time building repairs incurred in 2020 including: sidewalk replacement and repairs not covered by insurance from hail damage in 2019.

General business expenses increased to 27.76% in 2021 (2020 – 24.12%) as a percentage of total expenses. In nominal dollars general business expenses increased \$43,273 due to one-time costs from the initial stages of implementing a new online banking platform.

Loan allowance and write-off expenses decreased to 1.28% (2020 – 7.21%) as a percentage of total expenses. In nominal dollars loan allowance expenses in 2021 were \$nil (2020 - \$100,000) and write-off expenses in 2021 were \$35,532 (2020 - \$118,095). These expenses are losses primarily associated with loans defaulting and are an unfortunate part of lending. LCU's write-off expenses for 2021 included \$532 for losses that resulted from fraud (2020 - \$5,053).

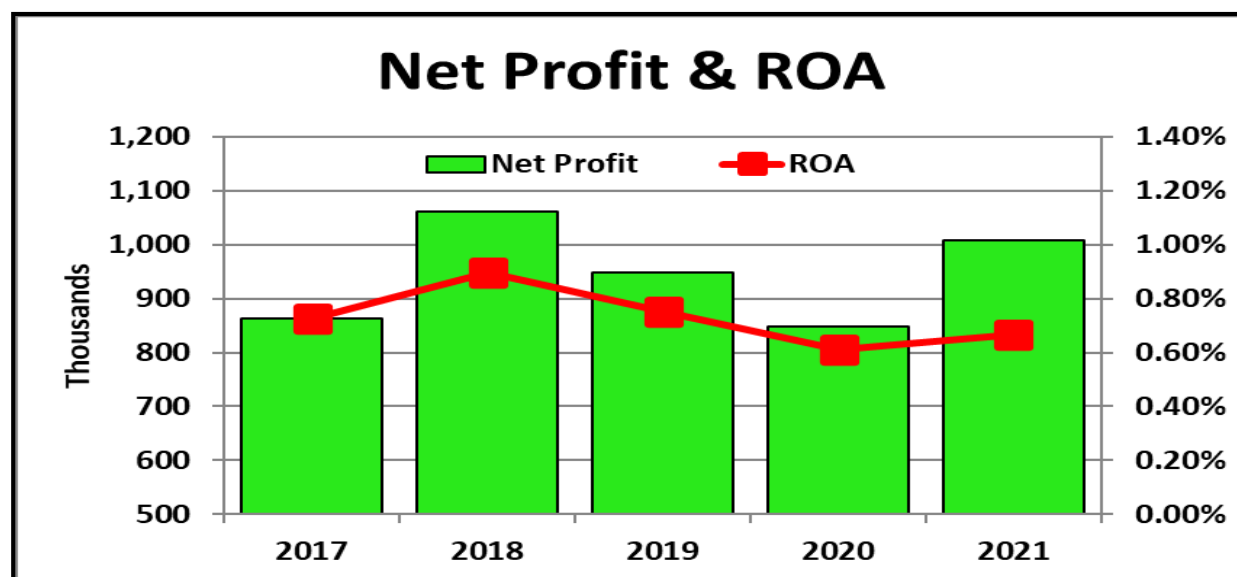
LCU strives to effectively manage its expenses and continues to operate one of the most efficient operations in the province.



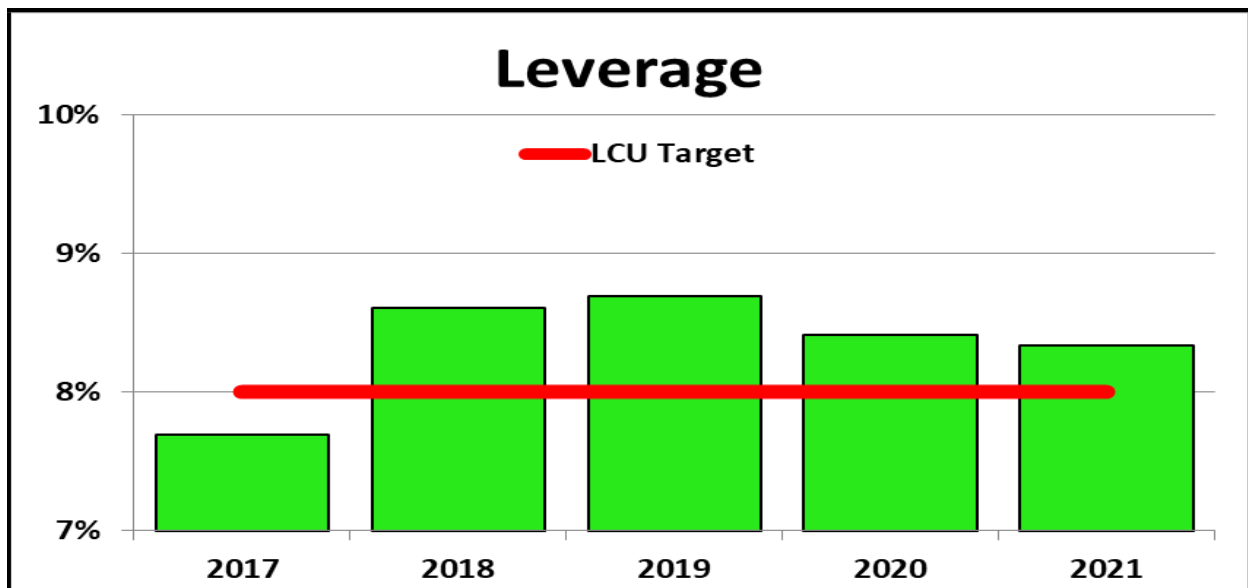
Comprehensive Income & Leverage

Comprehensive income increased 21.12% in 2021 (2020 – decreased 3.20%) and the main driver for the increase was the decrease in loan allowance and write off expenses compared to 2020. LCU's staff work diligently and use strong, prudent credit granting policies that reduce the probability of credit losses. LCU's Gross Financial Margin was relatively stable with a 4.64% increase in 2021 (2020 – decrease 12.52%). This stability demonstrates LCU's ability to operate successfully despite a depressed interest rate market through a prolonged worldwide pandemic. 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.

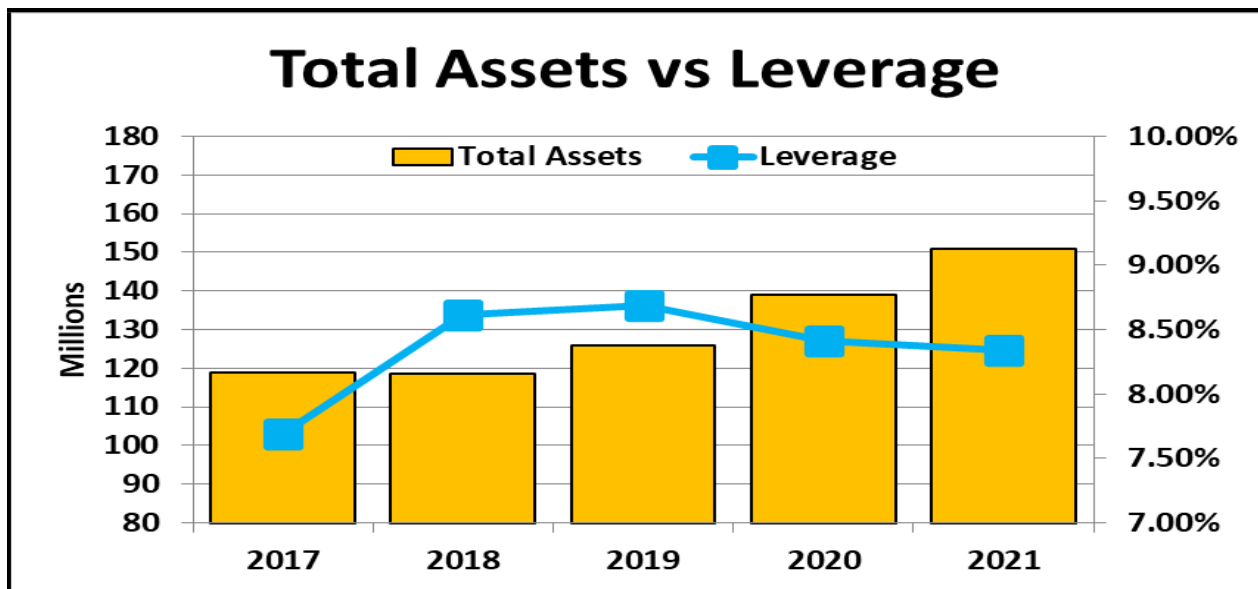
Looking at LCU's 5-year historic net profit and return on assets (ROA), we see that 2021 had the second highest net profit and second lowest ROA in that period. This separation between net profit highs and ROA lows is reflective of LCU's significant asset growth in 2021 and 2020 and the depressed interest markets in the same timeframe. In 2021, LCU achieved a ROA of 0.66% and a net profit before patronage of \$1,007,095 (2020 – ROA: 0.61%; net profit before patronage: \$848,893). The decreased loan allowance and write-off expenses in 2021 compared to 2020 is evident when comparing ROA and net profit before patronage. LCU's continued financial success cannot be accomplished without the participation of our members.



LCU's leverage ratio requirement is 5.00% and is largely a measure of our retained earnings as a percentage of our total assets. Member shares and the loan allowance are also included in this calculation; however, they are not a significant amount relative to retained earnings. LCU aims to surpass its regulatory requirement by setting its own leverage target at 8.00% and its policy minimum at 7.00%. LCU maintains a strong leverage position to ensure we can meet the growing needs of our growing membership. In 2021, LCU's leverage ratio was 8.34% (2020 – 8.41%) and experienced downward pressure from growth in member deposits and the financial effects from the pandemic that prolonged over two fiscal years. 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 2021 was 14.02% (2020 – 14.16%), which was ahead of our regulatory requirement of 10.50% and LCU's internal requirement of 12.00%. RWC decreased in 2021 as the increased assets in 2021 were primarily lent out to members and loans are inherently riskier than investments.



When comparing LCU's leverage to assets we can confirm our success in 2021 by continuing to maintain our capital position well above our regulatory and LCU targets. LCU's assets experienced significant growth for the second year in a row at 8.78%, which outpaced our leverage growth at 7.84%. LCU's strong leverage position allowed LCU to pay patronage of \$100,000 to members on February 17, 2022 (February 24, 2021 - \$100,000). 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 LCU.

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.
 - o Monitor events and strategic direction of system partners.
 - o Maintain awareness of support alternatives.
 - o Find creative alternatives where possible.
- Risk that we will no longer remain relevant to our members' needs and wants.
 - o Continue to utilize member surveys and informal interactions to gauge relevance.
 - o 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.
 - o Make informed decisions based on growth, capital, and profit.
 - o Make prudent spending decisions, re: patronage allocations.
- Risk that volatility in the oil and agricultural sectors will negatively impact capital.
 - o Stay knowledgeable of economic conditions and commodity prices.
 - o Continue to work with members to resolve stress issues.
- Risk of hijack/ransom of our digital platform.
 - o Maintain strong procedures and controls.
 - o Carry insurance to protect against loss.
 - o Communicate with members should an event occur.
- Risk of financial loss from card skimming, fraud, wire transfer etc.
 - o Maintain strong procedures and controls.
 - o Carry insurance to protect against loss.
 - o Communicate with members should an event occur.
 - o Continue to educate members in fraud awareness.

- Risk of being unable to attract or retain staff in key positions.
 - o Continue to recruit qualified staff for the Credit Union.
 - o Train staff interested in career advancement.
 - o 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.
 - o Monitor for indications of other credit union amalgamations.
 - o 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.
 - o Set liquidity targets and ranges that exceed regulatory minimums.
 - o Be conscious of liquidity needs when making investment or syndication decisions.

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 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 several 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 2021 (2020 – 100%) and LCU surpassed the target with 206.17% (2020 – 217.71%). For 2022, 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 several 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 loans analysis process further evaluates larger credit files, on an annual basis, that have aggregate credit products over a certain dollar amount threshold and evaluates higher risk credit files, on a quarterly basis, that have a risk rating and dollar amount over a certain threshold. As a part of this review, members' financial information is updated and all the members' credit products with LCU are scrutinized to ensure the products are operating satisfactorily and to evaluate if further action is needed. That action can include increased information requirements, additional loan covenants, or in certain circumstances 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.

Through the IFRS 9 – loan impairment process, which utilizes historical delinquency data from the provincial system and LCU's own data. LCU increased its general allowance for credit impairment to \$208,199 (2020 - \$178,199) and decreased its specific allowance to \$70,000 (2020 - \$100,000).

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. For 2021, LCU ended the year with no delinquency over 90 days (2020 – no delinquency over 90 days). 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 - 2021	% of Residential Mortgage Portfolio	Total - 2020	% of Residential Mortgage Portfolio
Conventional (uninsured)	\$ 18,024,094	82.63%	\$ 17,440,108	83.24%
CMHC (insured)	\$ 3,332,764	15.28%	\$ 3,127,942	14.93%
HELOC (Home Equity Lines Of Credit)	\$ 455,000	2.09%	\$ 385,000	1.83%
Total	\$ 21,811,858	100.00%	\$ 20,953,050	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 regard 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. Most 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:
 - o Continue to maintain excellent profitability.
 - o Keep current on technological change.
 - o 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:
 - o 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 while 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 and electronic ballots 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 several 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 2021, the committee members were: Nona Holtz (chair), Daniel Holman, and Robert 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 2021, the committee members were: Nona Holtz (chair), Daniel Holman, and Robert 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 2021, the committee members were: Shirley Knorr (chair), Adam Franko, Jean Halliday, and Robert Prieston.

- ***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 2021, the committee members were: Robert Prieston (chair), Shirley Knorr, and Debra Scholer.

- ***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 2021, the committee members were: Debra Scholer (chair), Brian Gottfried, Shirley Knorr, and Karen Mitzel.

- ***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 2021, the committee members were: Karen Mitzel (chair), Alan Olfert, and Deb Vetter.

- ***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 2021, the committee members were: Nona Holtz (chair), Daniel Holman, 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 2021, the committee members were: Karen Mitzel (chair), Alan Olfert, and Deb Vetter.

- ***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 2021, the committee members were: Debra Scholer (chair), Adam Franko, Brian Gottfried, 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 2021, the Board of Directors held 12 regular meetings, 1 special meeting, and 21 committee meetings. Attendance for regular board meetings ranged from a high of 100% to a low of 83% 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, Alyssa Underdahl, Office Manager, and Ryley Magnus, Controller. Jean Halliday moved out of her Controller role into a Member Service Representative role in 2021 as part of her succession plan.

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 Garden Club, Luseland Golf Club, Luseland Library, Luseland School, Multiple Sclerosis Society of Canada, Saskatchewan Co-operatives Association, Town of Luseland – Legion Park Playground Equipment, and Village of Denzil – Rink Roof Replacement. In 2021, a total of \$38,258 in monetary donations were made and this does not include the countless napkins, cups, door prizes, silent auction items, given to worthwhile causes.

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 2021 was as follows:

- Total eligible capital / risk-weighted assets = 14.02% (2020 – 14.16%)
- Tier 1 capital / risk-weighted assets = 13.78% (2020 – 13.94%)
- Common equity tier 1 capital / risk-weighted assets = 13.78% (2020 – 13.94%)
- Leverage ratio = 8.34% (2020 – 8.41%)

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 2021 was 12.86% (Q4 2020 - 12.94%) and we are pleased to report we have exceeded the requirement with an eligible capital level of 14.02% (2020 - 14.16%).

People

Members

In 2021, the membership of LCU increased to 1,696. There were 132 new members for the year and 61 memberships closed. LCU is proactive in closing dormant accounts and that partially offset the new memberships.

Directors

There are 3 positions expiring in 2022 and they are Nona Holtz, Shirley Knorr, and Bob Prieston. Nona Holtz retired from the board after 9 years, with many of those as the lead of the Audit, Risk, and Conduct Review committees. Shirley Knorr retired from the board after 3 years while chairing the Crisis Management Committee, and Debra Vetter retired after 1 year of serving the members. The board, management, and the entire staff would like to thank Nona, Shirley, and Debra for their support and excellent contributions over the years. A strong board is the foundation of a strong credit union. Phyllis German, Brent Laturnus, Robert Prieston, and Sharon Stang 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 2021, we said good bye to Micheal Hagel as he returned to his true passion, teaching and Megan Meier took maternity leave to care for her wonderful daughter. LCU welcomed Donna Bartelen as our new Member Service Representative in April and she is using her agricultural background to relate to our members. LCU also welcomed Greg Mackie as our new Loans Officer in July and he brought years of lending experience with him that has been a great addition to the lending team.

Respectfully submitted,



Adam Franko, General Manager

Luseland Credit Union Limited
Financial Statements
December 31, 2021

Luseland Credit Union Limited

Contents

For the year ended December 31, 2021

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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.

March 17, 2022



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, 2021, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report *(continued from previous page)*

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

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

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

Saskatoon, Saskatchewan

March 17, 2022

MNP LLP

Chartered Professional Accountants

Luseland Credit Union Limited

Statement of Financial Position

As at December 31, 2021

	2021	2020
Assets		
Cash and cash equivalents (Note 5)	17,684,690	12,068,706
Investments (Note 6)	45,304,793	45,193,600
Member loans receivable (Note 7)	86,032,843	79,393,969
Other assets (Note 8)	146,142	118,347
Property, plant and equipment (Note 9)	2,316,210	2,486,733
	151,484,678	139,261,355
Liabilities		
Member deposits (Note 11)	138,857,506	127,580,461
Other liabilities (Note 13)	136,118	97,290
Membership shares (Note 14)	8,480	8,125
	139,002,104	127,685,876
Commitments (Note 20)		
Members' equity		
Retained earnings	12,482,574	11,575,479
	151,484,678	139,261,355

Approved on behalf of the Board

Director

Director

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

	2021	2020
Interest income		
Member loans	2,778,475	2,884,178
Investments	975,428	882,563
	3,753,903	3,766,741
Interest expense		
Member deposits	566,681	720,750
Borrowed money	1,419	1,490
	568,100	722,240
Gross financial margin	3,185,803	3,044,501
Other income	143,987	199,195
	3,329,790	3,243,696
Operating expenses		
Personnel	914,601	798,724
Security	128,277	113,472
Organizational	60,668	43,334
Occupancy	205,678	300,411
General business	773,303	730,030
	2,082,527	1,985,971
Income before provision for impaired loans, patronage refund and provision for (recovery of) income taxes	1,247,263	1,257,725
Provision for impaired loans (Note 7)		
Change in loan allowance	-	100,000
Write-offs	35,532	118,095
	35,532	218,095
Patronage refund (Note 15)	100,000	100,000
Income before provision for (recovery of) income taxes	1,111,731	939,630
Provision for (recovery of) income taxes (Note 12)		
Current	231,979	203,152
Deferred	(27,343)	(12,415)
	204,636	190,737
Comprehensive income	907,095	748,893

The accompanying notes are an integral part of these financial statements

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

	<i>Retained earnings</i>	<i>Total equity</i>
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
Comprehensive income	907,095	907,095
Balance December 31, 2021	12,482,574	12,482,574

The accompanying notes are an integral part of these financial statements

Luseland Credit Union Limited

Statement of Cash Flows

For the year ended December 31, 2021

	2021	2020
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	2,955,600	2,887,830
Interest received from investments	1,167,317	805,331
Other income	143,987	199,195
Cash paid to suppliers and employees	(1,881,373)	(1,739,241)
Interest paid on deposits	(597,925)	(729,977)
Interest paid on borrowed money	(1,419)	(1,490)
Patronage refund	(100,000)	(100,000)
Income taxes paid	(220,671)	(199,012)
	1,465,516	1,122,636
Financing activities		
Net change in member deposits	11,308,289	12,311,504
Net change in membership shares	355	5
	11,308,644	12,311,509
Investing activities		
Net change in investments	(303,082)	(14,328,761)
Net change in member loans receivable	(6,851,531)	(2,902,804)
Purchases of property, plant and equipment	(3,563)	(18,431)
	(7,158,176)	(17,249,996)
Increase (decrease) in cash and cash equivalents	5,615,984	(3,815,851)
Cash and cash equivalents, beginning of year	12,068,706	15,884,557
Cash and cash equivalents, end of year	17,684,690	12,068,706

The accompanying notes are an integral part of these financial statements

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 March 17, 2022.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2021. Adoption of these amendments had no effect on the Credit Union's financial statements.

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

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

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

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

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

COVID-19 pandemic considerations

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

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

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

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

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)*

Key assumptions in determining the allowance for expected credit losses *(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 (operating as Wyth Financial) shares approximates its cost based on the terms that the equity investments can not be transferred, the shares can not be sold and new shares are issued at par value of all currently held shares.

Impairment of non-financial assets

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

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, and member loans receivable and accrued interest thereon.
- **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)*

Property, plant and equipment *(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 \$47,478 (2020 – \$43,902) 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, 2021 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

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

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

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

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

Standards issued but not yet effective *(Continued from previous page)*

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

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

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

IAS 12 Income Taxes

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

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

IAS 16 Property, Plant, and Equipment

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

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

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

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

5. Cash and cash equivalents

	2021	2020
Cash	1,552,827	3,404,041
Cash equivalents	16,131,863	8,664,665
	17,684,690	12,068,706

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

6. Investments

	2021	2020
Measured at fair value through profit or loss		
SaskCentral and Concentra Bank shares	1,685,000	1,685,000
Other equity instruments	1,092,367	1,001,783
	2,777,367	2,686,783
Measured at amortized cost		
SaskCentral and Concentra Bank deposits	30,115,259	31,115,259
Portfolio investments	12,168,155	10,955,657
	42,283,414	42,070,916
Accrued interest	244,012	435,901
	45,304,793	45,193,600

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

	2021	2020
Investment portfolio rating		
AAA-	250,000	250,000
AA	1,000,000	4,849,000
A	10,700,000	5,500,000
BBB	141,065	152,155
R1	1,185,000	1,185,000
Unrated	1,669,457	1,706,285
	14,945,522	13,642,440

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

Statutory liquidity

Pursuant to Regulations, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Credit Union Deposit Guarantee Corporation ("CUDGC"), requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2021 the Credit Union met the requirement.

Liquidity coverage ratio

The Credit Union has implemented a liquidity coverage ratio ("LCR") which is a regulatory requirement of CUDGC. The objective of the LCR is to ensure that the Credit Union has an adequate stock of unencumbered high-quality liquid assets ("HQLA") that:

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

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

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

6. Investments *(Continued from previous page)*

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

As at December 31, 2021, the Credit Union is in compliance with regulatory requirements.

7. Member loans receivable

Principal and allowance by loan type:

	2021				
	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Agriculture loans	10,712,019	-	-	40,595	10,671,424
Commercial loans	18,803,455	1,555,541	69,303	139,097	20,150,596
Consumer loans	2,362,028	-	-	2,561	2,359,467
Lines of credit	4,414,982	-	-	6,208	4,408,774
Mortgages	48,025,545	-	-	19,738	48,005,807
	84,318,029	1,555,541	69,303	208,199	85,596,068
Foreclosed assets	50,000	-	-	-	50,000
Accrued interest	386,775	697	697	-	386,775
	84,754,804	1,556,238	70,000	208,199	86,032,843

	2020				
	Principal performing	Principal impaired	Allowance specific	Allowance collective	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

The allowance for loan impairment changed as follows:

	2021	2020
Balance, beginning of year	278,199	178,199
Provision for impaired loans	35,532	218,095
Subtotal	313,731	396,294
Less: accounts written off, net of recoveries	35,532	118,095
Balance, end of year	278,199	278,199

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

8. Other assets

	2021	2020
Prepaid expenses and deposits	16,243	15,791
Deferred tax asset (<i>Note 12</i>)	129,899	102,556
	146,142	118,347

9. Property, plant and equipment

	<i>Land</i>	<i>Buildings</i>	<i>Computer equipment</i>	<i>Furniture and equipment</i>	<i>Total</i>
Cost					
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
Additions	-	-	3,563	-	3,563
Balance at December 31, 2021	131,250	2,964,767	177,548	215,416	3,488,981
Accumulated depreciation					
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
Depreciation	-	137,265	1,176	35,645	174,086
Balance at December 31, 2021	-	789,664	175,161	207,946	1,172,771
Net book value					
At December 31, 2020	131,250	2,312,368	-	43,115	2,486,733
At December 31, 2021	131,250	2,175,103	2,387	7,470	2,316,210

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 0.50% (1.95% at December 31, 2021), in the amount of \$2,500,000 (2020 - \$2,500,000) from SaskCentral. As at December 31, 2021, \$nil was advanced (2020 - \$nil).

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

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

11. Member deposits

	2021	2020
Chequing, savings, plan 24	111,809,574	103,307,368
Registered plans	5,185,068	5,456,926
Term deposits	21,654,797	18,576,856
Accrued interest savings and deposits	208,067	239,311
	138,857,506	127,580,461

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% (2020 - 0.75%).
- Registered savings plans are subject to fixed and variable rates of interest up to 2.25% (2020 - 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% (2020 - 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 the small business limit and 15% on income greater than the small business limit (2020 - 9% and 15%) and the provincial tax rate of 0% on income under the small business limit and 12% on income over the small business limit (2020 - 1.5% and 12%). The Credit Union has a reduced small business limit due to its level of taxable capital.

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.

Deferred tax recovery recognized in comprehensive income

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

	2021	2020
Deferred tax asset		
Property, plant and equipment	75,626	58,612
Allowance for impaired loans	54,273	43,944
	129,899	102,556

Deferred tax asset is reflected in the statement of financial position as follows:

Deferred tax asset	129,899	102,556
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Reconciliation between average effective tax rate and the applicable tax rate

	2021	2020
Applicable tax rate	27.00 %	27.00 %
Small business deduction	(18.00)%	(16.50)%
Income not eligible for deduction	12.34 %	10.85 %
Non-taxable and other items	(2.93)%	(1.05)%
Average effective tax rate (tax expense divided by profit before tax)	18.41 %	20.30 %

Luseland Credit Union Limited
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13. Other liabilities

	2021	2020
Accounts payable	107,681	80,161
Corporate income tax payable	28,437	17,129
	136,118	97,290

14. Member shares

Authorized:

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

	2021	2020
Issued:		
1,696 Common shares (2020 - 1,625)	8,480	8,125

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 132 (2020 - 83) and redeemed 61 (2020 - 82) common shares.

15. Patronage

The Credit Union declared a patronage refund payable in the amount of \$100,000 on December 16, 2021 (2020 - \$100,000), to be paid by cash to the members based on lending and deposit business for the year ended December 31, 2021.

The patronage refund of \$100,000 (2020 - \$100,000) has been reflected in the statement of comprehensive income with related tax savings of approximately \$27,000 (2020 - \$27,000) 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:

	2021	2020
Salaries and short-term benefits	355,115	331,334

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.

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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

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

	2021	2020
Aggregate loans to KMP	1,930,607	1,853,574
Aggregate revolving credit facilities to KMP	141,800	136,800
Less: approved and undrawn lines of credit	(61,628)	(111,429)
	2,010,779	1,878,945

	2021	2020
During the year the aggregate value of loans and lines of credit approved to KMP amounted to:		
Revolving credit	15,000	-
Mortgages	811,000	1,039,265
Loans	50,763	104,216
	876,763	1,143,481

	2021	2020
Income and expense transactions with KMP consisted of:		
Interest earned on loans and revolving credit facilities to KMP	47,381	65,791
Interest paid on deposits to KMP	22,614	20,165

	2021	2020
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	4,268,479	4,669,477
Term deposits	931,000	917,400
Registered plans	116,238	81,787
Total value of member deposits due to KMP	5,315,717	5,668,664

Directors' fees and expenses

	2021	2020
Directors expenses	5,214	5,356
Meeting, training and conference costs	7,887	4,865

SaskCentral and Concentra Bank

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

The Credit Union is related to Concentra Bank, which is owned in part by SaskCentral. Concentra Bank provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers.

Interest and dividends earned on investments during the year ended December 31, 2021 amounted to \$624,096 (2020 - \$511,699).

Interest paid on borrowings during the year ended December 31, 2021 amounted to \$1,419 (2020 - \$1,490).

Payments made for affiliation dues for the year ended December 31, 2021 amounted to \$7,242 (2020 - \$9,824).

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

Celero Solutions

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

17. Capital management

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

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

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

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

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. 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.

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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

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

	Regulatory standards	Board limits
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.

The following table summarizes key capital information:

	2021	2020
Eligible capital		
Common equity tier 1 capital	12,482,574	11,575,479
Additional tier 1 capital	-	-
Total tier 1 capital	12,482,574	11,575,479
Total tier 2 capital	216,679	186,324
Total eligible capital	12,699,253	11,761,803

Risk-weighted assets

Total eligible capital to risk-weighted assets	14.02 %	14.16 %
Total tier 1 capital to risk-weighted assets	13.78 %	13.94 %
Common equity tier 1 capital to risk-weighted assets	13.78 %	13.94 %
Leverage ratio	8.34 %	8.41 %

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.

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

Credit risk

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

Risk management process

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

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

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.

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Notes to the Financial Statements
For the year ended December 31, 2021

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

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

	2021	2020
Unadvanced lines of credit	7,075,659	6,955,134
Guarantees and standby letters of credit	283,000	346,500
Commitments to extend credit	591,183	342,178
	7,949,842	7,643,812

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

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

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

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

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

Measurement of expected credit losses

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

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

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

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

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

The Credit Union has run a number of simulations on its collective allowance, incorporating assumptions about the resulting macroeconomic impacts of the COVID-19 pandemic, based on information and facts available at December 31, 2021. The macroeconomic factors that affect the Credit Union expected credit loss calculations are: Saskatchewan unemployment rates, provincial housing starts, national interest rates, national GDP growth, and national oil prices. Each factor is forecast in a base case, a best case and a worst case scenario. These scenarios are weighted, and the weighted average is used to build the estimate for expected credit losses. The information for these assumptions is based off 2022 economic forecasts. These assumptions were shocked up and down 10-30% in the best and worst case scenario.

The typical weighting used in the model is 80% base, 10% best and 10% worst case, as the base case is historically the most likely scenario. Due to uncertainties around COVID-19, the weightings chosen at December 31, 2020 and December 31, 2021 were adjusted to 50% base, 10% best and 40% worst case.

Management had to use judgment in several areas to assess if the estimate the model calculated was reasonable or if an overlay was needed to increase or decrease the allowance. The negative effects of the global economic shut down, increased unemployment and volatile oil prices had to be weighed against the more positive aspects of government support programs, government loan programs, loan deferrals, and rent deferrals.

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.

		2021		
	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Consumer loans and lines of credit				
Low risk	6,984,972	-	-	6,984,972
Moderate risk	-	533	-	533
Total gross carrying amount	6,984,972	533	-	6,985,505
Less: loss allowance	8,768	1	-	8,769
Total carrying amount	6,976,204	532	-	6,976,736

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For the year ended December 31, 2021

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

	12-month ECL	2021 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Residential mortgages				
Low risk	22,932,237	-	-	22,932,237
Total gross carrying amount	22,932,237	-	-	22,932,237
Less: loss allowance	19,738	-	-	19,738
Total carrying amount	22,912,499	-	-	22,912,499
Commercial loans and mortgages				
Low risk	28,024,216	-	-	28,024,216
Default	-	-	1,555,541	1,555,541
Total gross carrying amount	28,024,216	-	1,555,541	29,579,757
Less: loss allowance	138,955	-	70,000	208,955
Total carrying amount	27,885,261	-	1,485,541	29,370,802
Agricultural loans and mortgages				
Low risk	25,644,549	-	-	25,644,549
Total gross carrying amount	25,644,549	-	-	25,644,549
Less: loss allowance	40,595	-	-	40,595
Total carrying amount	25,603,954	-	-	25,603,954
Local government loans				
Low risk	731,522	-	-	731,522
Total gross carrying amount	731,522	-	-	731,522
Less: loss allowance	142	-	-	142
Total carrying amount	731,380	-	-	731,380
Total				
Low risk	84,317,496	-	-	84,317,496
Moderate risk	-	533	-	533
Default	-	-	1,555,541	1,555,541
Total gross carrying amount	84,317,496	533	1,555,541	85,873,570
Less: loss allowance	208,198	1	70,000	278,199
Total carrying amount	84,109,298	532	1,485,541	85,595,371

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Notes to the Financial Statements
For the year ended December 31, 2021

18. Financial instruments (Continued from previous page)

		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 and mortgages				
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
Agriculture loans and mortgages				
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
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

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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

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, 2021 was \$283,000 (2020 – \$346,500).

Concentrations of credit risk

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

	<i>12-month ECL</i>	<i>Lifetime ECL (not credit impaired)</i>	<i>Lifetime ECL (credit impaired)</i>	<i>Total</i>
Consumer loans and lines of credit				
Balance at January 1, 2020	10,063	-	-	10,063
Net remeasurement of loss allowance	(1,294)	129	-	(1,165)
Balance at December 31, 2020	8,769	129	-	8,898
Net remeasurement of loss allowance	(1)	(128)	-	(129)
Balance at December 31, 2021	8,768	1	-	8,769
Residential mortgages				
Balance at January 1, 2020	28,467	-	-	28,467
Net remeasurement of loss allowance	(8,018)	486	-	(7,532)
Balance at December 31, 2020	20,449	486	-	20,935
Net remeasurement of loss allowance	(711)	(486)	-	(1,197)
Balance at December 31, 2021	19,738	-	-	19,738
Commercial loans and mortgages				
Balance at January 1, 2020	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
Net remeasurement of loss allowance	35,174	(15,421)	(30,000)	(10,247)
Balance at December 31, 2021	138,955	-	70,000	208,955
Agricultural loans and mortgages				
Balance at January 1, 2020	40,424	-	-	40,424
Net remeasurement of loss allowance	(11,983)	561	-	(11,422)
Balance at December 31, 2020	28,441	561	-	29,002
Net remeasurement of loss allowance	12,154	(561)	-	11,593
Balance at December 31, 2021	40,595	-	-	40,595

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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

	<i>12-month ECL</i>	<i>Lifetime ECL (not credit impaired)</i>	<i>Lifetime ECL (credit impaired)</i>	<i>Total</i>
Local government loans				
Balance at January 1, 2020	205	-	-	205
Net remeasurement of loss allowance	(43)	-	-	(43)
Balance at December 31, 2020	162	-	-	162
Net remeasurement of loss allowance	(20)	-	-	(20)
Balance at December 31, 2021	142	-	-	142
Total				
Balance at January 1, 2020	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
Net remeasurement of loss allowance	46,596	(16,596)	(30,000)	-
Balance at December 31, 2021	208,198	1	70,000	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.

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.

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

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 \$118,054 (2020 - \$117,012) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest margin by \$118,054 (2020 - \$117,102) 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.

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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.

	<u>(In thousands)</u>					2021	2020
	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year	Non-Interest Sensitive	Total	Total
Assets							
Cash and cash equivalents	11,127	5,005	-	-	1,553	17,685	12,069
Average yield %	0.26	0.92	-	-	-	0.42	0.18
Investments	2	5,365	6,231	31,777	1,930	45,305	45,194
Average yield %	0.26	0.92	1.76	1.68	-	1.53	1.61
Members' loans receivable and accrued interest	63,448	2,314	1,223	18,889	159	86,033	79,394
Average yield %	3.24	3.59	3.57	3.64	-	3.34	3.59
	74,577	12,684	7,454	50,666	3,642	149,023	136,657
Liabilities							
Member deposits	71,176	4,503	6,903	33,772	22,504	138,858	127,580
Average yield %	0.25	1.15	1.02	0.85	-	0.42	0.47
Accounts payable	-	-	-	-	108	108	80
Membership shares	-	-	-	-	8	8	8
	71,176	4,503	6,903	33,772	22,620	138,974	127,668
Net sensitivity	3,401	8,181	551	16,894	(18,978)	10,049	8,989

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.

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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

The primary liquidity risk policies and procedures include the following:

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

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

The following table details contractual maturities of financial liabilities:

As at December 31, 2021:

	<i>(In thousands)</i>			
	< 1 year	1-2 years	> 3 years	Total
Member deposits	105,086	9,674	24,098	138,858
Accounts payable	108	-	-	108
Membership shares	-	-	8	8
Total	105,194	9,674	24,106	138,974

As at December 31, 2020:

	<i>(In thousands)</i>			
	< 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

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

As at December 31, 2021:

	<i>(In thousands)</i>			
	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	17,685	-	-	17,685
Investments	13,528	9,050	22,727	45,305
Member loans receivable	67,144	4,325	14,564	86,033
Total	98,357	13,375	37,291	149,023

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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

As at December 31, 2020:

	<i>(In thousands)</i>			
	< 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

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:

<i>(In thousands)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>2021 Level 3</i>
Financial assets				
Cash	1,553	1,553	-	-
SaskCentral and Concentra Bank shares	1,685	-	-	1,685
Other equity instruments	1,092	-	1,092	-
Total financial assets	4,330	1,553	1,092	1,685
<i>(In thousands)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>2020 Level 3</i>
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

Luseland Credit Union Limited
Notes to the Financial Statements
For the year ended December 31, 2021

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

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:

					2021
<i>(In thousands)</i>	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at amortized cost					
Cash equivalents	16,132	16,132	16,132	-	-
Investments	42,528	42,979	-	42,979	-
Member loans receivable	86,033	85,823	-	85,823	-
Total financial assets	144,693	144,934	16,132	128,802	-

**Financial liabilities measured at
amortized cost**

Member deposits	138,858	138,461	-	138,461	-
Accounts payable	108	108	-	108	-
Membership shares	8	8	-	-	8
Total financial liabilities	138,974	138,577	-	138,569	8

					2020
<i>(In thousands)</i>	Carrying amount	Fair value	Level 1	Level 2	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

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

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

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

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

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

20. Commitments

In 2016, the Credit Union entered into a seven year commitment with Celero for the provision of retail banking services. In 2021, the agreement was extended another three years. The annual operating fee is calculated based on the average number of outstanding accounts throughout the year. The annual operating fees for the year ended December 31, 2021 were \$59,818 (2020 - \$60,454) and recorded as an expense. The annual estimated fee for the year ended December 31, 2022 is \$58,713 (2021 - \$59,818).

In 2018, the Credit Union entered into an agreement to purchase units in the APEX III Investment Fund. The Credit Union makes advances to the Fund when requested which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2021 the Credit Union has advanced \$244,004 (2020 - \$131,795) of their total commitment of \$500,000 (2020 - \$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 2021 the Credit Union has advanced \$400,000 (2020 - \$400,000) of their total commitment of \$500,000 (2020 - \$500,000) to the Westcap MBO II Investment Fund.

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

In 2021, the Credit Union entered into a commitment with Celero on a project called Xpress for the provision of digital banking services. The initial implementation fee for the year ended December 31, 2021 was \$50,000. There is a commitment to pay the remaining implementation fee of \$50,000 in the year ended December 31, 2022.

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, 2021, the Credit Union had provided approximately 55 (2020 - 37) members with CEBA loans and had funded approximately \$3,220,000 (2020 - \$1,480,000) in loans under the program.

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

23. Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation.

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 35 credit unions in Saskatchewan serving 205 communities through 232 service outlets.
- Credit unions offer financial products and services to more than 490,000 members.
- Saskatchewan credit union assets reached over \$27.4 billion with revenue of over \$1.03 billion.
- Credit union lending amounts were over \$20 billion.
- There are 332 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 \$39.8 million to more than \$6.8 billion.
- In 2021, Saskatchewan credit unions returned over \$7.7 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 3,300 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 2021

January 2022

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.