BENGOUGH CREDIT UNION

Built on tradition. Caring for your future.

Saskatchewan Credit Unions

saskcu.com

MISSION/VISION

"Working together to build
a better community &
provide our
best possible service
anywhere, anytime,
anyway."

Bengough Credit Union

Bengough, Saskatchewan

Incorporated: June 16, 1943

Credit Union Charter No. 102

Officers

President	Daniel Kerslake
Vice-President	Kelly Shaver
Secretary/Treasurer	Katrina McCuaig

Directors

Name	Occupation	Term
Daniel Kerslake	Retired Town Foreman	2025
Alvery Birchard	Farmer	2025
Troy Haugen	Farmer/Health Care Maintenance	2025
Bryant Boynton	Farmer	2023
Rodney Frey	Farmer	2023
Trevor Hoffart	Class 1A Truck Driver	2023
Jeffrey Cleveland	Farmer/Department of Highways	2024
Kelly Shaver	Farmer/Rancher	2024
Gerald Schropp	Farmer/Rancher	2024

STAFF

Katrina McCuaig	General Manager
Debbie Hazen	Loans Manager
Daniel Bailey	Deposit Manager
Haley Russell	Loans Officer I
Charla Holbrook	Loans Clerk/Officer
Kristie Hoffart	Clearing Admin Clerk
Karysa Yeast	MSR/Clearing Admin Backup
Naomi Cleveland	Member Service Representative
Jaimee Lowry	Member Service Representative (Part Time)

Built on tradition. Caring for your future.

2022 ANNUAL REPORT
BENGOUGH CREDIT UNION
80^{TH} ANNUAL MEETING
THURSDAY, MARCH 23, 2023

AGENDA

1) REGISTRATION

2) INTRODUCTION OF GUESTS

3) CALL TO ORDER - APPOINTMENT OF SECRETARY

4) CONFIRMATION OF THE QUOROM PRESENT

5) CONFIRMATION OF NOTICE OF MEETING INCLUDING NOTICE OF DIRECTOR NOMINATION BY MOTION

6) PRIVILEGES OF NON-MEMBERS AT THE MEETING

7) APPROVAL OF AGENDA

8) READING & ADOPTION OF THE MINUTES OF THE LAST ANNUAL MEETING - MARCH 24, 2022

9) BUSINESS ARISING OUT OF THE MINUTES

10) DIRECTOR'S REPORT, LOANS MANAGER AND GENERAL MANAGER REPORTS

11) ADOPTION OF REPORTS

12) 2022 FINANCIAL STATEMENT PRESENTATION AND AUDITORS REPORT

13) ADOPTION OF FINANCIAL REPORTS

14) APPOINTMENT OF AN AUDITOR FOR 2022

15) ELECTION OF DIRECTORS

16) DECLARATION OF OFFICE BY THE OFFICIALS

17) PRESENTATION OF AWARDS - STAFF AND DIRECTORS

18) GUEST SPEAKER – CYBER SECURITY

19) DRAW FOR DOOR PRIZES

20) OTHER BUSINESS

21) ADJOURNMENT

ANNUAL MEETING OF THE MEMBERS OF
BENGOUGH CREDIT UNION

1. Proof of Notice:

CANADA)	I **Katrina McCuaig**
)	
PROVINCE OF SASKATCHEWAN)	of the Town of Bengough
	In the Province of Saskatchewan
	Secretary – Treasurer of the
	Bengough Credit Union

TO WIT:
That I have personal knowledge that the notice of this annual meeting was duly prepared and given to its members, as required by the Bylaws of the Credit Union.

NOTICE was posted on February 23, 2023.

And published in the Assiniboia Times on March 2nd, 9th & 16th 2023.

Sworn before me at the Town of Bengough)
In the Province of Saskatchewan this)
3rd day of March, 2023)

)	Katrina McCuaig
A Commissioner for Oaths in and for)	
Saskatchewan.)	
My Appointment expires)	
March 31, 2024)	

2. Quorum:
The executive committee reported that there were _____ members and _______ visitors present at the meeting. Thereupon the president announced that legal notice of the meeting had been given, that a quorum was present, and that the meeting was now regularly and lawfully convened and ready to transact business.

ANNUAL MEETING OF THE MEMBERS OF THE

BENGOUGH CREDIT UNION

MARCH 23, 2023

Affidavit of Completion of Reports

I, Katrina McCuaig, General Manager of Bengough Credit Union, make oath and say that:

The Auditor's Report and Financial Statement were made available to the Membership on March 3rd , 2023, which is at least 10 days prior to the Annual Meeting.

SWORN BEFORE ME AT THE TOWN)
OF BENGOUGH, IN THE PROVINCE OF)
SASKATCHEWAN, THIS 3rd DAY) Katrina McCuaig
OF MARCH, 2023)

A Commissioner for Oaths in and
For the Province of Saskatchewan
My Commission expires: March 31, 2024

Bengough Credit Union
Annual Meeting Minutes of March 24, 2022

The 79th annual meeting of the Bengough Credit Union was held at Bengough Memorial Hall with 17 members present and 1 guest calling in.

Dan Kerslake introduced Sheila Filion, from Virtus Group audit firm.

President Dan Kerslake called the business portion of the meeting to order at 7:05 pm. and appointed Katrina McCuaig as secretary for the meeting.

Confirmation of Quorum (the lessor of 15 members or 10% of eligible members to vote) there were 17 members present therefore a quorum was declared.

Confirmation of notice of meeting & directors' nomination: The affidavit was presented stating that an advertisement was placed in Assiniboia Times paper on March 4th, 11th & 18th 2022 issues. Meeting posters were placed in the Bengough, Viceroy and Willow Bunch branches, on Facebook & the Bengough Community digital sign on February 24th, 2022.

It was noted that non-members are allowed to be present but cannot vote on any motions.

Dennis Mazenc/Kristie Hoffart moved that the agenda be approved as presented. **Carried**

Valerie Mazenc/Jeffrey Cleveland moved that the minutes of the March 25th, 2021 annual meeting be approved as read. **Carried**

There was no business arising out of the 2021 minutes.

Reports:

Daniel Kerslake presented the Director's Report, Deb Hazen presented the Credit Committee Report and Katrina McCuaig presented the Manager's Report. Daniel Kerslake asked if there were any questions from the Director's, Credit Committee and Manager's reports as printed in the Annual Report.

Bryant Boynton/Al Birchard moved that the Directors, Credit Committee and Managers reports be approved as presented. **Carried**

Sheila Filion presented the Auditors Report and the audited annual financial statement. Sheila informed the membership that Bengough Credit Union had a fairly good year in 2021, despite the challenges faced through the Pandemic. **Trevor Hoffart/Rod Frey** moved that the 2021 Audited Financial Statements for Bengough Credit Union be approved as presented. **Carried**

On behalf of the Audit Committee, Jeffrey Cleveland recommended Virtus Group be appointed as auditors for 2022.

Jeffrey Cleveland/Bryant Boynton moved that the audit firm of Virtus Group be appointed the auditors of Bengough Credit Union for 2022. **Carried**

Jeffrey Cleveland presented the Election of Directors result. The terms of office for Daniel Kerslake, Troy Haugen and Al Birchard expired on March 31, 2022. Nominations for directors were advertised in the local bulletin, Facebook, community digital sign and on posters. Nomination forms had to be into the credit union by March 11, 2022. The Nomination Committee presented the names of Daniel Kerslake, Troy Haugen and Al Birchard. **Dennis Mazenc/Donald Bailey** moved that Daniel Kerslake, Troy Haugen and Al Birchard be appointed/elected to the board of directors of Bengough Credit Union each for a three-year term. **Carried**

Katrina McCuaig informed the membership that the "Declaration of Office and Oath of Secrecy" would be signed in the office by the board at the next board meeting and by the staff on their next working day.

Daniel Kerslake announced the following 2021 service awards for staff and directors:

Staff	No Staff awards Eligible for 2021	
Director	Trevor Hoffart	10 Years

Other Business:

No other business to record.

Door Prizes awarded to Dennis Mazenc, Daniel Bailey, Daniel Kerslake, Haley Russell, Bryant Boynton, Rod Frey, Al Birchard, Jeffrey Cleveland & Donald Bailey.

Jeffrey Cleveland adjourned the meeting at 7:43 pm.

PRESIDENT

Katrina McCuaig

SECRETARY

Board of Director's Report

Welcome to our organizations 80th annual meeting. Bengough Credit Union is an independent Saskatchewan credit union, democratically controlled by our membership. Under current legislation, we can provide financial services to members and non-members. Non-members do not participate in the democratic process of the credit union.

Your directors are accountable to you, the membership. This is your opportunity to elect members to the board and receive the reports for the previous year. We also appreciate the input you provide into our democratic process.

2022 was another successful year Bengough Credit Union. Part of our giving back to the communities we serve we donated a total of **$116,000**. We donated to **$30,000** to Bengough & RM Fire Association, **$30,000** to Bengough Swimming Pool Renovation, **$30,000** to Bengough Agricultural Society, **$10,000** to Bengough Curling Rink, **$1,000** to Bengough Jumpin' Beans, **$1,000** to Bengough Library, **$1,000** to Bengough Museum, **$1,000** to Twilight Home Auxiliary, **$3,000** to Bengough Community Centre, **$5,000** to Bengough Charity Dinner, **$1,000** to New Horizon Searchers, **#$1,000** to Willow Bunch Museum & **$1,000** Willow Bunch Skating Rink.

You will be voting for three directors this year. The three board members whose terms are expiring are Bryant Boynton, Rodney Frey and Trevor Hoffart.

A term on the board lasts three years. The nomination committee consists of the most recently elected directors. This includes Daniel Kerslake, Alvery Birchard and Troy Haugen. The nomination committee oversees the nomination and election process. The nomination for election on the Board of Directors was advertised in the Bengough Bulletin, Town of Willow Bunch FB page and on posters. Nominations closed on March 10, 2023.

Your board continues to take annual training to meet the challenges of increased self-governance and regulatory demands. We thank our board for their volunteer commitment. We need the boards commitment to attend meetings consistently and do the training to remain strong.

In closing, I again, thank my present fellow board members for their commitment to Bengough Credit Union, and to the staff for a job well done. We continue to look to the future so that Bengough Credit Union will be able to provide quality service and affordable financial products to our membership for years to come.

Respectfully Submitted by:
Dan Kerslake, President
Bengough Credit Union, Board of Directors

Annual Credit Committee Report – Annual Meeting March 23, 2023

In 2022, Bengough Credit Union experienced a decrease in net performing loans, from $42,816,714 as of December 31, 2021, to $41,788.798 as of December 31, 2022, a decrease of $1,027,925.00 or 2.4%. Increased input costs, and higher interest rates have people paying their loans off early with the extra cash that they had saved during COVID, and not taking any new loans, because of all the uncertainties with drought, grasshoppers, lower calf and commodity prices, and extremely high inputs and feed costs. It is a very uncertain time that we are going through right now.

Bengough Credit Union loans department and Credit Committee approved 127 loans valued at $8,645,859 in 2022. This includes loans, mortgages, loan extensions, loan amendments and new lines of credit for consumers, agricultural and commercial members of the Bengough Credit Union.

Our loan portfolio mix targets are between 65% and 72% of loans to assets. Bengough Credit Union was 46.13% lent out at the end of 2021, and 45.49% lent out at the end of December 31, 2022, a decrease of 2.4%. With the tough times that most of the country is facing right, 2.4% drop is not terrible, hopefully rain this spring and summer will change things around, people will start borrowing again, and have a better outlook on things.

2022 was another rough year in lending with the COVID Pandemic still dragging on for the first part of year, political uncertainty, war between Russia and the Ukraine, and so many other things fueling the uncertainty. Prices rising on everything from inputs, implements, to groceries and daily required items. People started getting out at the end of year to try to resume a normal life again. Vacationing, travelling to different concerts and sporting events, shopping, using up a lot of the spare cash from their savings in turn lowering deposits.

Bengough Credit Union deposits dropped by 3.1% in 2022. They dropped from $84 million to just over $81.5 million by the end of 2022. Increased spending after the Pandemic, inflation, commodity prices dropping from the previous year, and increased cost of living resulted in this decrease.

We currently hold at the end of December 2022 - $4,018,687.29 in CEBA loans from the government. We had around 73 CEBA loans approved at our branch from 2020-2021, there has only been a hand full of people who have paid their CEBA loans back, deadline is now December 31, 2023, for most, or otherwise it turns into a new loan at 5% interest.

We currently hold $6,259,138.13 in Government Guaranteed CALA Loans, this program helps beginning farmers (less than six years farming income) with the opportunity to only have 10% down instead of the usual 25% down. The borrower then pays a one-time fee to the government of 0.85% of the amount being borrowed. This then in turn gets the borrower a better interest rate of Prime + 1% on payments anywhere from monthly to annual instead of the usual Credit Union Rates. The CALA program also works for existing farmers (more than six years farming income). These existing farmers are only required to put down 20% instead of the usual 25%, the 0.85% fee still applies the same way. These loans also give the Credit Union a better risk rating on the loan.

The program allows equipment borrowings of $350,000 per borrower, $500,000 for land, construction or improvement of buildings, or a maximum aggregate loan limit of $500,000 between equipment & land. They are currently trying to get these numbers increased because it just does not cover the price of land and equipment. The government is also thinking of scrapping the program as not many other provinces use it other than Saskatchewan and Manitoba. We will have to wait and see what they decide. It is a good program that is widely used at our Credit Union.

As of December 31, 2022, Bengough Credit Union held $5,790,056 in residential mortgages. Our residential mortgage portfolio consists of $4,947,749.00 uninsured, and $842,307 insured by Canada Mortgage and Housing Corporation (CMHC). CMHC Mortgage numbers have decreased as we have lost a quite a few mortgages that members have refinanced elsewhere at a much lower rate.

We started enforcing prepayment penalties to stop some of these mortgages from leaving as we are far too soft compared to other financial institutions, and after last year, I believe that we need to enforce an even stronger policy to prevent this from continuing. CMHC has tougher lending criteria now with an interest rate balloon test in place, to see if people could afford their mortgages with a rise in interest rates. There is still an option of only requiring 5% down, but that comes with a hefty premium to CMHC, that is non-refundable. Hard to push, with the premium attached, but might still work for borrowers with a small down payment. There is also a slight difference in interest rates on a CMHC mortgage compared to a regular Credit Union mortgage requiring 25% down. These are competitive times right now with the major banks and FCC providing extremely aggressive rates that we cannot compete with. We really need to promote our personalized service and the ability to be able to talk to people in person, unlike other institutions, where no one will get back to you for a week if you are lucky or talking to a Call Centre from who knows where. Local Credit Unions are all about the personable service that we provide.

We offered a Loan Sale from June to December 2022, with lower rates to entice people to borrow, offering CALA rates without having to pay the CALA premiums, or first time home buyers only having to apply 15% down instead of the required 20% - 25% down and offering CMHC rates if you put 25% down and made monthly payments, this in turn brought in some good loans, but not as much as we first thought as the prices of everything continued to sky rocket. A lot of building projects were put on hold because of the extreme increases in lumber and other products. Younger generation building new houses as an example.

Loan delinquency has also decreased the last couple of years dropping from 2.57% of all performing loans to 0.00% in delinquency greater than ninety days.

As with every year we would like to send out a friendly reminder to all, that as members applying for credit it is important that the documentation on file is current. This includes most recent tax returns, financial statements, farm updates etc., with your help we can process your loan application promptly when this information is readily accessible to the lending staff. We are not being nosy, as our regulators & auditors have put in place strict lending policies of proving out that a member can meet their obligations. It simply is not as big of priority that you have the collateral for the loan, yes, it is very important, but that alone does not qualify you to be able to borrow. Times have changed, and we must do more to prove out your borrowing qualifications, causing the lending staff more time and work to complete the process. Please be understanding.

I would like to take this opportunity to thank all our members for their continued support, and to the Credit Union Staff for your hard work and dedication and to the Board for their continued support during changing times over the last couple of very difficult years.

Respectfully Submitted By:
Debbie Hazen
Loans Manager

The chart below shows the amount of loans and leases held by consumer, agriculture and commercial members and non-members of the Bengough Credit Union:

LOANS, Line of Credits and Overdrafts	Loans	Impaired	Net Loans
Consumer Loans			
Non-Mortgage	$418,876		$418,876
Conventional Mortgage	$5,790,056		$5,790,056
CMHC Mortgage	$842,307		$842,307
Participation Loans	$0		$0
Total	**$7,051,239**		**$7,051,239**
Agricultural Loans			
Non-Mortgage	$4,623,707		$4,623,707
Mortgage	$17,106,613		$17,106,613
Government Guaranteed	$6,259,138		$6,259,138
Participation Loans	$0		$0
Leases – Concentra & Calidon	$3,075,516		$3,075,516
Total	**$31,064,974**		**$31,064,974**
Commercial/Local Government			
Non-Mortgage	$429,661		$429,661
Mortgage	$594,008		$594,008
Government Guaranteed	$0		$0
Local Government	$130,000		$130,000
Participation Loans	$0		$0
Leases – Concentra & Calidon	$0		$0
Total	**$1,153,669**		**$1,153,669**
Line of Credits and Overdrafts			
Line of Credits	2,511,745		$2,511,745
Overdrafts	$7,162		$7,162
Total	**$2,518,907**		**$2,518,907**
TOTAL LOANS, L/C and Overdrafts	**$41,788,789**		**$41,788,789**

Management Discussion and Analysis

Vision, Mission and Values

"Working together to build a better community and provide our best possible service – **anywhere, anytime, anyway**."

Credit Union Market Code

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

- Complaint handling, which outlines the process for dealing with all complaints regarding the service, products, fees or charges of Bengough Credit Union.
- 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 advice members/clients on the risks and benefits associated with financial planning services.
- Privacy to protect the interests of those who do business with Bengough Credit Union. 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 Bengough Credit Union 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 Bengough Credit Union.
- Risk management to ensure all risks are measured and managed in an acceptable fashion.

Co-operative Principles

As a true co-operative financial institution, Bengough Credit Union 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 organized in a democratic manner.

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

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

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

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

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

Introduction

Bengough Credit Union is an independent regional Saskatchewan credit union owned by our members. Under the current credit union legislation, Bengough Credit Union is able to provide financial services to members and non-members. As at December 31, 2022 Bengough Credit Union had 1392 members and no non-members. Non-members do not participate in the democratic processes of the credit union nor the patronage program when a payout is possible.

Our credit union serves the communities of Bengough, Viceroy and Willow Bunch and the entire surrounding areas through our 3 branches. In our trading area, we provide access to a full range of financial services including [Chequing accounts, Savings accounts, Registered Retirement Savings Plans, Registered Retirement Income Funds, Tax Free Savings Accounts, Registered Education Savings Plans, Registered Disability Savings Plans, Agriculture loans, Commercial loans, Consumer loans, Leasing plus access to a broad range of financial products and services that are available from our strategic partners].

Strategy

The vision of Bengough Credit Union is to provide access to financial services including deposit and loan services in the Bengough, Viceroy, Willow Bunch and surrounding communities of Saskatchewan. To monitor specific objectives throughout the year that support this vision, we have developed targets that we measure throughout the year to monitor our progress toward achieving our goals.

Our key strategic objectives in 2022 were to have balanced growth by maintaining our financial position, to develop our people (membership, board and staff) through education and succession planning, to continue our business development through our ongoing planning, alliances and development and ultimately to keep our membership informed of our plans and the services and products that are available to them through our website and advertising. Interest margins were relatively stable in 2022. Bank of Canada prime rate increased 4 times ending at 5.45%. With the interest rates increase we have been able to maintain our capital position. The board of directors has set a target of 10.5% for our Tier 1 Capital which was at 10.12% as of December 31, 2022 up from December 31, 2021. The target for Risk Weighted Capital was between 11 - 15% which was 20.92% as of December 31, 2022 up from December 31, 2021. The continued support of our membership and Sale of the SaskCentral Share enabled us to grow our capital by $1,681,000. By having a strong capital position this enables Bengough Credit Union to keep our member deposit rates at market or higher and loan rates relatively competitive. This also enables us to keep service charges at a minimum.

Meeting the goal of our vision requires that Bengough Credit Union not only attract new members but preserve existing quality memberships as well. To support our objective of increased customer loyalty continued employee training is always ongoing. The goal of this training is to enhance the members experience when they approach the credit union and give you the Membership the best possible service.

Results

Enterprise Risk Management

Each year our credit union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our members 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. Bengough Credit Union has entered into an agreement with SaskCentral to provide us with a facilitator that leads the Key Management People through a process of identifying our major risks and what mitigating factors are in place for each risk. A document is compiled that is then shared with the whole board of directors and plans are developed for each major risk and how the credit union will deal with the risk. Some of the key risks that were identified in 2021 are as follows:

- Operation – The risk the credit union is unable to recruit qualified people if our current people chose to retire or leave unexpectedly, threatening our long-term sustainability.
- Operation – The risk we will not be able to keep pace with or afford technology changes, resulting in decreased relevance to members.

- Operation – Risks arising from IT and cybersecurity (including governance thereof) will negatively impact member experience.
- Strategic – The risk that outsourcing/collaboration may not be available and negatively impacting our profitability.
- Strategic – Inability to increase wallet share with existing members threatens our long-term profitability and sustainability.
- Strategic – Our people are reluctant to embrace a proactive and anticipatory culture to actively engage members, resulting in decreased relevance to members.
- Credit – The risk the credit union incurs significant losses on its credit portfolio resulting in decreased profitability and capital strength.
- High concentration of local agricultural/ranching loans exposes the credit union to risks from weather and commodity related risks, negatively impacting profitability.

Strategic Risk

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

The board of directors has determined that our risk is low in this area.

Market Risk

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

We have assessed our market risk as low. The credit union remains competitive on rates.

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.

Bengough Credit Union's liquidity plan outlines the framework that ensures Bengough Credit Union maintains sufficient liquidity. Bengough Credit Union manages its investments and daily liquidity internally. Management will continue to ladder investments to meet daily demands, monitor cash flows, adhere to the investment list as per policy and will monitor operating requirements on a regular basis.

Bengough Credit Union's liquidity and investment policies are reviewed annually. In addition, the liquidity plan is updated on an annual basis and approved by the Board of Directors.

Bengough Credit Union's Risk Appetite statement currently articulates the credit union's liquidity risk tolerance for operating liquidity.

Bengough Credit Union's liquidity plan addresses risk exposures and funding capacity. SaskCentral has developed a liquidity crisis plan and an inter-central liquidity agreement that Bengough Credit Union has incorporated into its liquidity plan.

Management calculates the liquidity coverage ratio (LCR) on a quarterly basis and provides reporting on the LCR at quarterly board meetings. The liquidity plan identifies how liquidity is monitored. The minimum LCR ratio set in The Standards from Credit Union Deposit Guarantee Corporation is 100%. Bengough Credit Union demonstrates a strong and stable liquidity management practices with an LCR ratio consistently higher than regulatory minimums. As of December 31, 2022 our LCR was 850.75%.

Bengough Credit Union's liquidity plan addresses contingency funding and outlines strategies for addressing emergency situations.

Bengough Credit Union's board addresses costs, benefits and risks when decisions are made to significant business activities.

Bengough Credit Union maintains a line of credit with SaskCentral and a Quick Line with Concentra Bank. The main sources of liquidity funding are through SaskCentral or Concentra Bank.

We have rated our liquidity risk as low to moderate. Member deposits slightly decreased in 2022 but the credit union was able to maintain adequate liquidity with strategic investment matching. This is an ongoing risk to our organization because of the business we are in. Monitoring our liquidity requirements is ongoing and will be ongoing in the future. The credit union is always looking for ways to attract more business to our organization and to attract a larger wallet share of our existing members. The credit union has been part of the community for 80 years and our plans are to remain in the community.

As of December 31, 2022 Bengough Credit Union held $8,480,792 of liquidity deposits at SaskCentral, which represented 10.3% of our Liabilities. The minimum standard set for credit unions is 10% and Bengough Credit Union meets this requirement at all times.

Credit Risk
Credit risk is the risk of loss arising from a borrower or counter party's inability to meet its obligations.

The board has determined that this risk is moderate, which is the same as last year. Credit risk is inherent to our business and if we are not taking sufficient risk, we are not maximizing the return to the organization. Our organization has stayed relatively conservative in this area compared to some others but that is due to the conservative nature of our members and community.

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

The board of directors has not identified any specific risk in this area. The ongoing training of board and staff has helped the organization mitigate any risks for this area. We rely on the contracts we have in place with SaskCentral to assist us with our Enterprise Risk Management and Internal Audit processes to monitor our processes.

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.

The board of directors has determined three key risks in this area, which are the impact on not being able to recruit qualified people if our current people choose to retire or leave unexpectedly, the impact on profitability due to high cost of keeping pace with technological advancements and the risks arising from IT and cybersecurity negatively impacting member experiences.

These risks are also inherent to our organization due to our size and the market that we operate in. The board of directors reviews our succession plan regularly to determine its relevance to the organization and the market we are in. The same goes for our Business Continuity plan. Being we are one of the smaller credit unions in the province, we have also found it beneficial to enter into agreements for certain services from suppliers and other organizations instead of having additional expert staff hired. These agreements have enabled us to have access to experts in certain fields that we would not be able to afford if we did not have the agreements. Some of our contracts are with SaskCentral (ERM, Internal Audit, Strategic Planning, Anti-Money Laundering, etc.).

The key risk to our credit union in this area is the risk of attracting and retaining appropriately skilled people for both board and staff. If we cannot attract qualified directors or employees, we will not be able to stay as an autonomous credit union. Our board is working very hard in this area.

Regulatory Matters

Corporate Structure and Governance

The governance of Bengough Credit Union is anchored in the co-operative principle of democratic member control.

Board of Directors

Mandate and Responsibilities

The board is responsible for the strategic oversight, business direction and supervision of management of Bengough 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 Credit Union Deposit Guarantee Corporations *Standards of Sound Business Practice* and other applicable legislation.

Directors

Board Composition

The board is composed of nine individuals elected by the membership. Terms are for 3 years with three terms expiring each year so that not all directors' terms expire at the same time. This year we had three terms of office open for election.

Nominations are made by an individual filling out a nomination form and having it endorsed by another member of the credit union. The form lists the qualifications of a director and the individual is signing that they do qualify to be a director. Nominations are open for a two-week period each year according to policy and regulations of the credit union that also meet the requirements of the Credit Union Act (1998). If more nominees come forward than vacancies open there will be an election held. Voting is by paper ballot at the annual meeting, according to policy. The election results are announced at Bengough Credit Union's annual general meeting.

Committees

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

- **Audit/Risk Committee**
  The Audit/Risk Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators, and reviews internal control procedures. The committee consists of five directors plus the board chairperson. The board determines the skills and abilities needed on the committee and chooses its members accordingly. This committee also reviews policy and makes recommendations to the board for approval of the policy sections reviewed.

- **Nominating Committee**
  The Nominating Committee oversees the nomination and election processes for elections of credit union directors. The committee is chosen through the annual re-organization meeting of the board of directors. The committee is compiled of the three board of directors who were most recently elected.

- **Conduct Review Committee**
  The Conduct Review Committee ensures that Bengough 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. The committee is chosen through the re-organization process that is held each year within 30 days of the annual meeting. This committee has three directors appointed.

- **Executive Committee**
  The Executive Committee is compiled of three directors. The purpose of this committee is to act in the capacity of, and on behalf of the board of directors between regular or special board meetings on all board matters except those which the board may not, in compliance with legislative requirements, delegate.

Compensation and Attendance

The directors are compensated for their time and out of pocket expenses as per policy on an annual basis. The remuneration rates are set annually at the re-organization meeting. The mileage reimbursement rate is set in policy to follow SaskCentral's rate. In 2022, the board had budgeted for $24,600 for board compensation and mileage and the actual amount disbursed was $15,614.06.

The directors are expected to be at a majority of the meetings and they cannot miss more than three consecutive meetings without just cause. In 2022, the board attendance record was 71.29% for regular meetings.

Director Training

The directors of the credit union participate in the national Credit Union Director Achievement (CUDA) program. There are sessions available throughout the year and directors try to attend when they can.

Corporate Social Responsibility (CSR)

The credit union supports many organizations and events in the community throughout the year. In addition to the donations and sponsorship, the credit union directors and staff are involved in many community organizations and events. Giving back to the community is a big part of social responsibility.

Capital Management

As previously mentioned in this report, the credit union's board of directors has set our Tier One Capital target at 10%. As of December 31, 2022, our Tier One Capital was at 10.12%. The board has also set our Risk Weighted Capital target between 11 – 15% and as of December 31, 2022 we were at 20.92%. The system requirements are >5% for Tier One Capital and 10.5% for Risk Weighted Capital. We are significantly higher than the system standards but it is also necessary for a smaller organization to have higher targets. These capital targets gives the credit union a cushion for the risks associated with our industry. For example, our capital has enabled us to ride out the lower interest rate market that we were in.

Respectfully Submitted by:
Katrina McCuaig, General Manager

BENGOUGH CREDIT UNION

BENGOUGH, SASKATCHEWAN

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
DECEMBER 31, 2022

MANAGEMENT'S RESPONSIBILITY COMMUNICATION

To the Members,

Bengough Credit Union

Management has responsibility for preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial statements to members lies with the Board of Directors. An Audit Committee of Directors is appointed by the Board to review financial statements in detail with management and to report to the Board of Directors prior to their approval of the financial statements for publication.

Independent auditors appointed by the members audit the financial statements and meet separately with both the Audit Committee and management to review their findings. The independent auditors report directly to the members and their report follows. The independent auditors have full and free access to the Audit Committee to discuss their audit and their findings as to the integrity of the Credit Union's financial reporting and the adequacy of the system of internal controls.

General Manager

Chair, Audit Committee

VIRTUS GROUP
Chartered Professional Accountants & Business Advisors LLP

INDEPENDENT AUDITORS' REPORT

To the Members,
Bengough Credit Union

Opinion
We have audited the financial statements of **Bengough Credit Union**, which comprise the statement of financial position as at December 31, 2022, 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, 2022, and its financial performance and 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 Saskatchewan, 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.

Information Other than the Financial Statements and Auditors' Report Thereon
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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.

INDEPENDENT AUDITORS' REPORT continued

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement 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 significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

March 1, 2023
Regina, Saskatchewan

Virtus Group LLP
Chartered Professional Accountants

VIRTUS GROUP

BENGOUGH CREDIT UNION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022
(with comparative figures for 2021)

ASSETS

	2022	2021
Cash and cash equivalents (Note 4)	$ 3,034,320	$ 2,663,675
Investments (Note 5)	44,998,475	46,378,910
Loans receivable (Note 6)	42,201,351	43,239,796
Other assets (Note 7)	1,074,066	86,737
Property and equipment (Note 8)	234,355	267,520
	$ 91,542,567	$ 92,636,638

LIABILITIES

	2022	2021
Deposits (Note 9)	$ 81,871,161	$ 84,501,650
Other liabilities (Note 11)	516,319	596,287
Shares (Note 12)	6,960	6,965
	82,394,440	85,104,902

MEMBERS' EQUITY

	2022	2021
Retained earnings	9,148,127	7,531,736
Accumulated other comprehensive income	-	-
	$ 91,542,567	$ 92,636,638

APPROVED BY THE BOARD:

Director Director

"See Accompanying Notes"

BENGOUGH CREDIT UNION
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

	2022	2021
Retained earnings - beginning of year	$ 7,531,736	$ 7,292,853
Comprehensive income	1,616,391	238,883
Retained earnings - end of year	$ 9,148,127	$ 7,531,736
Accumulated other comprehensive income - beginning of year	$ -	$ -
Other comprehensive income	-	-
Accumulated other comprehensive income - end of year	$ -	$ -
TOTAL EQUITY	$ 9,148,127	$ 7,531,736

"See Accompanying Notes"

BENGOUGH CREDIT UNION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

	2022	2021
Interest revenue		
Loan	$ 1,934,182	$ 1,911,964
Investment	760,202	425,271
	2,694,384	2,337,235
Interest expense		
Borrowed money	12,172	2,309
Member deposits	716,215	690,396
	728,387	692,705
Net interest	1,965,997	1,644,530
Provision for credit losses	35,877	160,205
Net interest after provision for credit losses	1,930,120	1,484,325
Other income	1,310,931	182,566
Operating expenses		
General business	549,608	423,700
Occupancy	83,006	76,318
Organizational	56,866	52,938
Personnel	756,859	760,814
Security	101,947	102,413
	1,548,286	1,416,183
Income before income taxes	1,692,765	250,708
Income taxes (Note 17)		
Current	95,274	23,725
Deferred (recovery)	(18,900)	(11,900)
Net income before other comprehensive income	1,616,391	238,883
Other comprehensive income	-	-
Comprehensive income	$ 1,616,391	$ 238,883

"See Accompanying Notes"

BENGOUGH CREDIT UNION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

	2022	2021
Cash provided by (used in) operating activities:		
Comprehensive income	$ 1,616,391	$ 238,883
Items not involving cash:		
- Amortization	45,184	38,489
- Provision for credit losses	35,877	160,205
Net change in other assets and other liabilities	(1,067,299)	289,070
	630,153	726,647
Cash provided by (used in) investing activities:		
Investments	1,380,435	(18,420,084)
Loans receivable	1,002,569	2,403,886
Property and equipment	(12,019)	(24,732)
	2,370,985	(16,040,930)
Cash provided by (used in) financing activities:		
Deposits	(2,630,488)	14,253,942
Shares	(5)	(25)
	(2,630,493)	14,253,917
Increase (decrease) in cash	370,645	(1,060,366)
Cash position - beginning of year	2,663,675	3,724,041
Cash position - end of year	$ 3,034,320	$ 2,663,675

"See Accompanying Notes"

1. Incorporation and governing legislation

Bengough Credit Union is a for profit corporation governed by *The Credit Union Act, 1998* in the Province of Saskatchewan, Canada. The Credit Union's registered office is located in Bengough, Saskatchewan. The Credit Union provides financial services to customers through three branches in Bengough and the surrounding area.

In accordance with *The Credit Union Act, 1998,* Credit Union Deposit Guarantee Corporation (CUDGC) regulates all credit unions in Saskatchewan. CUDGC establishes Standards of Sound Business Practices, provides regulatory guidance and guarantees the repayment of all deposits, including accrued interest. If a credit union is not in compliance with the standards or regulatory guidance, CUDGC has the authority to take necessary action, which may include reducing or restricting the credit union's authorities and limits, taking preventative actions, issuing a compliance order, placing the credit union under supervision or administration, or issuing an amalgamation order.

2. Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with Part I of the CPA Canada Handbook - International Financial Reporting Standards (IFRS). The financial statements comply with IFRS adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on March 1, 2023.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability the Credit Union takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value, but are not fair value, such as value in use on impairment.

The Credit Union follows a fair value hierarchy to categorize the inputs used to measure fair value into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

3. Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these financial statements.

Use of estimates and judgements

The preparation of the financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, as well as, the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant uses of judgements and estimates are as follows:

(i) Valuation of Financial Instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described further in Note 2. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include consideration of liquidity and other risks affecting the specific instrument.

(ii) Allowances for Credit Losses

Specific allowances are applied to financial assets evaluated individually for impairment. In particular, management judgement is required to estimate the amount and timing of cash flows the Credit Union expects to receive. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

The expected credit loss model requires the recognition of twelve months of expected credit losses for performing loans, and of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk requires experienced judgement and considers a number of different factors that vary by product and risk segment. Some of these factors are based on forecasts of future economic conditions. The recognized expected credit losses are determined using these estimates, which may be materially different from actual credit losses realized.

3. Summary of significant accounting policies continued

Financial instruments

All financial instruments are initially recognized at fair value plus transaction costs, except in the case of financial assets and liabilities classified as fair value through profit or loss (where transaction costs are expensed). The classification of financial assets at initial recognition depends on the entity's business model for managing financial assets and the contractual cash flow characteristics of the instrument. The Credit Union uses settlement date accounting for regular way contracts when recording financial asset transactions. All financial instruments are classified as fair value through profit or loss, amortized cost or fair value through other comprehensive income.

The business model used by the Credit Union is a key consideration for the classification of financial assets. The two primary models are to hold financial assets to collect contractual cashflows, or to hold financial assets to collect contractual cashflows and sell financial assets. The Credit Union's business model is to hold financial assets to collect contractual cash flows.

Embedded derivatives not separated from the host contract, with the contract treated as one instrument at initial recognition. The classification is determined based on an assessment of the contractual cashflow characteristics and the business model under which it is managed.

Fair value through profit or loss

Financial assets and liabilities are classified as fair value through profit or loss (FVTPL) when the instruments are:

- Held for trading purposes,
- Part of a managed portfolio with a pattern of short term profit taking,
- Non trading financial assets that do not consist solely of payments of principal and interest (SPPI), or
- Voluntarily designated as such.

Equity instruments are measured at FVTPL unless the asset is not held for trading purposes and an irrevocable election to classify as fair value through other comprehensive income is made.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized immediately in profit or loss.

The Credit Union has classified the following financial assets and liabilities as FVTPL:

Cash
Concentra Trust preferred shares
MDL Real Estate Income Fund Limited Partnership
National Consulting Limited common shares
SaskCentral shares

The Credit Union has not voluntarily designated any financial instruments as FVTPL.

3. Summary of significant accounting policies continued

Amortized cost

Financial assets classified as amortized cost are debt financial instruments with contractual cash flows that consist solely of payments of principal and interest (SPPI) and are managed on a hold to collect basis. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset, and a profit margin. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

All financial liabilities are classified as amortized costs unless it has been classified as fair value through profit or loss.

The Credit Union has classified the following financial assets at amortized cost:

SaskCentral investments
Corporate bonds
Loans receivable
Accrued interest
Deposits
Other liabilities
Shares

Fair value through other comprehensive income

Financial assets are classified as fair value through other comprehensive income (FVOCI) when the financial assets:

- Are held within a business model that is to hold to collect contractual cashflows and sell financial assets,
- Have contractual terms that give rise, on specified dates, to cash flows that are SPPI, and
- Are not designated as held for trading.

The Credit Union has not classified any financial assets as FVOCI.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3. Summary of significant accounting policies continued

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments except those classified as at FVTPL.

Financial asset impairment

The Credit Union assesses financial assets, other than those recorded at FVTPL, for indicators of impairment at each reporting period.

Loans receivable

The Credit Union uses the expected credit loss (ECL) impairment model to measure the loss allowance on loans receivable, in the following categories:

- Stage 1 – the expected losses for the next 12 months on performing financial assets,
- Stage 2 – the expected lifetime losses on performing financial assets that have experienced a significant increase in credit risk since origination, and
- Stage 3 – the expected lifetime losses on credit impaired financial assets.

Stage 1 assets consist of performing loans with credit risk that has not increased significantly since origination. Stage 2 assets consist of performing loans with credit risk that has increased significantly since origination. Stage 3 assets consist of high risk, non performing or doubtful loans, where it is not expected that the principal and interest will be collected in full. Stage 1 and Stage 2 performing loans are included in the analysis without consideration of collateral value. Stage 3 doubtful loans are included in the analysis at the balance outstanding less any collateral value and consideration of collection costs. Individual loan assets move between stages as credit risk increases or decreases.

In determining the expected credit losses, Management assesses each loan asset and assigns a risk rating of Stage 1 Remote/Low Risk, Stage 2 Moderate Risk or Stage 3 Higher Risk. Management also estimates the probability of default and expected loss ratio for each risk rating category, considering a number of factors, such as product type and terms, local, provincial and national economic factors, historical loss experience and delinquency trends. Certain factors are based on forecasts of future economic conditions, such as housing starts, unemployment and interest rates. Loan assets which were modified, but not derecognized, during the period are specifically assessed to determine if there has been a significant increase in credit risk by comparing the risk of default at the origination of the loan to the risk of default at the reporting date.

The probability of default and the expected loss ratio are applied to the loan assets classified in each stage to estimate the expected credit loss.

3. Summary of significant accounting policies continued

At each reporting period, the Credit Union performs the analysis to estimate the loan allowance. Changes in the loan allowance are recognized in the provision for credit losses on the statement of comprehensive income as they occur.

When a loan is impaired, any collateral has been realized, and there is no expectation of recovery, the loan is written off. Records about written off loans are maintained in case future recoveries are received. Loan allowances on loans written off in the period are reversed in the period the loan is written off. Recoveries on loans written off are recognized in revenue in the period the amount is received.

Investments and other financial assets

The Credit Union uses the expected credit loss impairment model to measure the loss impairment on investments and other financial assets. Management assesses each individual asset and determines whether there has been a significant increase in credit risk since origination and the probability of default. The factors considered include significant financial difficulty of the issuer or counterparty, disappearance of an active market for the security, prolonged decline in the fair value of a security, as well as local, provincial and national economic factors.

At each reporting period, the Credit Union analyzes individual investments and other financial assets to estimate the expected credit loss. Changes in the estimated credit loss are recognized in investment revenue for investments and other revenue for other financial assets on the statement of comprehensive income as they occur.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid securities with a maturity date within 90 days of the year end date. They are subject to insignificant risk of changes in fair value and are used to manage short term cash commitments.

Investments

Investments are initially measured at fair value. For investments not classified as FVTPL, incremental transaction costs are added to the initial measurement. Subsequent measurement is determined based on the classification of the instrument.

Loans receivable

Loans are initially measured at fair value plus transaction costs and subsequently at amortized cost using the effective interest method, less any loan allowances. A loan is classified as impaired (doubtful) when there is no longer reasonable assurance that the principal and interest will be collected in full.

3. Summary of significant accounting policies continued

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses. Property and equipment are amortized over their estimated useful lives using the following rates and methods, with the exception of land which is not amortized:

Building	5%	straight-line
Banking system	5% - 33 1/3%	straight-line
Computer, communications equipment	30% - 50%	straight-line
Furnishings, equipment	10% - 33 1/3%	straight-line

The estimated useful lives, residual values and depreciation methods are reviewed at each year end and adjusted if appropriate.

Gains and losses on the disposal or retirement of property and equipment are determined as the difference between the proceeds and the carrying amount of the asset and are recorded in the statement of comprehensive income in the year of disposal.

Membership shares

Shares are classified as financial liabilities in accordance with their terms. Shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

Impairment of tangible and intangible assets other than goodwill

At least annually, the Credit Union reviews its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of 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 a group of assets (or cash generating unit) to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the Credit Union estimates future cash flows it expects to derive from the asset or group of assets along with the expectations about possible variations in the amount and timing of those cash flows.

3. Summary of significant accounting policies continued

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 group of assets (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. The related impairment loss is recognized in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of the recoverable amount. 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 group of assets in prior years. A reversal of an impairment loss is recognized in the statement of comprehensive income as they occur.

Loan interest revenue

Loan and lease interest revenue is recognized on the accrual basis using the effective interest rate method for all loans not classified as impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for credit losses as an adjustment of the specific allowance.

Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees, are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

Investment interest revenue

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Other income

Other revenue is recognized in the fiscal period in which the related service is provided.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities measured at historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date the fair value was determined. Translation gains and losses are included in profit or loss, except for instruments classified as fair value through other comprehensive income, which are recognized in other comprehensive income.

3. Summary of significant accounting policies continued

Income taxes

Income tax expense is comprised of current and deferred taxes which are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for tax purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the period of change, except when they relate to items recognized directly in other comprehensive income. The Credit Union is taxed at an effective rate of 9% on taxable earnings eligible for that rate and at 27% on the excess balance.

Deferred taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or for different tax entities where the Credit Union intends to settle its current tax assets and liabilities on a net basis or simultaneously.

Future accounting and reporting changes

The Canadian Accounting Standards Board (AcSB) has issued new and amended IFRS standards under Part I of the CPA Canada Handbook which are not yet effective. None of the new or amended standards are expected to impact the Credit Union.

4. Cash and cash equivalents

	2022	2021
Cash balances	$ 1,034,320	$ 1,053,417
SaskCentral deposits with maturities < 90 days	2,000,000	1,610,258
	$ 3,034,320	$ 2,663,675

5. Investments

	2022	2021
Fair value through profit or loss:		
Concentra Trust preferred shares	$ 500,000	$ 500,000
MDL Real Estate Income Fund Limited Partnership	250,583	135,529
National Consulting Limited common shares	20,000	-
SaskCentral shares	592,481	625,000
	1,363,064	1,260,529
Amortized cost:		
Accrued interest	172,391	151,663
Corporate bonds	9,182,227	8,198,851
SaskCentral investments	34,280,792	36,767,867
	43,635,410	45,118,381
	$ 44,998,474	$ 46,378,910

At December 31, 2022, the market value of investments classified as amortized cost is $42,150,801 (2021 $45,007,849).

At December 31, 2022, $19,022,027 (2021 - $24,760,615) of investments are expected to be recovered more than 12 months after the reporting date.

Pursuant to Regulation 18(1)(a), credit unions must maintain 10% of total liabilities, using a prescribed formula, in specified liquidity deposits in SaskCentral, in addition to liquidity required to meet their normal cash flow requirements. As of December 31, 2022, the Credit Union met the requirement.

In 2021, the Credit Union subscribed for 500 units in the MDL Real Estate Income Fund Limited Partnership, for a total of $500,000. The Credit Union contributed $115,055 in 2022 (2021 - $135,529), and thus, at year end, the Credit Union has a remaining commitment to provide $249,416 when a cash call is made.

6. Loans receivable

			Allowances		2022
	Performing	Impaired	Individual	Collective	Net
Government guaranteed	$ 7,101,460	$ -	$ -	$ (15)	$ 7,101,445
Conventional mortgages					
- Residential & farm	22,983,574	-	-	(86,905)	22,896,669
- Commercial	604,456	26,071	(26,071)	(10,448)	594,008
Personal loans	436,674	-	-	(754)	435,920
Finance lease	3,086,486	-	-	(10,970)	3,075,516
Line of credit and overdrafts	2,533,146	-	-	(14,239)	2,518,907
Non-personal loans	5,056,922	-	-	(3,554)	5,053,368
Accrued interest	525,518	-	-	-	525,518
	$ 42,328,236	$ 26,071	$ (26,071)	$ (126,885)	$ 42,201,351

6. Loans receivable continued

					2021
			Allowances		
	Performing	Impaired	Individual	Collective	Net
Government guaranteed	$ 8,868,944	$ -	$ -	$ -	$ 8,868,944
Conventional mortgages					
- Residential & farm	22,690,439	-	-	(57,024)	22,633,415
- Commercial	657,940	26,071	(26,071)	(8,183)	649,757
Personal loans	876,237	-	-	(2,477)	873,760
Finance lease	1,038,203	-	-	(2,781)	1,035,422
Line of credit and overdrafts	3,272,740	-	-	(9,190)	3,263,550
Non-personal loans	5,386,139	-	-	(3,445)	5,382,694
Accrued interest	532,254	-	-	-	532,254
	$ 43,322,896	$ 26,071	$ (26,071)	$ (83,100)	$ 43,239,796

At December 31, 2022, $35,922,209 (2021 - $41,521,796) of loans are expected to be recovered more than 12 months after the reporting date.

During the year, the Credit Union administered the advancement and repayment of funds under the Canada Emergency Business Account Program (CEBA) on behalf of the Government of Canada. As the program administrator, the CEBA loans outstanding are not assets of the Credit Union and thus are not recognized in the financial statements. At December 31, 2022, the CEBA loans outstanding totaled $4,018,687 (2021 - $4,183,688).

The following table discloses the reconciliation of the allowance for expected credit losses on loans:

	2022	2021
Allowance for expected credit losses - January 1	$ 109,171	$ 356,358
Change in expected 12 month credit losses	43,785	83,100
Change in lifetime credit losses related to:		
Assets where credit risk has increased significantly	-	-
Assets that are credit impaired	-	(330,287)
Allowance for expected credit losses - December 31	$ 152,956	$ 109,171

The aging of loans, including those past due but not impaired and those that were individually impaired, as at December 31, 2022 was:

	2022		2021	
	Performing	Impaired	Performing	Impaired
Current	$ 37,179	$ -	$ 61,972	$ -
31 - 90 days	-	-	32,695	-
91 - 120 days	-	-	14,000	-
120+ days	-	26,071	35,000	26,071
Total	$ 37,179	$ 26,071	$ 143,667	$ 26,071

6. Loans receivable continued

The Credit Union holds collateral on loans provided to customers in the form of interests in real property, chattel property, securities and guarantees. At December 31, 2022, total credit impaired loans were $26,071 (2021 - $26,071), which are secured by an estimated collateral value of $NIL (2021 - $NIL). The allowance for expected credit losses on credit impaired loans is $26,071 (2021 - $26,071).

7. Other assets

	2022	2021
Deferred income tax assets	$ 66,000	$ 47,100
Income taxes receivable	-	39,637
SaskCental dividend receivable	1,008,066	-
	$ 1,074,066	$ 86,737

8. Property and equipment

	Land, building	Banking system	Furnishings, equipment	Total
Cost				
Balance at January 1, 2021	$ 499,325	$ 176,918	$ 377,640	$1,053,883
Additions	-	24,732	-	24,732
Disposals	-	-	-	-
Balance at December 31, 2021	$ 499,325	$ 201,650	$ 377,640	$1,078,615
Additions	-	-	12,019	12,019
Disposals	-	-	-	-
Balance at December 31, 2022	$ 499,325	$ 201,650	$ 389,659	$1,090,634
Depreciation and impairment losses				
Balance at January 1, 2021	$ 241,677	$ 176,718	$ 354,211	$ 772,606
Depreciation expense	25,512	3,619	9,358	38,489
Disposals	-	-	-	-
Balance at December 31, 2021	$ 267,189	$ 180,337	$ 363,569	$ 811,095
Depreciation expense	27,638	5,004	12,542	45,184
Disposals	-	-	-	-
Balance at December 31, 2022	$ 294,827	$ 185,341	$ 376,111	$ 856,279
Net book value				
Balance at December 31, 2021	232,136	21,313	14,071	267,520
Balance at December 31, 2022	204,498	16,309	13,548	234,355

9. Deposits

	2022	2021
Chequing	$ 34,717,194	$ 40,264,292
Savings	8,066,043	8,662,201
Term deposits	23,107,630	20,486,733
Registered accounts	12,795,953	12,012,530
Other	2,813,962	2,696,170
Accrued interest	370,379	379,724
	$ 81,871,161	$ 84,501,650

At December 31, 2022, $17,632,147 (2021 - $19,207,493) of deposits are expected to be settled more than 12 months after the reporting date.

10. Loans payable

The Credit Union has an authorized line of credit with SaskCentral in the amount of $1,300,000. This line of credit bears interest at 5.95%. An assignment of books debts and funds are pledged as security. At the end of the year, the amount outstanding was $NIL (2021 - $56,355).

11. Other liabilities

	2022	2021
Accounts payable	$ 446,748	$ 596,287
Income taxes payable	69,571	-
	$ 516,319	$ 596,287

12. Membership shares

Membership shares are as provided for by *The Credit Union Act, 1998* and administered according to the terms of the Credit Union bylaws which sets out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

The value of outstanding membership shares consists of:

	2022	2021
Issued at January 1	$ 6,965	$ 6,990
Issued	195	225
Redeemed	(200)	(250)
Issued at December 31	$ 6,960	$ 6,965

13. Capital management

Credit Union Deposit Guarantee Corporation (CUDGC) prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

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 150% 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 total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

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 the tier 1 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus and accumulated other comprehensive income. 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. All items deducted from capital are excluded from total assets.

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

	Regulatory Standards	Board Minimum
Total eligible capital to risk-weighted assets	8%	10.5%
Total tier 1 capital to risk-weighted assets	6%	7%
Common equity tier 1 capital to risk-weighted assets	4.5%	7%
Minimum leverage ratio	>5%	7%

13. Capital management continued

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	2022	2021
Eligible capital:		
Common equity tier 1 capital	$ 9,161,000	$ 7,524,000
Additional tier 1 capital	-	-
Total tier 1 capital	9,161,000	7,524,000
Total tier 2 capital	134,000	90,000
Total eligible capital	$ 9,295,000	$ 7,614,000
Risk-weighted assets	$ 44,437,000	$ 43,034,000
Total eligible capital to risk-weighted assets	20.92%	17.69%
Total tier 1 capital to risk-weighted assets	20.62%	17.48%
Common equity tier 1 capital to risk-weighted assets	20.62%	17.48%
Minimum leverage ratio	10.12%	8.18%

14. Related party transactions

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the Credit Union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

Loans receivable:

At December 31, 2022, certain members of the board of directors and key management personnel were indebted to the Credit Union for amounts totaling $5,076,785 (2021 - $6,530,601). These loans were granted under the same lending policies applicable to other members, and are included in loans receivable on the statement of financial position.

Deposit accounts:

Directors and key management personnel may hold deposit accounts. These accounts are maintained under the same terms and conditions applicable to other members, and are included in member deposits on the statement of financial position.

Remuneration:

Compensation provided to directors and key management personnel, consisting of salaries, honoraria and benefits totalled 158,560 (2021 - $168,834).

15. Classification and fair value of financial instruments

The following table summarizes the carrying amount and fair values of the Credit Union's financial instruments.

	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	$ 3,034,320	$ 3,034,320	$ 2,663,675	$ 2,663,675
Investments	44,998,475	43,513,866	46,378,910	46,243,840
Loans	42,201,351	*Note	43,239,796	*Note
FINANCIAL LIABILITIES				
Deposits	81,871,161	*Note	84,501,650	*Note
Other liabilities	446,748	446,748	596,287	596,287

*Note: The fair value of loans and deposits has not been reported as the carrying amounts are a reasonable approximation of fair value.

The following methods and assumptions were used to estimate fair values of financial instruments:

The fair values of short term financial instruments including cash, other assets and other liabilities are approximately equal to their book values due to their short term nature.

Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.

For variable interest rate loans that re-price frequently, fair values approximate book values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.

The fair values of deposits with unspecified maturity terms are approximately equal to their carrying values. Fair values for other deposits and loans payable with specified maturity terms is estimated using discounted cash flow calculations at market interest rates for similar groups of deposits.

The fair values of derivative financial instruments are estimated by reference to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amount that the Credit Union would receive or pay to terminate the contracts at the reporting date.

15. Classification and fair value of financial instruments continued

The following table provides an analysis of financial instruments measured at fair value at the end of the reporting period, by the fair value hierarchy into which the fair value measurement is categorized:

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Investments	$ -	$ -	$ 1,363,065	$ 1,363,065

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
Investments	$ -	$ -	$ 1,260,529	$ 1,260,529

16. Financial instrument risk management

Credit risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans, receivables and investments.

Credit risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards with which the Credit Union must comply. The Credit Union's Board has established lending policies and procedures which outline the minimum standards and criteria for granting credit to borrowers. Certain types of lending are subject to an annual review process to ensure that standards continue to be met. Accounts which are deemed to be of higher than average risk are monitored more frequently. Policy and procedures also specify the type of assets which may be taken as collateral and the techniques for valuation. There have been no changes to the collateral policy or procedures during the period.

The Credit Union has established credit limits for individual borrowers to manage overall credit risk of the portfolio and establish parameters for credit diversification. The maximum aggregate credit per member is limited to 25% of capital and the maximum unsecured lending limit is $40,000. The established portfolio mix for 2022 is:

	Board policy	**Actual**
Consumer	65%	18%
Agricultural	85%	71%
Commerical	35%	3%
Institutional	20%	8%

16. Financial instrument risk management continued

Except as otherwise noted below, the carrying amount of the financial assets recognized in the financial statements, which is net of expected credit losses, represents the Credit Union's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held. During the period, $NIL (2021 - $NIL) of loans were written off but still subject to enforcement activity. At December 31, 2022, the Credit Union held $NIL (2021 - $NIL) in assets pledged as security on loans.

The following table discloses the Credit Union's exposure to credit risk by risk rating grades:

	Loans	Investments
Stage 1 Remote / Low Risk	$ 42,153,930	$ 46,006,540
Stage 2 Moderate Risk	-	-
Stage 3 Higher Risk	-	-
Total	$ 42,153,930	$ 46,006,540

In addition, in the normal course of business, the Credit Union has entered into various commitments to extend credit that are not reported on the statement of financial position, including guarantees and letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event that a customer can not meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer, but the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The amounts reported below represent the maximum credit exposure for commitments to extend credit. Many of these contracts expire without being drawn upon, thereby reducing the Credit Union's credit risk from the maximum commitment. As many commitments will expire or terminate without being funded, the amounts shown on the table below do not necessarily represent future cash requirements.

	2022	2021
Undrawn lines of credit	$ 7,982,560	$ 7,193,933
Commitments to extend credit	638,917	783,446

Liquidity risk

Liquidity risk is the risk of financial loss to the Credit Union in the event that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

16. Financial instrument risk management continued

Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply. The Credit Union's primary liquidity risk policies and procedures include policies for minimum liquidity holdings, monthly monitoring and access to additional short term financing.

The Credit Union enters into transactions to purchase goods and services on credit and/or borrow funds for which repayment is required at various maturity dates, including processing the financial transactions of borrowers and depositors. Liquidity risk is measured by reviewing the Credit Union's future cash flows for the possibility of a negative net cash flow. The contractual maturities of financial liabilities can be found within the table under interest rate risk below.

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 risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply. The Credit Union's primary market risk policies and procedures include policies for maximum mismatch levels, monthly monitoring and adjusting product mix to address match position.

The primary market risk that the Credit Union is exposed to is interest rate risk. Interest rate risk is the potential adverse impact on the earnings due to changes in interest rates. The Credit Union's exposure to interest rate risk arises primarily from timing differences in the re-pricing of assets and liabilities, including financial assets and liabilities with fixed and floating rates. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off balance sheet instruments scheduled to mature or re-price on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that re-price in specific time periods.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter balancing positions. The Credit Union did not use interest rate swaps in the current year.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual re-pricing/maturity dates. Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, represent the weighted average effective yield.

16. Financial instrument risk management continued

2022	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Total assets	$24,761,104	$ 7,784,732	$19,994,212	$33,385,126	$ 2,537,083	$ 3,059,382	$91,521,639
LIABILITIES							
Total liabilities	33,413,235	5,855,958	12,034,603	17,385,407	246,741	22,585,695	91,521,639
On-balance sheet gap	$ (8,652,131)	$ 1,928,774	$ 7,959,609	$15,999,719	$ 2,290,342	$(19,526,313)	$ -

2021	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
On-balance sheet gap	$12,568,372)	$ 4,526,226	$ 6,804,156	$21,383,592	$ 930,712	$(21,076,314)	$ -

The above tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

A 1% change in interest rates with all other variable held constant would result in a change in the Credit Union's profit for the year ended December 31, 2022 of $48,385 (2021 - $63,786). The Credit Union uses Static Gap to simulate the effect of a change in the market rate of interest.

17. Income taxes

Income tax expense is comprised of:

	2022	2021
Current tax expense		
Current period	$ 95,274	$ 23,725
	95,274	23,725
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(18,900)	(11,900)
	(18,900)	(11,900)
Total income tax expense	$ 76,374	$ 11,825

17. Income taxes continued

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2022	2021
Income before provision for income taxes	$ 1,692,765	$ 250,708
Combined federal and provincial tax rate	27.00 %	27.00 %
Income tax expense at statutory rate	457,047	67,691
Adjusted for the effect of:		
Non-deductible expenses	114	-
Non-taxable income	(278,745)	(8,422)
Small business deduction	(102,000)	(45,127)
Other	(42)	(2,317)
	$ 76,374	$ 11,825

Deferred income tax assets and liabilities recognized are attributable to the following:

	2022	2021
Deferred income tax assets		
Property and equipment	$ 26,700	$ 21,700
Loans	37,000	23,100
Capital loss carryforward	2,300	2,300
	$ 66,000	$ 47,100

	2022	2021
Deferred tax assets		
- To be recovered after more than 12 months	$ 26,700	$ 21,700
- To be recovered within 12 months	$ 39,300	$ 25,400

18. Employee future benefits

The Credit Union's employee future benefit program consists of a defined contribution pension plan. Credit Union contributions to the defined contribution plan are expensed as incurred. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Pension benefits of $55,866 (2021 - $55,343) were paid to defined contribution retirement plans during the year.

BENGOUGH CREDIT UNION
SCHEDULE OF NON-INTEREST EXPENSES
(Unaudited)
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

SCHEDULE 1

	2022	2021
General business		
Amortization - equipment	$ 17,546	$ 12,977
Business development	150,534	39,041
Cash shortage	178	98
Computer costs	131,292	120,078
Legal, registration	11,640	23,947
Maintenance, insurance - equipment	5,160	3,935
Office	13,488	12,827
Professional and regulatory compliance fees	43,784	36,165
Rental - equipment	4,746	8,263
Service charges, clearing fees	110,221	107,352
Telephone, postage, courier	24,177	16,613
Other general business	36,842	42,404
	$ 549,608	$ 423,700
Occupancy		
Amortization - building	$ 27,638	$ 25,512
Maintenance, taxes, insurance - building	37,915	33,648
Rent	2,400	2,400
Utilities	15,053	14,758
	$ 83,006	$ 76,318
Organizational		
Annual meeting	$ 420	$ 392
SaskCentral dues	24,200	24,055
Development - officials	3,250	3,350
Remuneration - officials	23,400	21,600
Other organizational	5,596	3,541
	$ 56,866	$ 52,938

BENGOUGH CREDIT UNION
SCHEDULE OF NON-INTEREST EXPENSES
(Unaudited)
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

SCHEDULE 1 - Continued

	2022	2021
Personnel		
Benefits	$ 100,103	$ 99,453
Development	1,390	8,975
Salaries	642,373	642,706
Other personnel expenses	12,993	9,680
	$ 756,859	$ 760,814
Security		
Bonding insurance	$ 34,650	$ 46,577
Deposit guarantee assessment	67,297	55,836
	$ 101,947	$ 102,413

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

ANNUAL REPORT MESSAGE 2022

January 2023

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.