

WEYBURN CREDIT UNION LIMITED

**WEYBURN, SASKATCHEWAN
INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2022

MANAGEMENT'S RESPONSIBILITY COMMUNICATION

**To the Members,
Weyburn Credit Union Limited**

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 & Risk 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 & Risk 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 & Risk 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.



Don Shumlich
Chief Executive Officer



Krista Hubic, CPA, CA
Chief Financial Officer



INDEPENDENT AUDITORS' REPORT

**To the Members,
Weyburn Credit Union Limited**

Opinion

We have audited the financial statements of **Weyburn Credit Union Limited**, which comprise the statement of financial position as at December 31, 2022, and the statements of changes in members equity, comprehensive income 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.

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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 22, 2023
Regina, Saskatchewan

VIRTUS GROUP LP
Chartered Professional Accountants

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

ASSETS	<u>2022</u>	<u>2021</u>
Cash and cash equivalents (Note 4)	\$ 31,827,798	\$ 24,600,481
Investments (Note 5)	103,293,306	122,431,727
Loans receivable (Note 6)	539,644,079	496,026,263
Other assets (Note 7)	9,898,306	2,055,534
Property and equipment (Note 8)	4,691,672	4,678,104
	<u>\$ 689,355,161</u>	<u>\$ 649,792,109</u>
LIABILITIES		
Deposits (Note 9)	\$ 614,388,857	\$ 577,092,426
Other liabilities (Note 11)	6,848,728	15,862,839
Shares (Note 12)	40,075	39,980
	<u>621,277,660</u>	<u>592,995,245</u>
MEMBERS' EQUITY		
Equity accounts	3,702,448	3,711,840
Retained earnings	64,375,053	53,085,024
Accumulated other comprehensive income	-	-
	<u>68,077,501</u>	<u>56,796,864</u>
	<u>\$ 689,355,161</u>	<u>\$ 649,792,109</u>

APPROVED BY THE BOARD:



Matthew Caudill, Director



Norman Wall, Director

"See Accompanying Notes"

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

	<u>2022</u>	<u>2021</u>
EQUITY ACCOUNTS		
Equity accounts - beginning of year	\$ 3,711,840	\$ 3,726,407
Decrease in member equity accounts	<u>(9,392)</u>	<u>(14,567)</u>
Equity accounts - end of year	<u>\$ 3,702,448</u>	<u>\$ 3,711,840</u>
RETAINED EARNINGS		
Retained earnings - beginning of year	\$ 53,085,024	\$ 49,838,835
Comprehensive income	<u>11,290,029</u>	<u>3,246,189</u>
Retained earnings - end of year	<u>\$ 64,375,053</u>	<u>\$ 53,085,024</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Accumulated other comprehensive income - beginning of year	\$ -	\$ -
Other comprehensive income (loss)	<u>-</u>	<u>-</u>
Accumulated other comprehensive income - end of year	<u>\$ -</u>	<u>\$ -</u>
TOTAL EQUITY	<u><u>\$ 68,077,501</u></u>	<u><u>\$ 56,796,864</u></u>

"See Accompanying Notes"

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

	<u>2022</u>	<u>2021</u>
Interest revenue		
Loan	\$ 20,977,310	\$ 17,749,157
Investment	2,477,285	1,704,163
	23,454,595	19,453,320
Interest expense		
Borrowed money	45,096	27,123
Member deposits	6,863,723	4,753,530
Patronage allocation	1,070,831	894,039
	7,979,650	5,674,692
Net interest	15,474,945	13,778,628
Provision for credit losses (recoveries)	442,116	(376,525)
Net interest after provision for credit losses (recoveries)	15,032,829	14,155,153
Other income	11,836,918	3,582,378
Operating expenses		
General business	3,495,980	3,307,850
Occupancy	822,913	787,974
Organizational	244,361	232,493
Personnel	9,177,854	8,526,235
Security	542,642	531,990
	14,283,750	13,386,542
Income before income taxes	12,585,997	4,350,989
Income taxes (Note 17)		
Current	1,386,768	1,020,000
Deferred (recovery)	(90,800)	84,800
	11,290,029	3,246,189
Net income before other comprehensive income	11,290,029	3,246,189
Other comprehensive income (loss)	-	-
Comprehensive income	\$ 11,290,029	\$ 3,246,189

"See Accompanying Notes"

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

	<u>2022</u>	<u>2021</u>
Cash provided by (used in) operating activities:		
Comprehensive income	\$ 11,290,029	\$ 3,246,189
Items not involving cash:		
- Amortization on property, plant and equipment	688,202	650,906
- Amortization on naming rights	53,213	(1,009,717)
- Provision for credit losses (recoveries)	442,116	(376,525)
Equity patronage allocation	(9,392)	(14,567)
Net change in other assets and other liabilities	(16,910,096)	13,362,749
	(4,445,928)	15,859,035
Cash provided by (used in) investing activities:		
Investments	19,138,421	2,252,851
Loans receivable	(44,059,932)	(50,400,820)
Property and equipment	(701,770)	(479,702)
	(25,623,281)	(48,627,671)
Cash provided by (used in) financing activities:		
Deposits	37,296,431	28,059,711
Shares	95	(685)
	37,296,526	28,059,026
Increase (decrease) in cash	7,227,317	(4,709,610)
Cash position - beginning of year	24,600,481	29,310,091
Cash position - end of year	\$ 31,827,798	\$ 24,600,481

"See Accompanying Notes"

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

1. Incorporation and governing legislation

Weyburn Credit Union Limited 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 Weyburn, Saskatchewan. The Credit Union provides financial services to members through branches in Weyburn, Yellow Grass, Lang, 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 22, 2023.

The financial statements have been prepared on the historical cost basis, except for certain investments 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.

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

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.

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

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 are 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 common shares
- Investments in local cooperatives
- National Consulting Limited common shares
- SaskCentral shares

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

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

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 cost 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
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 classified the following financial assets as FVOCI:

Concentra Trust preferred shares

Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity, commodity instrument or index. In the ordinary course of business, the Credit Union enters into derivative contracts for asset/liability management. The Credit Union enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into. It is subsequently measured at fair value with changes in fair value recognized in profit or loss, unless it is designated in a qualifying hedging relationship. Derivatives may include contracts which are designated as and effective as hedges, and/or contracts which reposition the Credit Union's overall interest rate risk, credit risk and foreign exchange risk profile. The Credit Union does not use hedge accounting for derivatives.

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

3. Summary of significant accounting policies continued

Embedded derivatives

Derivatives embedded in other non-derivative financial instruments or other host contracts are separated from their host contracts and accounted for as separate derivatives when certain conditions are met. These conditions include: the economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms would meet the definition of a derivative and the combined instrument or contract is not measured at FVTPL. Embedded derivatives that are accounted for as separate derivatives are measured at fair value with changes in fair value recognized in profit or loss immediately. The Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require separate recognition.

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.

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.

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

3. Summary of significant accounting policies continued

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.

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.

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

3. Summary of significant accounting policies continued

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.

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	4%	straight-line
Computer, communications equipment	20% - 33 1/3%	straight-line
Furnishings, equipment	10%	straight-line
Naming rights	7% - 20%	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.

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

3. Summary of significant accounting policies continued

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. 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.

WEYBURN CREDIT UNION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(with comparative figures for the year ended December 31, 2021)

3. Summary of significant accounting policies continued

Swap interest revenue and expenses

Swap interest revenue and expenses are calculated on an accrual basis on fair value and the result netted for reporting purposes.

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.

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.

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3. Summary of significant accounting policies continued

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

	<u>2022</u>	<u>2021</u>
Cash balances	\$ 18,827,798	\$ 12,600,481
Investments with maturities < 90 days	13,000,000	12,000,000
	<u>\$ 31,827,798</u>	<u>\$ 24,600,481</u>

5. Investments

	<u>2022</u>	<u>2021</u>
Fair value through profit or loss:		
Concentra Trust common shares	\$ 46	\$ 10
Interest rate swap	430,050	92,822
Investments in local cooperatives	5,864	5,848
National Consulting Limited common shares	20,000	-
SaskCentral shares	4,159,212	5,000,000
	<u>4,615,172</u>	<u>5,098,680</u>
Amortized cost:		
Accrued interest	486,026	328,039
Corporate bonds	6,500,000	6,500,000
Provincial bonds and other	1,000,002	1,000,002
SaskCentral liquidity deposits	16,561,915	17,113,088
SaskCentral liquidity terms	44,517,191	41,391,918
SaskCentral money market terms	1,000,000	10,000,000
SaskCentral term deposit	24,500,000	37,000,000
Westcap MBO III Investment Limited Partnership	113,000	-
	<u>94,678,134</u>	<u>113,333,047</u>
Fair value through other comprehensive income:		
Concentra Trust preferred shares	4,000,000	4,000,000
	<u>4,000,000</u>	<u>4,000,000</u>
	<u>\$ 103,293,306</u>	<u>\$ 122,431,727</u>

At December 31, 2022, the market value of investments classified as amortized cost is \$91,795,106 (2021 - \$112,910,797).

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5. Investments continued

At December 31, 2022, \$45,087,012 (2021 - \$60,347,300) of investments are expected to be recovered more than 12 months after the reporting date.

In 2021, the Credit Union subscribed for 500 units in the Westcap MBO III Investment Limited Partnership, for a total of \$500,000. As of year end, the Credit Union contributed \$113,000, and thus, the Credit Union has a remaining commitment to provide \$387,000 when a cash call is received.

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.

6. Loans receivable

	2022				
	Performing	Impaired	Allowances		Net
			Individual	Collective	
Personal loans	\$189,009,750	\$ -	\$ (292,150)	\$ (376,539)	\$188,341,061
Agricultural loans	93,654,699	-	(411,531)	-	93,243,168
Commercial loans	221,611,603	6,350,000	(262,547)	(410,446)	227,288,610
Finance lease	2,105,408	-	-	-	2,105,408
Foreclosed property	67,900	-	-	-	67,900
Lines of credit and overdrafts	26,867,787	-	-	-	26,867,787
Accrued interest	1,730,145	-	-	-	1,730,145
	\$535,047,292	\$ 6,350,000	\$ (966,228)	\$ (786,985)	\$539,644,079

	2021				
	Performing	Impaired	Allowances		Net
			Individual	Collective	
Personal loans	\$181,454,178	\$ -	\$ (259,062)	\$ (228,500)	\$180,966,616
Agricultural loans	86,971,698	-	-	-	86,971,698
Commercial loans	193,537,472	6,550,000	(826,993)	(17,365)	199,243,114
Finance lease	2,097,887	-	-	-	2,097,887
Foreclosed property	400,000	-	-	-	400,000
Lines of credit and overdrafts	25,064,307	-	-	-	25,064,307
Accrued interest	1,282,641	-	-	-	1,282,641
	\$490,808,183	\$ 6,550,000	\$ (1,086,055)	\$ (245,865)	\$496,026,263

At December 31, 2022, \$407,825,872 (2021 - \$385,631,858) 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 \$7,625,630 (2021 - \$8,316,620).

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6. Loans receivable continued

Allowance for impaired loans

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

	<u>2022</u>	<u>2021</u>
Allowance for expected credit losses - January 1	\$ 1,331,920	\$ 2,583,877
Change in expected 12 month credit losses	541,120	(100,695)
Change in lifetime credit losses related to:		
Assets where credit risk has increased significantly	(421,713)	318,242
Assets that are credit impaired	301,885	(1,469,504)
	<u>1,753,212</u>	<u>1,331,920</u>
Allowance for expected credit losses - December 31	\$ <u>1,753,212</u>	\$ <u>1,331,920</u>

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

	<u>2022</u>	<u>2021</u>
Current	\$ 6,082,280	\$ 3,749,216
31 - 60 days	1,904,897	120,105
61 - 90 days	3,217,412	180,115
91 - 120 days	2,861,872	198,284
	<u>14,066,461</u>	<u>4,247,720</u>
Total	\$ <u>14,066,461</u>	\$ <u>4,247,720</u>

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees. At December 31, 2022, total credit impaired loans were \$6,350,000 (2021 - \$6,550,000) which are secured by an estimated collateral value of \$6,000,000 (2021 - \$6,000,000). The allowance for expected credit losses on credit impaired loans is \$225,000 (2021 - \$225,000).

7. Other assets

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 158,568	\$ 58,341
Deferred income tax assets	563,800	473,000
Naming rights	1,086,264	1,084,264
Namings rights - accumulated amortization	(127,093)	(71,880)
Prepaid expenses	633,005	511,809
SaskCentral dividend receivable	7,583,762	-
	<u>9,898,306</u>	<u>2,055,534</u>
	\$ <u>9,898,306</u>	\$ <u>2,055,534</u>

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8. Property and equipment

	Banking and			Furnishings,	
	Land	Computer Equip	Building	Equipment	Total
Cost					
Balance at January 1, 2021	\$ 634,595	\$5,449,723	\$10,156,012	\$1,779,947	\$18,020,277
Additions	-	421,988	4,501	-	426,489
Balance at December 31, 2021	\$ 634,595	\$5,871,711	\$10,160,513	\$1,779,947	\$18,446,766
Balance at January 1, 2022	\$ 634,595	\$5,871,711	\$10,160,513	\$1,779,947	\$18,446,766
Additions	-	594,308	25,711	31,629	651,648
Disposals	-	-	-	(4,416)	(4,416)
Balance at December 31, 2022	\$ 634,595	\$6,466,019	\$10,186,224	\$1,807,160	\$19,093,998
Depreciation and impairment losses					
Balance at January 1, 2021	\$ -	\$4,924,633	\$6,617,192	\$1,629,144	\$13,170,969
Depreciation expense	-	222,078	341,342	34,273	597,693
Balance at December 31, 2021	\$ -	\$5,146,711	\$6,958,534	\$1,663,417	\$13,768,662
Balance at January 1, 2022	\$ -	\$5,146,711	\$6,958,534	\$1,663,417	\$13,768,662
Depreciation expense	-	263,030	341,200	30,759	634,989
Disposals	-	-	-	(1,325)	(1,325)
Balance at December 31, 2022	\$ -	\$5,409,741	\$7,299,734	\$1,692,851	\$14,402,326
Net book value					
Balance at December 31, 2021	\$ 634,595	\$ 725,000	\$3,201,979	\$ 116,530	\$4,678,104
Balance at December 31, 2022	634,595	1,056,278	2,886,490	114,309	4,691,672

The banking and computer equipment category includes computer software with cost of \$2,063,552 (2021 - \$1,561,240), accumulated depreciation of \$1,164,160 (2021 - \$1,047,773) and net book value of \$899,392 (2021 - \$513,467).

9. Deposits

	<u>2022</u>	<u>2021</u>
Chequing	\$ 181,692,890	\$ 165,328,597
Savings	134,230,510	126,611,622
Term deposits	139,835,537	137,365,177
Registered accounts	79,506,901	78,843,096
Other	76,649,241	66,943,770
Accrued interest	2,473,778	2,000,164
	<u>\$ 614,388,857</u>	<u>\$ 577,092,426</u>

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9. Deposits continued

At December 31, 2022, \$96,457,100 (2021 - \$91,503,702) 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 \$12,900,000. This line of credit bears interest at 5.95% and is secured by an assignment of book debts and funds on deposit with a tiered interest rate structure based on a ninety day T-Bill rate and bank prime. At the end of the year, the amount outstanding was \$NIL (2021 - \$4,372,043).

The Credit Union has one authorized quick line with Concentra in the amount of \$10,000,000. The quick line bears interest at the three month CDOR rate plus 50 basis points, equal to 5.59% at December 31, 2022, and is secured by term deposits. Undrawn portions of the quick line are subject to a standby fee of 0.15% per year. At the end of the year, the amounts outstanding were \$NIL (2021 - \$4,000,000).

11. Other liabilities

	<u>2022</u>	<u>2021</u>
Accounts payable	\$ 6,280,976	\$ 11,284,930
Deferred revenue - leases	200,984	212,789
Income taxes payable (recoverable)	366,768	365,120
Quick line loan payable	-	4,000,000
	<u>\$ 6,848,728</u>	<u>\$ 15,862,839</u>

12. Membership shares & equity accounts

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:

	<u>2022</u>	<u>2021</u>
Issued at January 1	\$ 39,980	\$ 40,665
Issued	1,570	1,485
Redeemed	(1,475)	(2,170)
Issued at December 31	<u>\$ 40,075</u>	<u>\$ 39,980</u>

Member equity accounts are provided based on credit union policies, are non-appreciating, bear no rate of return, and are subject to specific restrictions for withdrawal by the member.

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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:

	<u>Regulatory Standards</u>	<u>Board Minimum</u>
Total eligible capital to risk-weighted assets	10.50%	11.25%
Total tier 1 capital to risk-weighted assets	8.50%	8.75%
Common equity tier 1 capital to risk-weighted assets	7%	7.25%
Leverage ratio	5%	7.00%

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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:

	<u>2022</u>	<u>2021</u>
Eligible capital:		
Common equity tier 1 capital	\$ 62,879,000	\$ 51,710,000
Additional tier 1 capital	-	-
Total tier 1 capital	62,879,000	51,710,000
Total tier 2 capital	4,530,000	3,998,000
Total eligible capital	\$ 67,409,000	\$ 55,708,000
Risk-weighted assets	\$ 472,116,000	\$ 426,741,000
Total eligible capital to risk-weighted assets	14.28%	13.05%
Total tier 1 capital to risk-weighted assets	13.32%	12.12%
Common equity tier 1 capital to risk-weighted assets	13.32%	12.12%
Leverage ratio	9.33%	8.32%

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 \$4,330,136 (2021 - \$5,153,449). 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.

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14. Related party transactions continued

Remuneration:

Compensation provided to directors and key management personnel is comprised of:

	<u>2022</u>	<u>2021</u>
Salaries, Board honoraria and short term benefits	\$ 1,331,777	\$ 1,242,555
Post employment benefits	86,418	82,574
	<u>\$ 1,418,195</u>	<u>\$ 1,325,129</u>

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.

	<u>2022</u>		<u>2021</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
FINANCIAL ASSETS				
Cash and cash equivalents	\$ 31,827,798	\$ 31,827,798	\$ 24,600,481	\$ 24,600,481
Investments	103,293,306	100,297,277	122,431,727	122,009,477
Loans	539,644,079	508,556,500	496,026,263	488,002,200
Other assets	158,568	158,568	58,341	58,341
FINANCIAL LIABILITIES				
Deposits	614,388,857	599,998,300	577,092,426	579,482,300
Other liabilities	6,481,958	6,481,958	11,497,717	11,497,717

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.

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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			Total
	Level 1	Level 2	Level 3	
FINANCIAL ASSETS				
Short term investments	\$ 13,000,000	\$ -	\$ -	\$ 13,000,000
Other investments	-	-	8,615,172	8,615,172
	2021			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Short term investments	\$12,000,000	\$ -	\$ -	\$12,000,000
Other investments	-	-	9,098,680	9,098,680

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.

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 \$75,000. The established portfolio mix for 2022 is:

	Board policy	Actual
Accommodations and food services	20%	5%
Agriculture	50%	20%
Construction	20%	6%
Consumer	70%	36%
Health care & social assistance	20%	3%
Oil and gas	20%	3%
Real estate, rental, and leasing	25%	13%
All other categories	20%	17%

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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 impairment 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	\$ 516,273,377	\$ 103,293,306
Stage 2 Moderate Risk	11,484,771	-
Stage 3 Higher Risk	12,095,073	-
	<hr/>	<hr/>
Total	<u>\$ 539,853,221</u>	<u>\$ 103,293,306</u>

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	\$ 42,228,911	\$ 44,351,114
Commitments to extend credit	33,932,813	20,600,356

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.

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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 used interest rate swaps in the current year.

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16. Financial instrument risk management continued

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.

	2022						Total
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	
ASSETS							
Total assets	\$128,373,854	\$ 31,166,156	\$ 84,296,034	\$393,934,713	\$ 17,917,515	\$ 33,785,229	\$689,473,501
LIABILITIES							
Total liabilities	348,210,097	18,001,958	82,007,472	96,377,660	79,440	144,796,874	689,473,501
On-balance sheet gap	<u>\$(219,836,243)\$</u>	<u>\$ 13,164,198</u>	<u>\$ 2,288,562</u>	<u>\$297,557,053</u>	<u>\$ 17,838,075</u>	<u>\$ (111,011,645)\$</u>	<u>-</u>
	2021						Total
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	
On-balance sheet gap	<u>\$ (180,728,141)\$</u>	<u>\$ 14,223,078</u>	<u>\$ 23,038,757</u>	<u>\$229,457,783</u>	<u>\$ 22,963,870</u>	<u>\$108,955,347)\$</u>	<u>-</u>

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 \$1,942,405 (2021 - \$1,509,071). The Credit Union uses static gap reports to simulate the effect of a change in the market rate of interest.

During 2021, the Credit Union purchased an interest rate swap with a notional value of \$5,000,000 maturing September 1, 2026. The effects of the swap are included in the above table.

WEYBURN CREDIT UNION LIMITED
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17. Income taxes

Income tax expense is comprised of:

	<u>2022</u>	<u>2021</u>
Current tax expense		
Current period	\$ 1,386,768	\$ 1,020,000
	1,386,768	1,020,000
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(90,800)	84,800
	(90,800)	84,800
Total income tax expense	\$ 1,295,968	\$ 1,104,800

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

	<u>2022</u>	<u>2021</u>
Income before provision for income taxes	\$ 12,585,997	\$ 4,350,989
Combined federal and provincial tax rate	27.00 %	27.00 %
Income tax expense at statutory rate	3,398,219	1,174,766
Adjusted for the effect of:		
Non-deductible expenses	2,454	2,107
Non-taxable income	(2,104,632)	(72,113)
Other	(73)	40
	\$ 1,295,968	\$ 1,104,800

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17. Income taxes continued

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

	<u>2022</u>	<u>2021</u>
Deferred income tax assets		
Property and equipment	\$ 325,200	\$ 377,300
Loans	238,600	95,700
	<u>\$ 563,800</u>	<u>\$ 473,000</u>
	<u>2022</u>	<u>2021</u>
Deferred tax assets		
- To be recovered after more than 12 months	\$ 325,200	\$ 377,300
- To be recovered within 12 months	\$ 238,600	\$ 95,700

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 \$367,846 (2021 - \$375,416) were paid to defined contribution retirement plans during the year.

WEYBURN CREDIT UNION LIMITED
SCHEDULE OF NON-INTEREST EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
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SCHEDULE 1

	<u>2022</u>	<u>2021</u>
General business		
Amortization - equipment	\$ 347,002	\$ 309,564
Audit and regulatory inspection	106,291	82,906
Business development	402,756	376,500
Cash shortage	(372)	(4)
Computer costs	1,469,860	1,441,202
Legal, registration	45,157	45,910
Maintenance, insurance - equipment	98,848	86,137
Office	37,891	31,502
Service charges, clearing fees	600,263	528,509
Telephone, postage, courier	177,119	163,621
Other general business	211,165	242,003
	<u>\$ 3,495,980</u>	<u>\$ 3,307,850</u>
Occupancy		
Amortization - building	\$ 341,200	\$ 341,342
Maintenance, taxes, insurance - building	386,719	363,291
Utilities	94,994	83,341
	<u>\$ 822,913</u>	<u>\$ 787,974</u>
Organizational		
Annual meeting	\$ 856	\$ 1,232
SaskCentral and CCUA dues	151,059	146,546
Development - officials	29,853	15,511
Remuneration - officials	62,593	69,204
	<u>\$ 244,361</u>	<u>\$ 232,493</u>

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

SCHEDULE 1 - Continued

	<u>2022</u>	<u>2021</u>
Personnel		
Benefits	\$ 982,720	\$ 1,004,119
Development	155,548	103,462
Salaries	7,981,160	7,398,727
Travel - meals	10,720	2,227
Other personnel expenses	47,706	17,700
	<u>\$ 9,177,854</u>	<u>\$ 8,526,235</u>
Security		
Bonding insurance	\$ 82,587	\$ 82,595
Deposit guarantee assessment	460,055	437,395
Loan and savings insurance	-	12,000
	<u>\$ 542,642</u>	<u>\$ 531,990</u>