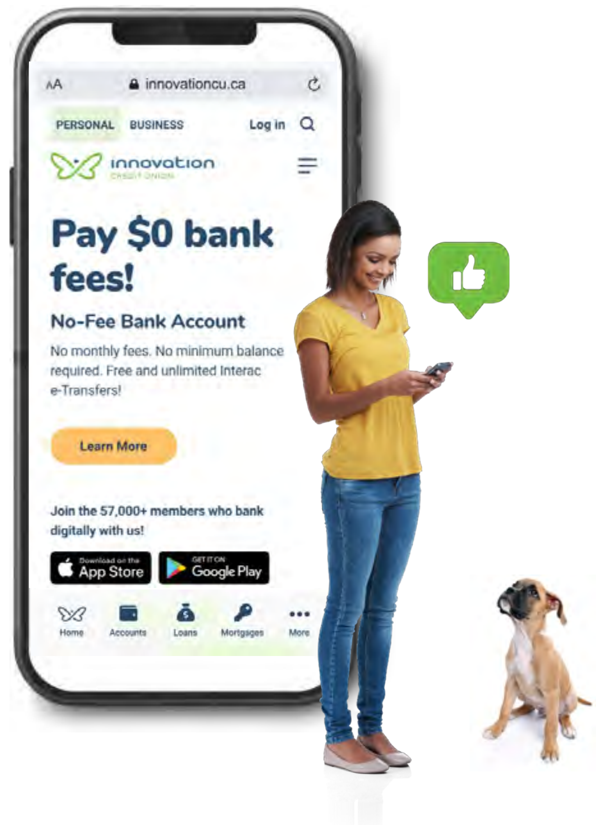
Innovation Credit Union 2021 Annual Report



Redefining banking to help Canadians simplify their lives.

innovation CREDIT UNION

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About Innovation Credit Union

Innovation Credit Union is one of the largest credit unions in Saskatchewan with over 400 employees and more than $4.047 billion in managed assets. We serve over 58,000 members across 24 advice centre locations and offer in-person service in both Regina and Saskatoon. With the overwhelming support of our membership, we are excited to be one of the first credit unions in Canada to be pursuing a Federal Credit Union charter under the Bank Act. As a member-owned cooperative, we provide quarterly returns to our members, and reinvest 2 - 4% of our pre-tax profits back into the communities we serve.

58,714
members
across eight Canadian provinces

24

advice centre locations

Innovation is one of the first credit unions in Canada to be pursuing a Federal Credit Union charter under the Bank Act

Assets Under Administration
$197.7 million (+5.1%) to end the year at **$4.047 billion**

433 employees

We strive to **redefine banking** by helping Canadians **simplify** their lives and reach their financial goals by **reinvesting profits** into our members, our communities, and our people.

Now that's **Responsible Banking**™**!**

Our Values

We believe in community. Part of creating exceptional value is giving back to the communities and regions we serve to ensure they prosper. We are financially strong, maintaining sound business practices and efficient levels of risk for long term sustainability. We are dedicated to adding value to your life. Thank you for being a member.

Integrity We say what we do; we do what we say.

Team We are successful together.

Respect We are courteous and concerned.

Accountability We take ownership.

Community We are involved and proud of it.

Knowledgeable We have the answer for you.

Service We deliver excellence. Members first!

Member First

At Innovation Credit Union we want to be known for our unwavering commitment to providing exceptional member service at every opportunity. Our employees are encouraged to provide members with the kind of service that they themselves would want to experience.

We continuously train new employees on our Member First philosophy to enhance our three C's approach (competence, courtesy, and concern) for members. We look to be more responsive to member needs in an anywhere/anytime service environment, adopting new methods of serving you to match how you would like to conduct your business.

Co-operative Principles

As a true co-operative financial institution, Innovation 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 also organized in a democratic manner.

Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the cooperative. 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.

Cooperation 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.

Board President's Message

I had hoped to start my President's Message with "the pandemic is finally over!" Alas, it is still at the forefront of our daily lives. I will however look back on 2021 as a year of not only coping and adjusting but also as one of planning for an exciting future. Knowing we were working to improve your financial lives truly boosted our morale, and for that we thank you.

You have probably now discovered our new website, online banking platform, and mobile banking app. The digital updates were made based on your feedback, a true testament as to how much your opinions and financial needs matter to us. I'm so incredibly proud of our Innovation staff team - the countless hours dedicated to this project in the form of testing, design, content, and user experience. It's beyond inspiring. Thank you for your patience as we sorted through bugs and for the kind words you are sharing about your new banking experience. We look forward to continued improvements and adding more exciting features for years to come.

The countdown is on for Innovation becoming a federally regulated credit union. We hope to obtain approval from the Office of the Superintendent of Financial Institutions (OFSI) in 2022. More work and preparation for this monumental event took place this past year. Thanks again to the Innovation team on their tremendous efforts on making this growth opportunity possible.

In the midst of all our exciting future plans and projects, at least one thing remained constant – your support of your Credit Union. Because of your business, we were able to distribute $1,915,299 in Member Rewards back to you.

We were also able to support our communities, investing $489,871 in the form of sponsorships, grants, and scholarships. Because of this community support, we were honored to once again be named as a Caring Company in 2021. Our Board, management, and staff, thank you for your continued support.

I have the privilege to work alongside such a talented, enthusiastic leadership team. A sincere thank you to my fellow Board members for their vision and passion for Innovation Credit Union and its members. Every Board member has a three-year development plan, attends a minimum of two training and development days each year, along with additional courses that build our governance skill set. You can trust this team always has your best interests in mind.

Our projects and planning in 2021 helped us further deliver on our purpose: to simplify banking for you, to help reach your financial goals, and to reinvest in your communities. Responsible Banking is simply the right thing to do and we're excited to look for additional ways to put that purpose into action. Thank you for another tremendous year. It's a pleasure to represent you.

Russ Siemens
Board President
@russ_siemens
linkedin.com/in/russsiemens

CEO’s Message

Member behavior has been changing for several years now with the pandemic accelerating the shift from traditional traffic in advice centres to more digital activity. Even before COVID, traffic in our advice centres was decreasing. As a result, we implemented technology so our advisors could remain engaged with members digitally, keeping their days full and extending the sustainability of our locations. I want to thank members for supporting this transition as we adapt to the hybrid work environment required by the modern consumer’s/member’s expectations. Whether you deal with us in person, digitally, or a combination of both, our digital investment is designed to simplify and reduce friction in your banking no matter what channel you use.

The path for Innovation remains exciting as we continue to near key milestones around becoming a federal credit union. This does not mean we will abandon those who made us successful or grow wildly across Canada. As a federal credit union, we will have more flexibility to continue our prudent growth, become more efficient, and reinvest in our credit union, members, and communities. We will expand partner relationships nationally, including fintech, to add more value for our members and organization. Our growth is intended to come from expanding relationships with current members and winning business from banks, not peer credit unions. All of this while protecting our co-operative values.

We will be diligent around our Responsible Banking platform including Environment, Social, Governance (ESG) as these are key areas stakeholders are becoming more aware of and putting more importance on. Innovation will continue to excel at the “Social” piece of ESG - telling our story, operating with social conscience, and promoting diversity and inclusion. We will also continue to build on our activities related to environmental and governance values that take into consideration the current and future impacts on our world.

Reflecting on our past, credit unions came about by redefining banking, back when banks did not provide essential financial services to consumers. Innovation feels it is time to redefine banking once again as financial institutions are ignoring underserved opportunities like new Canadians, Indigenous communities, the less affluent, and seniors. We have built the redefinition of banking right into our Purpose.

With co-operative values being core to our beliefs, we will continue to focus on growing our credit union by leveraging and protecting these values and principles. We will find new ways to be successful that incorporate traditional approaches but also discover exciting opportunities to engage with members, credit union partners from across the country, and identify new organizations to partner with. The scope of whom we can and want to partner with is substantial and not restricted by provincial boundaries or traditional credit union partners. Potential partnerships will focus on who shares our values and provides mutual benefit.

Finally, I want to thank the Innovation team. Our industry is being disrupted and as a result so is our credit union. Innovation is in a great place as our Board set in motion a strong Purpose and strategy a few years back to enable leadership to deal with disruption. And thank you to the amazing staff who fulfill our Purpose daily.

Dan Johnson
CEO
@johnsoda123
linkedin.com/in/danjohnson

Board of Directors

Russ Siemens
President

Michele Wilde
1st Vice President

Mike Davis
2nd Vice President

Joan Baer
Board Member

Bryon Zanyk
Board Member

Liam Choo-Foo
Board Member

Meagan Cockrill
Board Member

Ian Hamilton
Board Member

Gord Lightfoot
Board Member

Karen Yurko
Board Member

Bruce Sack
Board Member

Dayna Whitney
Board Member

Executive Team

Daniel Johnson

Chief Executive Officer

Sheldon Hess

Chief Financial Officer

Brad Appel

Chief Credit Officer

Dean Gagne

Chief Disruption Officer

Kent Jesse

Chief Risk Officer

Ian McArthur

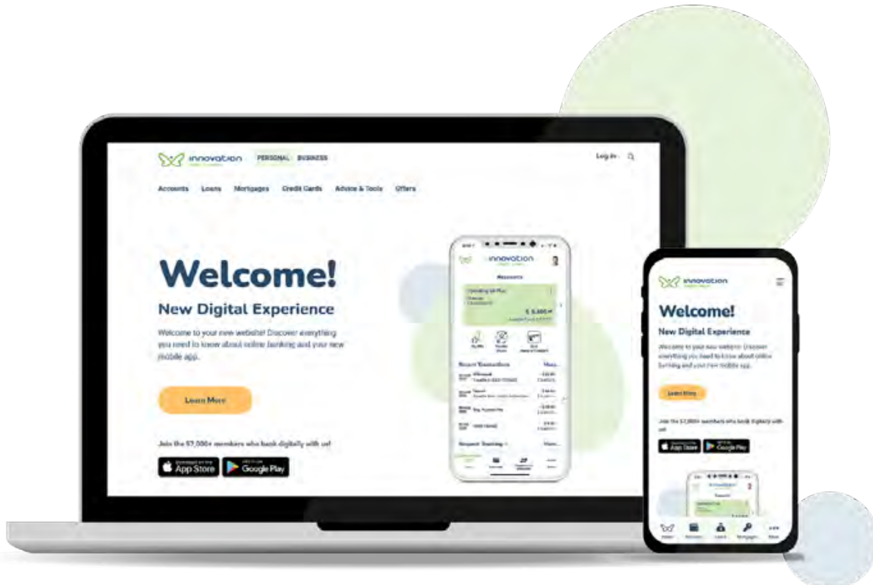
Chief People and Governance Officer

Cary Ransome

Chief Retail and Operations Officer

Company Highlights and Achievements Our achievements in 2021 were driven by your voice and your financial needs - from building our new website and digital banking platform based on your feedback to giving community dollars to organizations and local heroes you nominated. We're striving to redefine banking by helping Canadians simplify their lives and reach their financial goals by reinvesting profits into our members, our communities, and our people. Now that's Responsible Banking!

2021 Company Highlights



Based on member feedback, we began the development of a new, improved website and faster mobile app and online banking experience - set for launch in February 2022. Members will enjoy a more intuitive, convenient digital banking experience with many new, easy-to-use features – powered by Microsoft, VeriPark and Adobe Experience Manager technology.

2021 Member Referral Marketing Campaign

44 new members

With the health of our communities, staff and members in mind, we continued to stringently follow government and health authority safety guidelines to limit the advance of COVID in 2021 – which also included increased promotion of our digital banking service offerings.

2021 Company Highlights

Net Promoter Score (NPS) is based on every company's customers or members being divided into three categories: Promoters, Passives, and Detractors. Simply by asking the question, "How likely is it that you would recommend Innovation Credit Union to a friend or colleague?", we can gain clear measures of our performance through our members' eyes. Innovation Credit Union's net promoter score for 2021 for each category is as follows:

Consumer Members (Overall)

2021	2020	2019	2018	2017
42.0	37.3	37.7	43.3	44.8

Consumer Members (Primary Financial Institution Rating Only)

2021	2020	2019	2018	2017
50.9	47.8	47.2	48.2	53.3

4.7% increase

Consumer Members (Overall) NPS Score

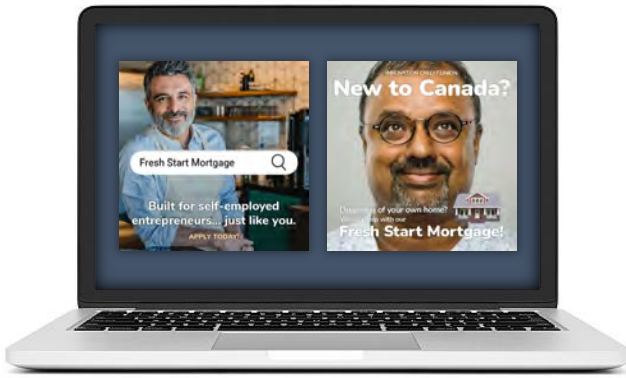
Incentivizing students with campus life cash

To further position growth within a key audience segment - university students – we developed a 'bundled' $400 incentivized campaign that included an Innovation Visa Card and No-Fee Bank Account.

2051 518
6279 1861

Innovation continues to grow its following and brand presence across four major social media platforms, which will include a launch onto TikTok in 2022.

2021 Company Highlights



The Fresh Start Mortgage Program was created to help entrepreneurs and new Canadians establish credit or re-establish their credit rating.

Innovation Credit Union gained 756 net new members boosting total membership to 58,714 and counting.

2021 saw 536 new members open an account utilizing our digital account opening process (AOSD).

Innovation Wealth experienced an 18.45% growth in assets in 2021 and celebrated the opening of a Saskatoon office location.

Save

34,413 members with
a No-Fee Bank Account

Earn

Paid Quarterly
$35.7 million paid since 2007

Give

$7.29 million since 2007

"Our shareholders are our members. We use profits in ways that will benefit them and their communities." - Olu Sunday, Consumer Advisor

2021 Corporate Scorecard Results

Category	Strategic Objectives		Performance Measures Actual	Performance Measures Target
Financial	Ensure efficient processes and productivity.	Efficiency ratio	76.78%	79.00%
	Achieve earnings equal to or better than budget.	Return on equity (RoE)*	5.50%	3.82%
Growth	Demonstrate and enhance member experience.	NPS	42.00%	42.00%
	Growth in membership is very important for future sustainability	Membership	58,653	58,805
Business	Closing of recommendations and findings	Federal Continuance	99%	100%
	Our digital infrastructure is critical for the engagement of our members and of our staff and allows our teams to be productive and efficient.	Organization-enabling infrastructure	52%	60%
People	Employee engagement is a priority as we believe that engaged leaders = engaged people = engaged members.	Employee engagement	57%	60%
	Improving quality and efficiency of meeting management practice allows leaders and staff to optimize their skillsets and talents to improve workflow and outputs.	Organizational capacity/meeting efficiency	$1,733,836	$2.3M
Risk	Internal processing and review of new credit requests to ensure high quality results in new lending opportunities.	Quality Assurance	80%	87%
	The Enterprise Risk Management function of the organization monitors risks across all areas	Enterprise Risk Management (ERM)	2.57	2.00-2.99

*excludes swap & venture capital market valuation adjustment

Corporate Social Responsibility Innovation has a long, distinguished history of reflecting the strength of its co-operative values by forging stronger, more diverse communities – driving community economic development, sponsorships, scholarships, and a wide range of charitable giving. Sustaining strong communities is at the core of the credit union difference.

Being an Innovation member means sharing in the success of the credit union. For simply doing business with us, we approved $1,915,299 in member distributions in 2021.

$1,915,299

Member Rewards

There are three facets of the Member Rewards program: Save, Earn, and Give.

Save
Members save on fees - as much as $360/year – with our No-Fee Bank Account.

Earn
Members earn quarterly patronage allocations to their Member Rewards Account based on the business they do with us. In 2021, $1,915,299 was returned to members in the form of allocations.

We also pay cash dividends based on the amount of equity members have. We paid $674,182 to members in the form of dividends. In addition, youth ages 18 and under receive $5 cash every 3 months, totaling $58,735.

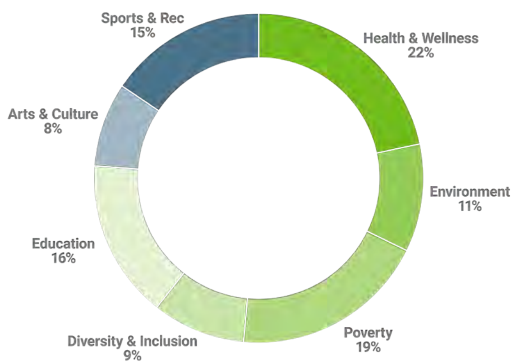
Give
Our members help us support our communities. Because we share our profits, their business helps us give back to the communities we serve.

Corporate Social Responsibility

Our goal is to give back 2% - 4% of pre-tax profits each year. In 2021, we invested $489,871 into our communities - in the form of sponsorships, naming rights, community development, and scholarships - resulting in 4.44% of pre-tax profits.

$489,871

to **local** organizations who are making a difference



Members told us health & wellness mattered most to them in a digital community survey we conducted. We were happy to donate $5,000 to the Canadian Mental Health Association (SK Division) on our members' behalf for participating.

We were honoured to be designated by Imagine Canada as a Caring Company once again in 2021. This designation is awarded to companies that lead by example and set the standard for corporate giving.

Corporate Social Responsibility

$20,000

The Innovation Community Impact Campaign supported local registered charitable organizations in Saskatoon and Regina. We gave away eight $2,500 donations. Residents nominated charities who they felt were deserving to win in their communities.

Our **$15,000** donation enabled the Canadian Mental Health Association (CMHA) to develop new courses and bring in new speakers for their H.O.P.E. Learning Centre Lunch Bytes webinar series.

In lieu of corporate Christmas gifts, we donated **$5,000** to **Teddy Bears Anonymous** to go towards the purchase of 1,000 teddy bears for sick children in Saskatchewan hospitals, EMS, and Air Medevac Services.

We donated **$5,000** in support of the British Columbia Floods and Extreme Weather appeal. After dangerous wildfires, many communities in BC then faced severe rainfall and flooding. Thousands of people had been left stranded. As a proud member of the Canadian Credit Union Association (CCUA), Innovation joined other credit unions to support the Canadian Red Cross.

Corporate Social Responsibility

"Supporting and sustaining strong communities is at the core of the credit union difference." - Malina Combres, Marketing Specialist, Community

Scholarships and Spirit Awards

$50,500

in scholarships and awards given to empower

54

Saskatchewan students

Innovation Staff Donations

$20,663

donated to four charities based on $2 per pay period

Nominate a Saskatchewan

Healthcare Hero!

On Credit Union Day, Innovation recognized fifteen nominated Saskatchewan healthcare heroes with **$500** each for their ongoing, tireless, and dedicated efforts during the COVID-19 pandemic.

Community Development Grant & Legacy Fund Program

$65,000

given to **10** deserving organizations and community projects

Community Development Grant

Hafford Fire Department: Wildland Vehicle Upgrade Project - $10,000

City of Swift Current: Safe Places Prevent It Project - $5,000

Eastend: Memorial Hall Heating Boilers Replacement Project - $5,000

Meadow Lake Curling Club Inc: Renovations Project - $5,000

Dr. Noble Irwin Regional Healthcare Foundation: Cabri Prairie Health Care Centre Digital Radiology System Replacement Project - $5,000

Goodsoil Legacy Fund

Goodsoil Recreation Community Hall Board: Upgrades & Renovations Project - $5,000

Goodsoil Historical Museum: Mcrae House Restoration Project - $5,000

Goodsoil Minor Ball: Kitchen & Washroom Facility Project - $5,000

Goodsoil Central School: SCC Walkway Expansion Project - $5,000

Pierceland Legacy Fund

Pierceland Recreation Association: Arena Energy Efficiency 7 Improvement Project - $15,000

Investing in our Employees

As an employer, Innovation Credit Union is recognized for progressive policies such as competitive fixed and variable compensation, flexible benefit plans, flexible work schedules, supporting volunteer work, employee wellness plans, and educational support. We work to ensure our employees are proud, feel valued, and are actively engaged in the achievement of our corporate vision.

Innovation Young Leaders (IYL) Committee

Formed in 2013, IYL is a cross organizational committee of young individuals 35 years and younger, looking to foster professional development. The purpose of the committee is to create an environment that will increase the development and engagement of young leaders, to empower other young leaders to grow, and to create initiatives that help attract this essential demographic to our credit union.

iMentor Program

The iMentor program allows more experienced Innovation employees to give back by helping others grow. 2021 was the fifth year of a collaborative partnership with Cornerstone Credit Union. Eight pairs of employees were matched between the two credit unions.

15 summer students

hired in 2021

$494,390

total learning & development spend

Development Index

96.8%

employee participation in professional development

"Summer students have made key contributions to Innovation optimizing its digital environment." - Mark Clements, SVP Business Advisors

Environmental, Social, and Governance

10 days

Innovation staff were provided up to ten paid days if they were impacted by COVID. As well, a large majority of employees were enabled to work from home or in a work/home 'hybrid' format.

Innovation formalized a 3-year extension of its partnership with the Canadian Centre for Diversity and Inclusion (CCDI), while also providing and supporting diversity learning opportunities for staff and the creation of a company-wide diversity celebration calendar.

Female Leadership Team Representation

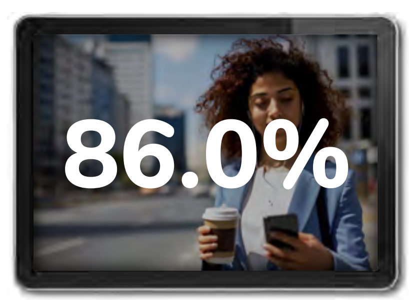
63.6%

Female Board Representation 42.0%

55 Total Leadership Team Members
35 Female / 20 Male

12 Total Board Members
5 Female / 7 Male

As the COVID pandemic lingered on into 2021, we continued to provide members - who were facing financial hardships - access to relief measures.



86.0% of all Innovation financial transactions were performed through digital, self-serve channels.

16.2%

of Innovation staff identify as a member of a designated group – visible minority, Indigenous or disabled.

includes employees, mangement and directors

In 2021, we began the process to convert over 80% of our paper-printed brochures to digital-only formats that will only be printed out upon request.

Corporate Structure and Governance Innovation Credit Union is a financial co-operative governed by a Board of Directors, accountable to the member owners of the credit union. Innovation Credit Union is committed to meeting the standards of legal and regulatory requirements in order to maintain member confidence and demonstrate financial success.

Corporate Structure and Governance

Innovation Credit Union (the Credit Union or Innovation) is a financial co-operative governed by a Board of Directors accountable to the member owners. To maintain member confidence and demonstrate financial success, Innovation is committed to meeting or exceeding the standards of legal and regulatory requirements.

The Credit Union is regulated by The Credit Union Deposit Guarantee Corporation of Saskatchewan (CUDGC) and must comply with The Credit Union Act, 1998; the Credit Union Regulations 1999; The Standards of Sound Business Practice; Innovation's bylaws and policy; and other applicable provincial and federal laws. The Credit Union provides regular reporting to CUDGC and is subject to periodic risk- based examinations.

In December of 2017, the membership of Innovation Credit Union provided a mandate to the Board and management of Innovation Credit Union to pursue continuance as a Federally Chartered Credit Union under the Bank Act. The Credit Union submitted its formal application for Continuance to the Office of the Superintendent of Financial Institutions (OSFI) in July of 2018 and is actively working with OSFI on the application review and approval process.

Innovation Credit Union employs a modern and effective use of governance and risk frameworks to ensure the Credit Union is managed and operated in a sound and prudent manner. The Board ensures that the Credit Union maintains high standards for its governance framework and governance of the Credit Union.

Nomination Process

Directors are elected by members based on district. Terms are three years, and renewable with no term limits. Nominees are able to put their name forward by submitting their papers through the process identified in Innovation's bylaws. The voting period is a minimum of seven days with voting being performed either electronically or by paper. Election results are announced at the Annual General Meeting.

Board Composition

The Board is composed of 12 individuals, elected by the Credit Union's membership. Committee composition is determined by the Board through analysis of individual Director's experience, education and competencies so that Directors are able to be effective on the Committee they serve.

Diversity

Innovation Credit Union seeks to maintain a Board comprised of talented and dedicated Directors with a diverse mix of expertise, cooperative philosophy, experience, skills and backgrounds. Ideally, the Board will reflect the diverse nature of the business and the members. Within Innovation's Board Diversity Policy, the Credit Union seeks to maintain a Board in which no one gender represents more than 70% of directors.

Board of Directors

Russ Siemens

Board President

Director Since: 2007
Term Expiry: 2023
Swift Current

Russ is highly engaged in current leadership practices, has substantial governance experience, and has a strategic mindset. He has recent certifications in Governance (ICD.D, 2014), Fintechs (MIT, 2015), Cybersecurity (ISACA, 2017), Diversity and Inclusion (CCDI, 2019), and Environmental Sustainability (NYU, 2021- in progress).

He is consensus-motivated with significant HR, financial services, and educational administration experience. Following a fulfilling 30-year career serving educational communities, he presently focuses on using his team-building skills to lead boards in providing a clear vision, adding exceptional value and sustainable results for stakeholders.

He is future focused and an innovative thinker with an entrepreneurial orientation. He also has vast experience leading organizations through complex change processes.

Michele Wilde

1st Vice President
Chair of Corporate Governance and People Committee

Director Since: 2018
Term Expiry: 2022
Meadow Lake

Michele has been an active member in her community of Meadow Lake, SK. She has served as Director on numerous boards, specifically in the Co-operative sector. This experience has created a passion for the credit union system and co-operative values and principles that it follows.

In addition, for over 22 years Michele owned and managed a small business leading to her development and knowledge in Human Resources. At the same time, Michele also worked as an advertising consultant developing accounts and relationships with local businesses to build their brands and business.

As a devoted lifelong learner, Michele is currently working towards receiving her Governance Professional Director Accreditation.

Board of Directors

Mike Davis

2nd Vice President
Chair of Audit and Conduct Review Committee

Director Since: 2007
Term Expiry: 2023
Swift Current

Mike is the Pharmacist/Manager at Pioneer Co-op in Swift Current. He currently serves on the Saskatchewan College of Pharmacists Board and has held different chair positions throughout his tenure. Previously, Mike served on Southwest Credit Union Board. He has also coached and officiated Swift Current Minor Football.

Joan Baer

Board Member

Director Since: 2019
Term Expiry: 2022
Goodsoil

Joan is the owner of Baer Values which provides consulting services in the areas of strategic planning, risk management, CEO performance evaluations, capital and liquidity management, business cases and project management. During her career, Joan focused on implementing internal audit functions for Saskatchewan credit unions. She is a passionate, strong motivator and committed team player with enthusiastic leadership, communication, decision making, problem solving and interpersonal skills. She holds an MBA in Executive Management, Organizational Management Project, and ACUIC Designation.

Liam Choo-Foo

Board Member

Director Since: 2021
Term Expiry: 2024
Swift Current

Liam is the former CEO of the Chinook School Division where he oversaw a multimillion-dollar budget and over 1,000 staff members.

Liam has experience that will be valuable to move Innovation Credit Union forward in the future with the combination of Board Governance training and practical experience as both a CEO and Board Chair. He has proven successful experience leading as well as directing organizations.

Liam is excited about the thought of leading a smaller scale financial institution into the federal space. His professional and volunteer experience ensures he is a productive Innovation Board member. Liam gets great satisfaction in being a member of a team that accomplishes great things.

Board of Directors

Meagan Cockrill
Board Member

Director Since: 2021
Term Expiry: 2024
Battleford

Meagan is currently employed by the Targeted Strategies Group as a Business Optimization Consultant. She brings not only an impressive educational background, but also a lot of experience working in audit, compliance, financial and operational analysis. Meagan's interest in being a Director for Innovation Credit Union is twofold:

- due to Innovation's community-driven approach, and
- her excitement about Innovation's vision to be the most responsive and innovative financial services organization

Ian Hamilton
Board Member

Director Since: 2017
Term Expiry: 2024
North Battleford

Ian believes Innovation becoming federal is a strategy for our credit union to remain relevant in today's digital environment – by providing banking services for members when, where and how they choose – and to ensure Innovation can attract capital from a wider range of the Canadian population than currently allowed by provincial regulation. He believes this strategy will ensure that we remain strong and maintain the ability to serve our members for many years to come.

Gord Lightfoot
Board Member
Chair of Risk Committee

Director Since: 2007
Term Expiry: 2022
Swift Current

Gord is a farmer in southwest Saskatchewan. He has many years of experience in the governance of co-operative and has sat on the Boards of Concentra Financial, Credit Union Deposit Guarantee Corporation, SaskCentral, and Credit Union Central of Canada. He is very passionate about the credit union system and the values and principles of co-operatives. Gord wants to ensure that all members have their voices heard and that the credit union remains democratic.

Bruce Sack
Board Member

Director Since: 2010
Term Expiry: 2023
North Battleford

Bruce was elected to Innovation Credit Union's Board in 2010 and held the position of Board President from 2015-2020. He is a 2014 graduate of the accredited Credit Union Institute of Canada through Dalhousie University. He was employed from 1973 to 2003 in various management positions including Branch Manager of both Battleford and North Battleford Credit Union branches, Special Projects Manager, Business Development Manager, and Human Resources Manager. He retired as the VP of Business Development and Human Resources.

Board of Directors

Dayna Whitney
Board Member

Director Since: 2021
Term Expiry: 2024
Eastend

Dayna is self-employed working for a virtual bookkeeping and accounting business based in a small rural town in southern Saskatchewan, where she has grown up dealing with the credit union and sees the value in it and its core principle of giving back to the members/owners. Her accounting and bookkeeping experience have provided her with knowledge of financial literacy. Dayna also is very comfortable with technology using new software and platforms that are required for her virtual business.

Dayna is passionate about the financial industry and cares about members of yesterday, today and tomorrow. She values the different functions within the community that the credit union supports and would like to see that continue.

Karen Yurko
Board Member

Director Since: 2019
Term Expiry: 2022
Pierceland

Karen is an effective public speaker, has proven leadership and people skills, and an ability to absorb and analyze data through margin analysis and strategic planning. She has a keen interest in serving her community and applying the co-operative principles in her work as a Director. Karen was a Director of Pierceland Credit Union for 19 years and the Board Chair and Delegate for SaskCentral. She completed the Credit Union Director Achievement program (CUDA), and in 2021 she received her ICD.D director designation.

Bryon Zanyk
Board Member
Chair of the Community and Member Relations Committee

Director Since: 2016
Term Expiry: 2023
North Battleford

Bryon has worked for over 20 years at North West College in various roles ranging from marketing, analytics, and human resources. He holds a B.S.A, M.Sc and has completed the Directors Education program offered through ICD.

Serving his community is important to Bryon. He has served as director on the Battlefords' Boys and Girls Club and Battelfords' Tourism. He was also the project leader for 'Industry Canada's Community Access Project, Battleford'. The combination of Bryon's education, practical experience, co-operative values, and interest in economics and finance are valuable skills to the Innovation Board.

Competencies

In 2021, the Board approved a revised Competency Matrix. The revised Matrix was utilized for the 2021 Director Self Assessments which determined potential competency gaps on the Board. The Matrix can be found as **Appendix A**.

	Senior Leadership Experience	Other Board Experience	Financial Literacy	Accounting	Human Resources & Compensation	Governance & Ethics	Strategic Planning & Sustainability	IT & Security	Financial Services	Regulatory & Compliance	Growth & Market Expansion	Risk Identification & Management	Digital Technology	Leadership with Co-operatives	Stakeholder Engagement & Community Leadership
Bruce Sack	✓	✓			✓	✓			✓			✓		✓	
Byron Zanyk	✓		✓		✓		✓	✓	✓						✓
Dayna Whitney			✓												
Gord Lightfoot	✓		✓			✓	✓								✓
Ian Hamilton		✓	✓	✓		✓									✓
Joan Baer	✓		✓	✓		✓	✓		✓	✓		✓		✓	
Karen Yurko		✓													✓
Liam Choo-Foo	✓	✓	✓		✓	✓	✓			✓					✓
Meagan Cockrill			✓	✓											
Michael Davis	✓	✓	✓	✓	✓	✓	✓		✓		✓	✓		✓	✓
Michele Wilde	✓	✓	✓		✓	✓			✓		✓			✓	✓
Russ Siemens	✓	✓	✓		✓	✓	✓	✓		✓				✓	✓

✓ = 4 (advanced) or 5 (expert) ranking

Corporate Structure and Governance

Board Independence/Affiliation

At all times, the majority of Innovation's Board and committee members will be independent to ensure that Directors are able to preserve independent, objective and prudent business judgement, and provide unbiased leadership for the credit union.

No more than ⅔ of the Board can be affiliated to Innovation, as per definition of affiliated in the Bank Act. In 2021, ¼ of Directors were affiliated. The Innovation Board of Directors was completely independent in 2021. The Board and its committees met in camera, without management present, at minimum once every meeting.

Primary Financial Institution

As per the Bylaws of Innovation Credit Union, all Directors are required to use the credit union as their primary financial institution. We define primary Financial Institution as:

> *The requirement to use Innovation Credit Union as a Director's primary financial institution will be considered satisfied if the Director has a personal account that has activity indicating usage as a transactional account demonstrated by monthly activity of both payments (outflows) and deposits (inflows). The requirement may also be supported through an active savings, lending or wealth management relationship that would indicate engagement with the credit union.*

All Directors meet this requirement.

Director Attendance

Directors are required to attend a minimum of ⅔ of all Board and committee meetings. Board meetings are held at least quarterly (following fiscal quarter-end), and in December and June. Standing committees meet prior to the Board meeting to review and recommend the resolutions to the full Board.

Director Remuneration

Remuneration for Board members is in accordance with Innovation's Elected Officials and Remuneration Policy. Directors receive an honorarium payment, in recognition of a Director's service, event attendance, preparation for meetings etc. Per diems are also paid for attendance at meetings and formal training.

Director Expenses

Innovation reimburses Directors for accommodation, travel, and food expenses. In 2021 the total cost of Director expenses was $14,641.21.

See table on following page for attendance and remuneration disclosures.

Attendance and Remuneration

	Attendance		Committee Structure						Remuneration
	Committee Meeting	Board Meeting	Audit & Conduct Review Committee	Risk Committee	Community & Member Relations Committee	Corporate Governance & People Committee	Technology Committee	Federal Continuance Committee	Per Diem and Honorarium incl. Taxable Benefit (in dollars)
Joan Baer	11/12	6/6	✓	✓					27,308
Bruce Sack **P**+	8/8	6/6		✓		✓			34,882
Bryon Zanyk	10/10	6/6		✓	✓ C		✓		28,033
Dayna Whitney**	7/7	4/4	✓		✓				20,091
Gordon Lightfoot	7/8	6/6	✓	✓ C					27,600
Gwen Humphrey*	3/3	2/2					✓	✓	9,500
Ian Hamilton	10/11	5/6	✓	✓ +	✓				23,683
Jerome Bru*	1/1	2/2			✓			✓	7,925
Karen Yurko	11/11	6/6		✓		✓		✓ C	33,608
Liam Choo-Foo**	7/8	4/4		✓		✓			18,089
Meagan Cockrill**	7/7	4/4	✓		✓				17,739
Michele Wilde **VC**	10/10	6/6			✓	✓ C	✓		33,708
Mike Davis **VC**	10/11	6/6	✓ C						27,358
Murali Krishnan*	3/3	2/2		✓			✓ C	✓	10,294
Russ Siemens **VC**+, **P**	7/7	6/6	✓+				✓	✓	36,585
									Total 356,409

*Director until April 2021 **Director since April 2021 + Pre-Reorganization Meeting 2021 **C** - Committee Chair **VC** - Vice Chair **P** - President

Corporate Structure and Governance

Board Succession, Effectiveness and Renewal

Annually the Board of Directors reviews its Succession Plan (as outlined in the Board Mandate) which ensures the appropriate level of governance is always achieved with minimal disruption during Board turnover. The plan focuses on maintaining a balance of competencies, tenure, diversity and commitment to co-operative principles. Throughout the succession planning process, the Board considers the need of any potential emerging technical skills and expertise required on the Board because of evolving priorities, risks or changes in Innovation's business operations.

Director Education/Development

Innovation encourages and supports Directors' ongoing learning and development. During 2021, Directors continued to demonstrate their commitment to education and personal development both through individual development plans and as a full Board. The Board as a whole, engaged in development on:

- Payment modernization
- Environmental, Social, and Governance (ESG)
- Governance and Risk as a Federally Regulated Financial Institution
- Policy amendments to align with Federal Regulation
- Fundamentals of digital platforms

Some topics that were explored by individual Directors in 2021 include, but are not limited to:

- Credit Union Director Achievement Program
- Institute of Corporate Directors (ICD) Professional Designation
- Co-operative Governance
- Indigenous Awareness
- Compensation
- Financial Consumer Agency of Canada (FCAC)

Board Highlights

The Board was successful in moving forward several important initiatives in 2021. Notable initiatives include:

- Continued focus on digital strategy and commitment to the implementation of the VeriPark digital banking platform
- Evolution of governance practices through approval of policies to further guarantee independence and transparency
- The creation of a subsidiary, Innovation Wealth, to hold the wealth and insurance business lines of Innovation through its continued commitment to continuance as a Federal Credit Union
- CEO 2020 performance evaluation
- The increase of dedicated strategy sessions with topics including: ESG, diversity and inclusion (with a focus on Indigenous persons and communities), marketplace disruption, digitalization, and human resources strategy that includes the attraction and retention of talent

Committee Highlights

The Board has four standing committees that have been delegated responsibilities through their respective Terms of Reference. This delegation of responsibilities enables a clear focus on specific areas vital to the effective operation of the credit union.

In addition to the standing committees below, the ad hoc Technology Committee and Federal Continuance Committee were sunset in the spring of 2021, after fulfilling their mandates. Oversight of these areas continue to be reviewed by the full Board as part of the credit union's strategic initiatives.

Audit and Conduct Review Committee

(formerly the Audit and Finance Committee)

Six Directors and Board President

The Audit and Conduct Review Committee (ACRC) oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators, and reviews internal control procedures.

2021 Committee Accomplishments

- Approval of the annual internal audit plan
- Approval of the Internal Audit Charter
- Streamlined the Corporate Policies that are overseen by the ACRC
- Review of the 2021 audited financial statement
- Review of oversight function budgets
- Review of the 2021 external audit plan
- Review Related Party Transactions
- Recommended the approval of Capital and Liquidity Plans to the Board
- Quarterly review of current financial position and variances to plan along with projected financial results

Corporate Governance and People Committee

Five Directors and Board President

The Corporate Governance and People Committee establish and maintain effective governance guidelines, ensure the performance and succession of senior leadership, monitor people practices, and ensure compliance with governance policies and Innovation Credit Union bylaws. The Committee oversees the nomination and election processes for elections of credit union Directors.

2021 Committee Accomplishments

- Engaged a third party to assist in updating the Board Competency Matrix
- Performed Director self-assessments against the Competency Matrix
- Approved new Board and Committee Chair mandates
- Modernized the Compensation, Board Diversity, Director Development, Subsidiary Governance, Board Independence, Board Succession and Meta Corporate Policies
- Created an In Camera Policy
- Created development plans for each director
- Completed the 2021 Nomination and Election process and cycle and onboarded three new Directors
- Aligned compensation principles and guidelines to the Financial Stability's Board Principles for Sound Compensation

Risk Committee

(formerly the Risk and Conduct Review Committee)

Six Directors and Board President

The Risk Committee ensures that Innovation Credit Union acts with the full integrity and objectivity of its Directors and employees by having in place policies, practices and frameworks that protect people and the organization from claims and from the perception of unfair benefit or conflict of interest.

Corporate Structure and Governance

2021 Committee Accomplishments

- Reviewed, updated and approved necessary corporate policies and frameworks that are overseen by the Risk Committee including: Internal Capital Adequacy Assessment Process (ICAAP), Internal Control, Operation Risk and Enterprise Risk Management Frameworks
- Received regular reporting on risk assessments
- Updated the Risk Appetite Statement, including the Impact Matrix
- Completed annual risk assessment, identifying corporate risks for Innovation
- Expanded and enhanced our Risk Dashboard and Risk metrics
- Reviewed of oversight function budgets
- Recommended the approval of the Contingency Funding Plan to the Board

Community and Member Relations Committee

Five Directors and Board President

The Community and Member Relation Committee ensures an effective framework for social responsibility by ensuring the credit union is effectively linked to and contributing to the community. They establish efficient and effective service delivery channels to serve current and future members and to oversee the implementation of member education programs. The committee also maintains an effective mechanism to understand member needs and ensure the membership's voice is integrated in governance and operations.

2021 Committee Accomplishments

- Reviewed the Net Promotor Score survey results (Consumer, Business and Wealth) and action planning where required
- Received reporting on member trends and growth including 'surge' quarterly updates
- Received updates relating to implementation of the VeriPark platform and OSFI Complaint reporting
- Reviewed and discussed Fintech Strategy
- Reviewed and discussed Underserved Strategy
- Demonstrated Robotic Process Automation (RPA) roBOT (BOT)
- Reviewed community spend for 2021 (4.44% of net income before tax)

Daniel Johnson
Chief Executive Officer

Daniel Johnson is the Chief Executive Officer of Innovation Credit Union and has over 20 years of experience in the credit union system. Other current responsibilities include board governance positions for: Concentra Bank (Chair) and Westcap MBO Investment GP Inc.

His prior positions include Chief Executive and Senior Executive position in the Alberta credit union system; various managerial positions at SaskCentral, Concentra and in the Saskatchewan credit union system. Prior governance experience includes: Credit Union Electronic Account Management Services (CEAMS); Celero Solutions - Governance Committee; former chair of the Canadian Credit Union Executives Society (CUES); and Apex Investment Fund.

Throughout his life, Daniel has been committed to education and continuous study. He is a Chartered Director (C.Dir.) from McMaster University the Director's College. Additional post-secondary educational achievements include a Bachelor of Commerce degree from the University of Saskatchewan and presently, Daniel is a Chartered Financial Analyst (CFA) candidate and has completed levels I and II of the program. His other professional development accomplishments include studies in the areas of negotiations (Ivey) product and project methodology, change management and strategic management.

Daniel believes in community volunteerism, which reflects his personal values and priorities. His dedication to community is evident by his involvement in coaching youth sports. Past involvement includes: CurePSP, Rotary Club of Rocky Mountain House (President), President of BabyBiz, Board member of the Saskatchewan Science Centre, member of the Financial Executives Institute (FEI), former Board Vice President of ACE Credit Union and past President of the Treasury Management Association of Canada (TMAC) - Regina Chapter.

Daniel, his wife Laureen, and two children; Hunter and Kamryn live in Swift Current. Hunter and Kamryn stay very active with hockey, baseball and school sports. They all love camping and travelling.

Sheldon Hess
Chief Financial Officer

Upon graduation from the University of Saskatchewan in the spring of 1995 with a Bachelor of Commerce degree, Sheldon began his credit union career with Moosomin Credit Union in the fall of 1995. Early in 1997, Sheldon moved to Swift Current and has worked in various capacities with the credit union since that time.

Sheldon is committed to lifelong continuous learning which is evident in the following academic achievements:

Corporate Structure and Governance – Executive Team

- Executive MBA
- Post-Baccalaureate Diploma in Management
- Bachelor of Commerce – accounting major
- Certified Financial Planning (CFP) designation
- Associate with the Credit Union Institute of Canada (ACUIC)

Sheldon was born in Yorkton, SK and raised on a farm east of that community. he and his wife Barb have two children, Duncan and Chloe. Sheldon enjoys spending time with his family and traveling.

Brad Appel

Chief Credit Officer

Brad has over 28 years of experience in the credit union system, spending the past 15 years at the executive level. With a passion for credit management, Brad has strategically expanded Innovation's quality assurance and portfolio management programs.

His leadership background in operational improvement and productivity has earned him a vast array of relationships across the industry. He has an ongoing focus on development with designations in Fellow of the Credit Union Institute of Canada and Business Administration (Management).

Brad has volunteered with many community organizations, and keeps busy coaching hockey, softball and volleyball.

Brad was raised on a mixed farm near Lucky Lake, Saskatchewan and is a sports enthusiast who enjoys the outdoors and spending time with his family and friends. He and his wife Brandie have three daughters: Shelby, Paris, and Vegas and live in Swift Current.

Dean Gagne

Chief Disruption Officer

Dean Gagne is the Chief Disruption Officer of Innovation Credit Union. Dean has been with Innovation since December of 2013, previously holding the position of Vice President, Alternate Channel Banking. Dean has over 25 years of experience in the financial services industry.

Prior to joining Innovation Credit Union, Dean's work experience covered research, consulting, strategy, technology management, digital marketing, marketing, and advertising. He has worked on projects for Fortune 500 companies in Canada, the United States, England, Sweden, Germany, Hong Kong, Taiwan, China, Korea, Philippines, Malaysia, Singapore, Thailand, Indonesia, New Zealand, Australia, and India. Dean has previously held high-level research/consulting positions, as well as line management positions, for leading edge corporations and consulting firms.

Corporate Structure and Governance – Executive Team

Dean brings a vast amount of business experience to every project, as both a practitioner and an academic. Aside from managing full time, he has taught marketing strategy, consumer behavior and marketing research for several universities throughout the world.

Dean was educated (both undergraduate and graduate studies) at the University of Saskatchewan. His undergraduate studies were in Marketing and Finance (B.Comm. program) and his graduate studies focused on Strategic Thinking and Technology Management (M.Sc. program).

Dean, and his wife Katherine and their three daughters, live in Regina, Saskatchewan, Canada. His two oldest daughters are both enrolled in the Desautels Faculty of Management at McGill University. Dean was born in North Battleford, SK and grew up on a farm just south of Medstead. He is Metis, which is one of Canada's three distinct Aboriginal groups identified in the Canada Constitution.

Kent Jesse

Chief Risk Officer

Kent has a Bachelor of Commerce degree from the University of Saskatchewan.

Kent has 25 years of experience in the credit union system and has held senior leadership positions in the Saskatchewan, Manitoba, and British Columbia systems in the areas of human resources, operations, marketing, strategy, and project management.

Kent has volunteered with many community organizations and has helped several non-profit organizations in the areas of strategy and business planning. Raised in Medstead, SK, he and his wife Shalain have two children, Makenzie and Lake.

Ian McArthur

Chief People and Governance Officer

With twenty years in the credit union system, Ian has a deep and intimate knowledge of credit unions and an undeniable commitment to the credit union community. Ian joined Innovation Credit Union in April of 2015 and provides leadership to the People Division and Operations Support Team. He also provides oversight to the credit union's governance practices.

During his 15 plus years at SaskCentral, Ian gained a wealth of operational experience and earned a reputation of being an innovative leader and trusted and effective facilitator. He had the responsibility of managing the department responsible for credit union operations such as internal audit, risk management, training, operational compliance, deposit and lending support, cash and armored car services, HR consulting and strategic planning. Ian has worked with credit union board and executive teams from across Canada. He takes pride in his leadership abilities and his success in having people look for new opportunities to create efficiencies that enhance the member experience.

His education has greatly supported him throughout this journey. Ian graduated with a Bachelor of Commerce Degree majoring in General Business from the University of Saskatchewan and followed that up with a Fellow of the Credit Union Institute of Canada designation. Through Queens School of Business, he has certificates for executive education in leadership and strategy.

Ian lives in Regina with his wife Donna and two young daughters, Hayley and Sara. In his spare time, he is an avid fisherman, camper, enjoys travel and is a fan of the Oilers and the Roughriders. He is an active volunteer with particular emphasis on pediatric healthcare. His family has actively supported numerous fundraising activities for the Saskatchewan Children's Hospital Foundation and the Pediatric Outpatient Clinic of Regina General Hospital. He also sits on the Pediatric Steering Committee for the Regina Qu'appelle Health Region.

Cary Ransome
Chief Retail and Operations Officer

As Chief Retail and Operating Officer, Cary Ransome leads the Retail Operations Team at Innovation Credit Union. With 30 years of experience in the banking and credit union industry, this passionate and motivated leader is committed to delivering a world-class member experience for all Innovation members.

Throughout his career, Cary consistently demonstrates success in areas such as sales, sales management, succession and talent management along with innovation and strategic leadership. He firmly believes in building and supporting teams to maximize the attainment of goals and solving problems.

Cary's banking credentials are supplemented by a Master of Business Administration degree as well asa Personal Financial Planner designation and various courses through the Canadian Securities Institute. He has also made a lifelong commitment to building better boards and better business by successfully completing his ICD- Directors Designation.

Cary's desire to share his knowledge, energy and leadership are not just a 9-5 commitment - it continues to flow into his support of his community through past and present engagement.

Executive Compensation

The Executive compensation packages for Innovation Credit Union are designed to retain talented and experienced leaders while ensuring high integrity and market competitiveness. Performance based metrics found both in the corporate scorecard as well individual performance objectives determine a portion of the compensation for the Executive Team each year. The credit union must meet a minimum threshold of financial performance in order for Executives to be eligible for variable compensation.

Innovation is aligning compensation for Executive and Senior Management in the role of oversight functions to the Financial Stability Board Principles for Sound Compensation. Any areas of misalignment have been identified and a plan is in place to ensure any gaps are mitigated.

The information below provides transparency into the compensation of Innovation's Executive Team.

	Salary	Variable Pay	Benefits	Total
CEO	400,506	78,000	54,155	532,661
Executive Team	1,396,323	170,000	206,050	1,772,373

*All values are rounded to the nearest dollar

Ethics

Innovation Credit Union ensures that it acts in a transparent manner and provides all of the necessary disclosures to provide members and other key stakeholders with the appropriate information to allow them to make informed decisions and encourage confidence in the credit union. This includes:

- Protecting consumers, the credit union follows the Saskatchewan Credit Union Market Code. The Board of Innovation Credit Union is required to approve, oversee and periodically review and assess the effectiveness of policies and procedures respecting market practice that ensure good business practices and fairness to consumers. The Market Code can be found in Appendix X.

- Respecting the privacy of its members and customers, through the Board's adopted Credit Union Code for the Protection of Personal Information. The Credit Union has policies and procedures in place to protect your privacy and the right to protect the collection, use and disclosure of personal information. Further information can be found on our website at www.innovationcu.ca/legal/privacy-and-security.html

- Outlining the expectation for business conduct and decision making through its Code of Conduct and related procedures and practices. Annually, the Code of Conduct is signed by all employees, officers and Directors acknowledging that they have read, understood and complied to the code. In addition, the credit union has a Whistleblower Policy which is reviewed biennially by the Board.

Co-operative Industry Directorships

Director Russ Siemens served on the Board of Directors of SaskCentral where he held the position of Chair. Mr. Siemens' term expired in April 2021 at which time he did not seek re-election.

Ian McArthur, Chief People & Governance Officer, was elected to the Board of SaskCentral in April 2021 for a three-year term.

Cary Ransome, Chief Retail & Operations Officer, serves as a Director of Concentra Bank. Mr. Ransome is a nominee of the majority shareholder, SaskCentral.

Management Discussion and Analysis

This Management's Discussion and Analysis (MD&A) is presented to enable readers to assess material changes in the financial condition of the operating results of Innovation Credit Union (Innovation) for the year ended December 31, 2021, compared with prior years, planned results and future strategies. This MD&A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the year ended December 31, 2021 and should be read together. The MD&A includes information up to March 4, 2022. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from Innovation's annual Consolidated Financial Statements.

Caution Regarding Forward-Looking Statements

This MD&A may contain forward-looking statements concerning Innovation's future strategies. These statements involve uncertainties in relation to prevailing economic, legislative, and regulatory conditions at the time of writing. By their very nature, forward-looking statements are based on assumptions that involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections, and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the credit union believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

Factors That May Affect Future Results

Although Innovation is based in Saskatchewan, the economic and business conditions in Canada and abroad can impact Canada and local economies, affecting business, consumer prices, and personal incomes. The prevailing conditions nationally can impact financial markets and the Bank of Canada's monetary policy, causing changes in interest rates and the value of the Canadian dollar. Fluctuations in the capital markets and the extent of competition can impact the market share and price of Innovation's products and services. All these factors impact the environmental conditions in which Innovation operates and accordingly affects performance.

Innovation operates in an extremely competitive industry with competition coming from traditional banking institutions along with a host of non-traditional and new market entrants. This heightened level of competition along with the rapid pace of change in technology and consumer behavior has strong influences over how the organization provides financial services to current and future members.

2021 Economic Conditions and Future Outlook

Global

According to the International Monetary Fund global economic growth was estimated at 5.9 percent in 2021. Future expectations project this annual growth rate slowing to 4.4 percent in 2022 and 3.8 percent in 2023. *(IMF, World Economic Outlook, January 2022)*

The forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve worldwide, and therapies become more effective. *(IMF, World Economic Outlook, January 2022)*

Downside risks associated with these forecasts include the possibility of emergence of new COVID-19 variants which could prolong the pandemic and induce renewed economic disruptions. Moreover, supply chain disruptions, energy price volatility, and localized wage pressures mean uncertainty around inflation and policy paths is high. *(IMF, World Economic Outlook, January 2022)* In addition, recent events in Ukraine introduce a new level of uncertainty to future forecasts.

This global outlook is further supported by the January 2022 Monetary Policy Report published by the Bank of Canada. Global growth expectations contained within this report are found below. *(Bank of Canada, Monetary Policy Report, January 2022)*

Table 1: Projection for global economic growth

	Share of real global GDP* (%)	Projected growth† (%)			
		2020	2021	2022	2023
United States	16	-3.4 (-3.4)	5.6 (5.6)	3.7 (3.9)	2.5 (2.7)
Euro area	12	-6.5 (-6.5)	5.2 (5.3)	4.0 (4.5)	2.6 (1.9)
Japan	4	-4.5 (-4.7)	1.7 (2.5)	2.7 (3.0)	1.0 (0.1)
China	18	2.2 (2.3)	8.1 (7.9)	3.8 (5.3)	5.3 (5.9)
Oil-importing EMEs‡	33	-2.5 (-2.5)	8.1 (7.4)	3.5 (4.0)	3.7 (3.9)
Rest of the world§	16	-3.5 (-3.5)	4.9 (4.8)	3.3 (4.1)	2.5 (2.0)
World	100	-2.2 (-2.2)	6.8 (6.5)	3.6 (4.3)	3.4 (3.4)

* GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity valuation of country GDPs for 2020 from the IMF's October 2021 *World Economic Outlook*. The individual shares may not add up to 100 due to rounding.

† Numbers in parentheses are projections used in the previous Report.

‡ The oil-importing emerging-market economies (EMEs) grouping excludes China. It is composed of large EMEs from Asia, Latin America, the Middle East, emerging Europe and Africa (such as India, Brazil and South Africa) as well as newly industrialized economies (such as South Korea).

§ "Rest of the world" is a grouping of other economies not included in the first five regions. It is composed of oil-exporting EMEs (such as Russia, Nigeria and Saudi Arabia) and other advanced economies (such as Canada, the United Kingdom and Australia).

Source: Bank of Canada

2021 Economic Conditions and Future Outlook

National

As per the Bank of Canada, the outlook is for strong growth over the projection horizon as demand remains robust and supply recovers from the effects of the pandemic, with disruptions expected to ease gradually through 2022. Overall, growth is forecasted to be around 4% in 2022 and 3.5% in 2023, supported by household spending on services, exports, and investment. *(Bank of Canada, Monetary Policy Report, January 2022)*

Consumer price index (CPI) inflation is forecasted to remain close to 5% over the first half of 2022. This is due to supply constraints coinciding with high energy prices and rising food costs. CPI inflation is anticipated to ease to about 3% by the end of 2022 as these pressures dissipate. Inflation is then expected to decline to around 2 ¼% by the second half of 2023 and remain close to target in 2024. *(Bank of Canada, Monetary Policy Report, January 2022)*

Additional information related to the drivers of anticipated economic growth in the Canadian economy can be found in the following table from the Bank of Canada.

Table 2: Contributions to average annual real GDP growth

Percentage points*†

	2020	2021	2022	2023
Consumption	-3.5 (-3.4)	2.9 (2.7)	3.3 (3.4)	2.3 (2.5)
Housing	0.3 (0.3)	1.3 (1.3)	-0.7 (-0.4)	0.0 (0.1)
Government	0.3 (0.1)	1.3 (1.7)	0.4 (0.7)	0.5 (0.3)
Business fixed investment	-1.2 (-1.3)	0.0 (0.2)	0.7 (0.8)	0.7 (0.9)
Subtotal: final domestic demand	-4.1 (-4.3)	5.5 (5.9)	3.7 (4.5)	3.5 (3.8)
Exports	-3.1 (-3.2)	0.4 (0.8)	1.8 (1.9)	0.8 (1.1)
Imports	3.7 (3.8)	-2.1 (-2.3)	-2.0 (-2.4)	-1.3 (-1.7)
Subtotal: net exports	0.6 (0.7)	-1.7 (-1.5)	-0.2 (-0.5)	-0.5 (-0.6)
Inventories	-1.7 (-1.6)	0.8 (0.7)	0.5 (0.3)	0.5 (0.5)
GDP	-5.2 (-5.3)	4.6 (5.1)	4.0 (4.3)	3.5 (3.7)
Memo items (percentage change):				
Range for potential output	0.8–2.0 (0.8–2.0)	0.8–2.2 (0.8–2.2)	0.4–2.2 (0.4–2.2)	1.0–3.0 (1.0–3.0)
Real gross domestic income (GDI)	-6.2 (-6.3)	8.8 (9.0)	4.5 (3.6)	2.8 (3.5)
CPI inflation	0.7 (0.7)	3.4 (3.4)	4.2 (3.4)	2.3 (2.3)

* Numbers in parentheses are from the projection in the previous Report.

† Numbers may not add to total due to rounding.

Sources: Statistics Canada and Bank of Canada calculations and projections

2021 Economic Conditions and Future Outlook

Provincial

In 2021 the province of Saskatchewan's population grew by 0.2 percent which is below the national growth rate of 1.1 percent. The province's Consumer Price Index (CPI) increased by 4.2 percent from January 2021 to January 2022, below the national results of 5.1 percent. The unemployment rate for the province of Saskatchewan decreased from 7.2 percent as of January 2021 to 5.5 percent as of January 2022, a result below the national unemployment rate of 6.5 percent. *(Government of Saskatchewan website, Saskatchewan's Dashboard, Business and Economy)*

Provincial real GDP is projected to increase by 3.1 percent in 2021. Forecasted growth of 5.6 percent in 2022 and 2.6 percent in 2023 is anticipated. Growth in 2022 is anticipated to lead the nation and be driven by a significant increase in the exports of fertilizer, pulse crops and energy. *(RBC, Provincial Outlook, December 2021)*

Saskatchewan

	2016	2017	2018	2019	2020	2021F	2022F	2023F
Real GDP	-0.1	2.6	1.8	-1.1	-4.9	3.1	5.6	2.6
Nominal GDP	-5.0	6.0	4.3	-0.4	-6.6	13.4	9.8	3.0
Employment	-0.9	0.0	0.5	1.9	-4.7	2.6	2.4	1.3
Unemployment Rate (%)	6.4	6.4	6.2	5.6	8.4	6.7	5.9	5.3
Retail Sales	1.5	4.1	-0.5	0.3	-1.3	10.7	3.7	3.8
Housing Starts (Thousands of Units)	4.8	4.9	3.6	2.4	3.1	4.2	4.3	4.1
Consumer Price Index	1.1	1.7	2.3	1.7	0.6	2.7	3.3	2.7

Source: RBC, Provincial Outlook, December 2021

Financial Highlights

FINANCIAL HIGHLIGHTS

Each year Innovation develops a corporate plan through a comprehensive budget and planning process. The following table provides an overview of key financial measures compared to targets for 2021. Actual results for 2020 have also been included for comparative purposes.

Table 1: Select Financial Information

	2021 Actual	2021 Plan	2020 Actual
Growth			
Total Assets	3,012,262,174	2,952,787,934	3,008,850,940
Annual Asset Growth	0.11%	(1.86%)	7.67%
Total Deposits	2,607,750,225	2,485,375,031	2,561,929,232
Annual Deposit Growth	1.79%	(2.99%)	7.67%
Total Loans	2,254,222,137	2,286,115,841	2,025,845,727
Annual Loan Growth	11.27%	12.85%	(4.65%)
Credit quality			
Delinquency greater than 90 days	1.34%	<= 1.25%	2.28%
Gross Impaired loans	21,309,568	29,726,035	35,094,800
Allowance for credit losses	16,646,358	27,838,778	24,896,213
Provision for credit losses	7,350,429	5,447,244	11,810,841
Liquidity management			
Liquidity Coverage Ratio (CUDGC)	764.63%	906.40%	808.53%
Liquidity Coverage Ratio (OSFI)	165.81%	185.10%	450.29%
Loan to asset ratio	74.83%	77.42%	67.33%
Capital			
Common Equity Tier 1 Capital / Risk Weighted Assets (CUDGC)	13.80%	14.03%	14.42%
Total Tier 1 Capital / Risk Weighted Assets (CUDGC)	13.80%	14.03%	14.42%
Total Eligible Capital / Risk Weighted Assets (CUDGC)	15.18%	15.53%	15.70%
Leverage Ratio (CUDGC)	9.30%	9.70%	9.04%
Profitability and member return			
Operating income before member distributions and tax *†	12,951,875	8,811,627	10,021,087
Member distributions	1,915,299	1,321,734	1,647,082
Net income excl gain on sale of subsidiaries †	10,818,722	5,467,621	4,493,491
Net income	10,818,722	5,467,621	17,754,503
Return on assets (ROA) excl gain on sale of subsidiaries †	0.36%	0.19%	0.15%
Return on equity (ROE) excl gain on sale of subsidiaries †	4.14%	2.09%	1.84%
Efficiency ratio *†	76.78%	82.79%	75.28%

* Excludes unrealized gains (losses) and member distributions
† Excludes net of tax gain on sale of insurance subsidiaries (2020)

Financial Review – Results of Operations

The financial review provides an analysis of the significant categories as shown on the Consolidated Statement of Comprehensive Income (Income Statement) and includes a review of revenue and expense results of the current year along with historic comparative results.

The Consolidated Statement of Comprehensive Income (Income Statement) includes the operational results of the credit union as well as Innovation subsidiaries.

Total Net Revenue

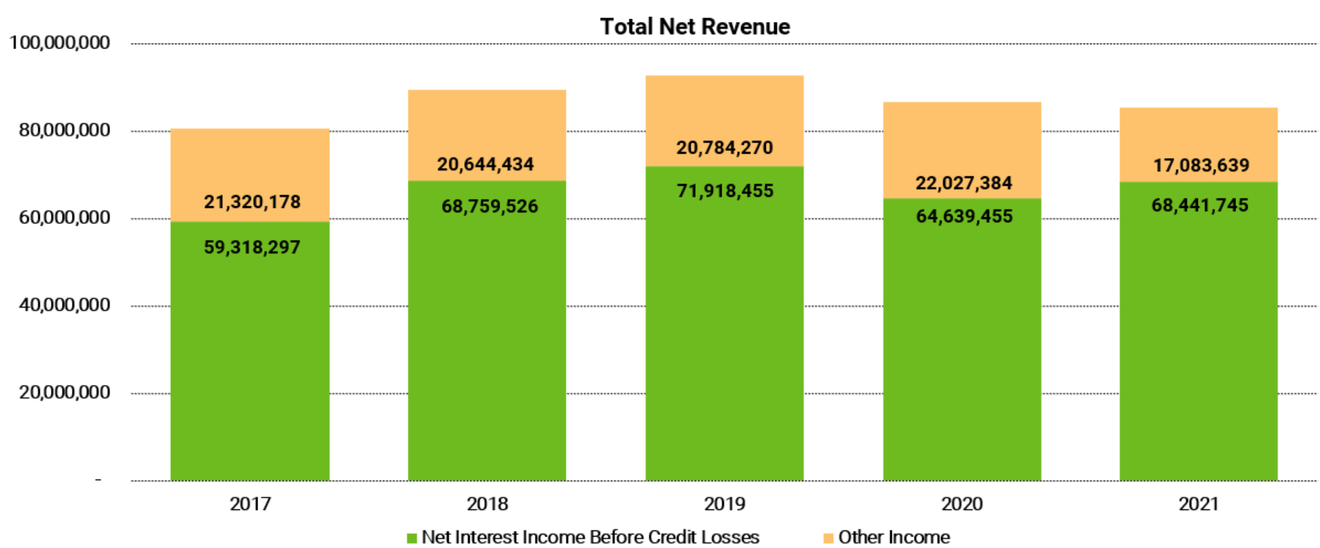
Total revenue earned by Innovation consists of net revenue generated by interest bearing assets and liabilities held on the balance sheet as well as revenue generated from non-interest sources.

Table 2: Total Net Revenue

	2021		2020	
	Actual ($)	**% Of Total**	**Actual ($)**	**% Of Total**
Net Interest Income Before Credit Losses	68,441,745	80.0%	64,639,455	74.6%
Other Income*	17,083,639	20.0%	22,027,384	25.4%
Total Net Revenue	**85,525,384**		**86,666,839**	

**Other Income includes revenue from the insurance agencies recognized prior to the October 1, 2020. The gain on the sale of the insurance agencies has been excluded from these figures.*

Total net revenue decreased ($1.1) million or (1.3%) to $85.5 million in 2021, driven by negative growth in other income. As a result, the proportion of total revenue attributed to net interest income before credit losses increased in 2021. The sale of the insurance subsidiaries in October 2020 contributed to the reduction in total revenues in 2021 when compared to 2020 which included revenues generated by the insurance subsidiaries leading up to the date of sale. Prior years of 2017-2019 also include revenues generated by the insurance subsidiaries in the respective years.



Financial Review – Results of Operations

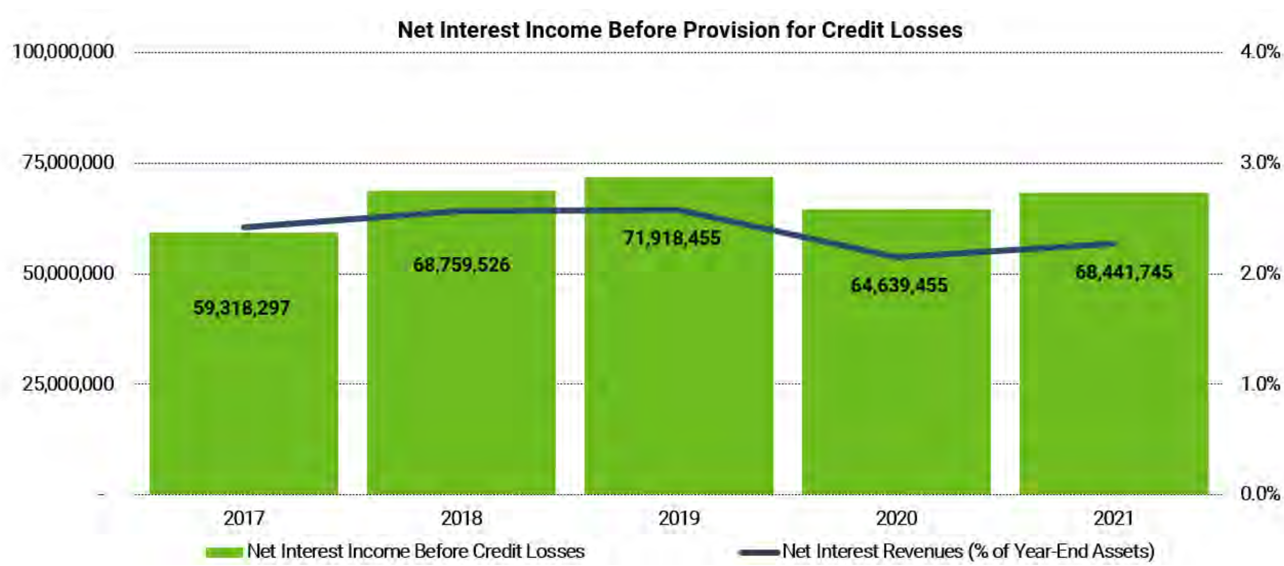
Net Interest Income Before Credit Losses

Net interest income before credit losses represents the difference between the interest earned on assets and interest paid on deposits and other funding liabilities. Also included in this amount is the realized gain (loss) on investments classified as Fair Value Through Profit or Loss (FVTPL). Net interest income before credit losses is driven by the volume of interest-bearing assets and liabilities held by the organization, the mix or types of interest-bearing assets and liabilities held on the balance sheet as well as the interest rates associated with these assets and liabilities.

Table 3: Net Interest Income Before Credit Losses

			Change	
	2021	**2020**	**$**	**%**
Interest Income	86,851,198	93,201,126	(6,349,928)	(6.8%)
Interest Expense	19,551,377	28,854,740	(9,303,363)	(32.2%)
Realized Gain (Loss) on FVTPL Investments	1,141,924	293,069	848,855	289.6%
Net Interest Income Before Credit Losses	**68,441,745**	**64,639,455**	**3,802,290**	**5.9%**

Net interest income before credit losses increased by $3.8 million or 5.9% to $68.4 million in 2021. 2021 results represent a strong rebound from the prior year. The annual pace of growth in net interest income before credit losses exceeded the pace of growth of total assets held on the balance sheet in 2021.



Financial Review – Results of Operations

Member Distributions

Member distributions are included in net interest income before provision for credit losses. In 2021, the board of directors declared total member distributions of $1.9 million, an increase of 16.3% over the prior year, which were distributed on a quarterly basis. Total annual member distributions are targeted at a level of 15% of pre-tax income, however, are at the full discretion of the board of directors.

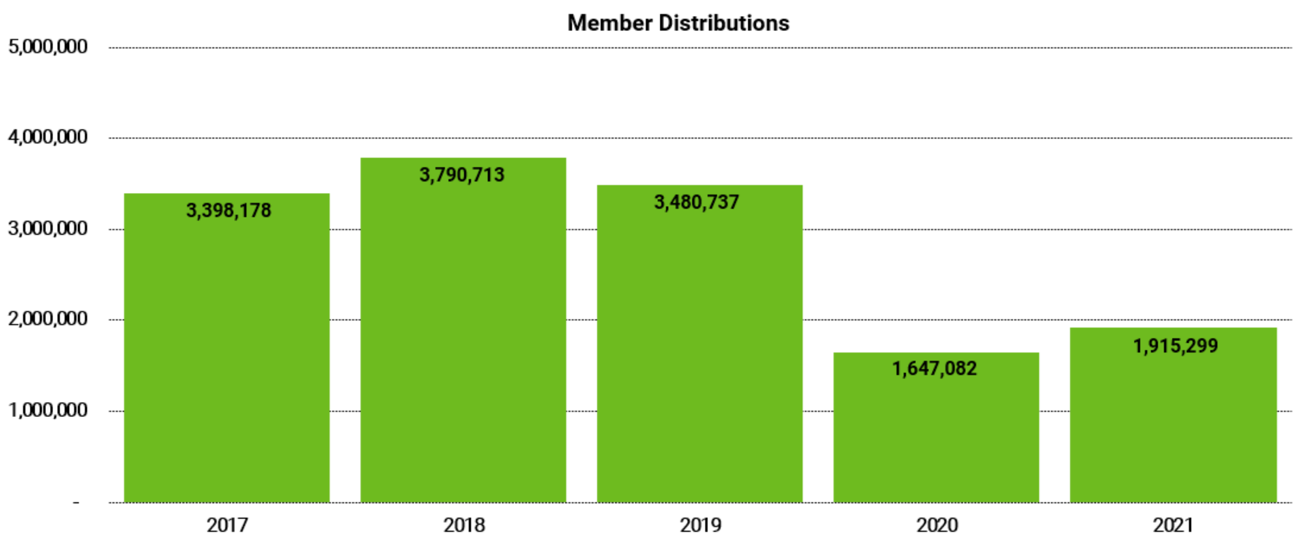
Distributions to members through the Member Rewards Program contain three distinct elements:

- **Allocations:** patronage allocations, based on total interest paid on qualifying loans as well as total interest earned on qualifying deposits, which is utilized to increase the value of member shares held by each member of Innovation. Of the $1.9 million total 2021 authorized member distributions, $1.2 million was returned to members in the form of allocations.

- **Dividends:** fully accessible dividends paid to members based on outstanding Member Rewards Account balances and approved dividend rates authorized by the board of directors. In 2021 the board of directors authorized quarterly dividends at an annualized rate of 3.50% (Q1), 3.54% (Q2), 3.72% (Q3) and 3.95% (Q4). Of the $1.9 million total 2021 authorized member distributions, $0.7 million was returned to members in the form of dividends.

- **Youth Dividends:** fully accessible dividends paid to members under the age of 19 as at the date of distribution. In 2021 the board of directors authorized quarterly youth dividends of $5.00 (Q1), $5.00 (Q2), $5.00 (Q3) and $5.00 (Q4). Of the $1.9 million total 2021 authorized member distributions, $0.06 million was returned to members in the form of youth dividends.

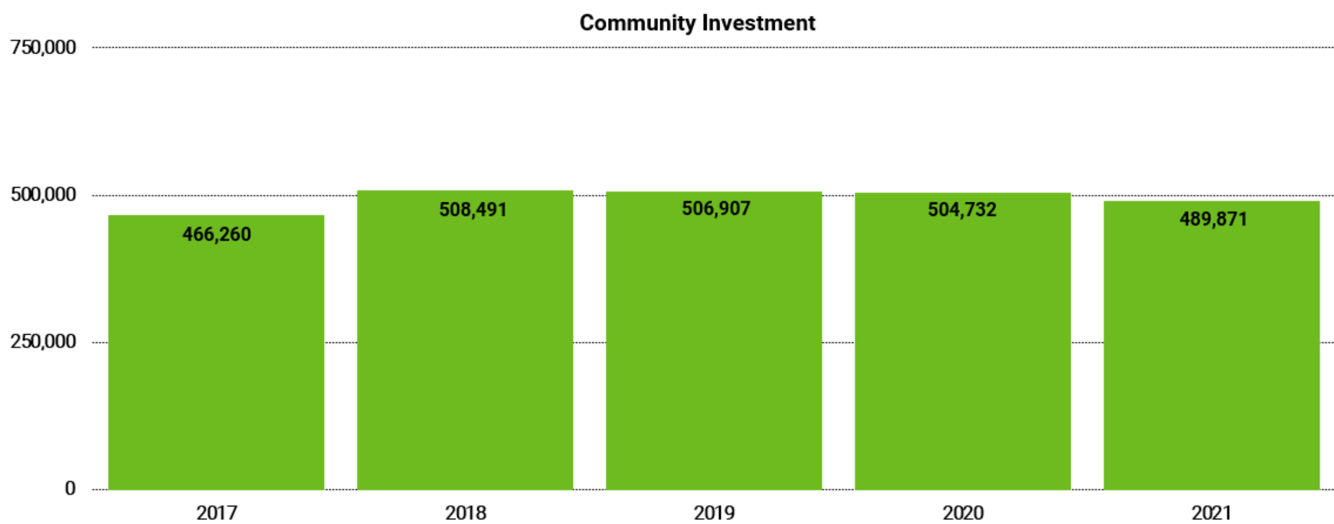
The Member Rewards Program is an important differentiator for Innovation and demonstrates the organization's commitment to the cooperative principles. Total member distributions are influenced by the profitability level of the credit union. As profitability levels improved in 2021 the corresponding amounts distributed to members through the Member Rewards Program also increased. Innovation continues to show consistency in ensuring the member-owners benefit from the success of the organization.



Financial Review – Results of Operations

In addition to this member distribution, Innovation views the no-fee personal account as another method by which profits are repatriated to the membership. An upfront real-time benefit is provided to all personal members as there are no monthly service charge fees tied to this account.

Continued strong community support is an important cooperative principle to Innovation. In 2021, $0.49 million ($0.50 million in 2020) representing an annual decrease of (2.9%) was returned to communities serviced by Innovation in the form of contributions to various community projects and sponsorships. This amount is included in operating expenses under the general business category. Additional information can be found within the Corporate Social Responsibility (CSR) section of the 2021 Annual Report.



Provision for Credit Losses

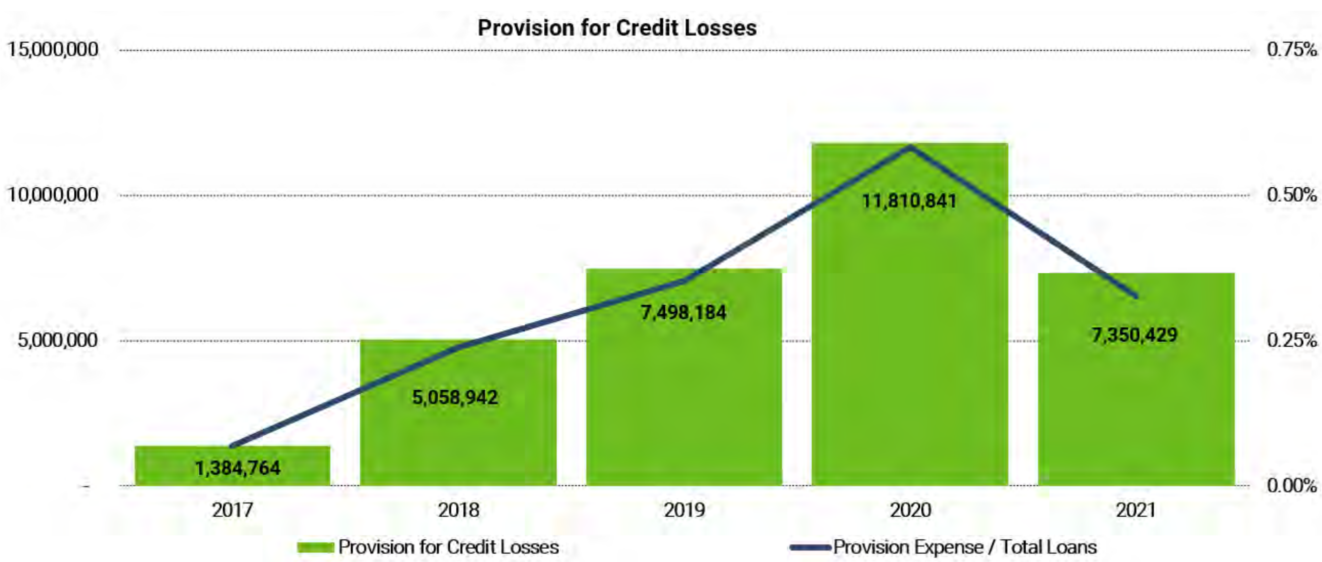
The provision for credit losses includes both the realized losses / recoveries on loans which are no longer considered collectible (net write-offs) and the expected shortfall in cash flows on individual loans and portfolio of loans where there is evidence of credit impairment (change in allowance). The provision for credit losses represents management's best estimate of loss formations during the year after carefully assessing the overall portfolio and individually reviewing impaired loans. The amount of provision may vary year-to-year based on impaired loan balances, estimates of the credit losses on those loans and economic conditions.

Financial Review – Results of Operations

Table 4: Provision for Credit Losses

	2021	2020	Change $	Change %
Agriculture Loans	(111,980)	718,136	(830,116)	(115.6%)
Commercial Loans	6,662,337	10,045,829	(3,383,492)	(33.7%)
Consumer Loans	824,971	980,548	(155,577)	(15.9%)
Investments	(24,899)	66,328	(91,227)	(137.5%)
Provision for Credit Losses	7,350,429	11,810,841	(4,460,412)	(37.8%)
Provision for Credit Losses (% of Year-End Total Loan Portfolio)	0.33%	0.58%		

Provision for credit losses decreased by ($4.5) million or (37.8%) to $7.4 million in 2021. In relation to the size of the total year-end loan portfolio, the 2021 provision for credit losses figure decreased to 33 basis points.



Provision for credit losses is influenced by the prevailing economic conditions along with the future economic outlook and in turn the resulting impacts on the membership of Innovation. Changes in provision for credit losses are naturally dependent on changes in the anticipated recoverable amounts held against loans that may become uncollectible in the future. Deteriorating conditions related to individual loans held on the balance sheet will lead to an increase in provision for credit losses.

Financial Review – Results of Operations

Other Income

Innovation's non-interest revenue consists of the following major components:

- **Service charges on products:** fees charged to members on the various operating and savings account products offered by the organization.
- **Loan fees, commissions, and insurance:** fees collected from members related to lending products along with commission revenue earned on the sale of various loan insurance products.
- **Other fees and commissions:** include ATM revenue, foreign exchange revenue, credit card portfolio revenue as well as fees charged to members on NSF and overdraft occurrences.
- **Wealth management:** revenue generated through Innovation's wealth management area.
- **Insurance agencies:** consolidated revenues earned by property and casualty insurance subsidiaries owned by the organization prior to the sale of the agencies on October 1, 2020.
- **Other**: includes revenue generated through rental of physical properties owned by the organization, contracted services provided to other organizations as well as revenue earned through Innovation's ownership interest in CU Dealer Finance Corp.
- **Canada Emergency Subsidy Programs**: companies meeting specified eligibility criteria based on declines in revenue experienced during the pandemic are eligible to receive a subsidy to cover a portion of their employee wages, commercial rent, and property taxes through federal government assistance programs offered in 2020 and 2021.

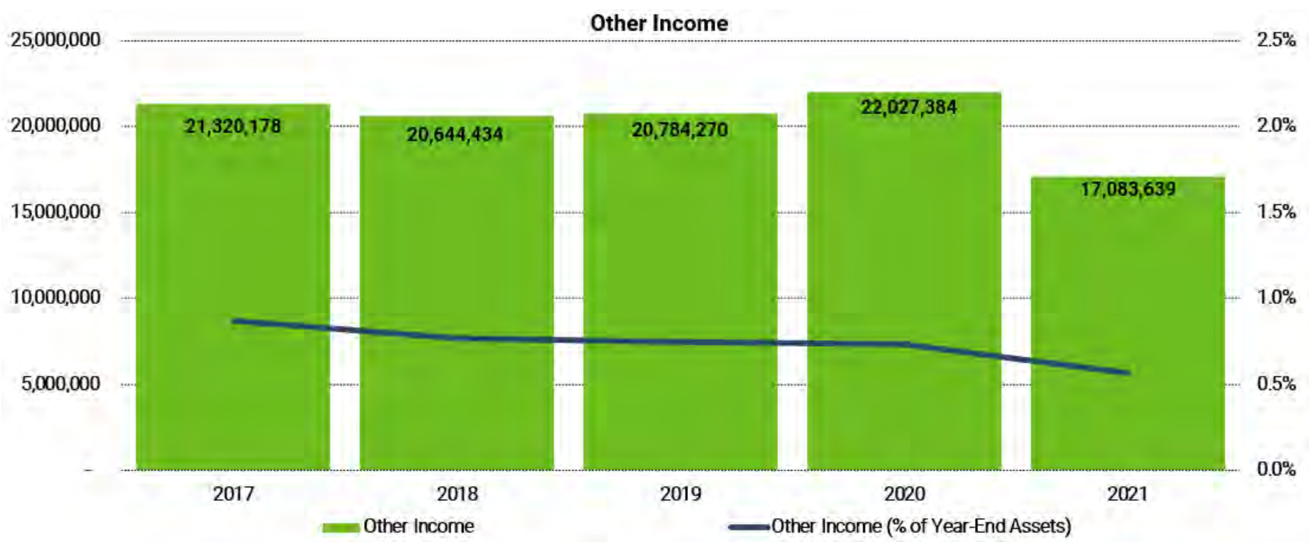
Table 5: Other Income

			Change	
	2021	**2020**	**$**	**%**
Service charges on products	1,210,517	1,202,814	7,703	0.6%
Loan fees, commissions, and insurance	3,794,393	3,383,314	411,079	12.2%
Other fees and commissions	2,803,235	2,408,269	394,966	16.4%
Wealth management	5,377,484	4,674,668	702,816	15.0%
Insurance agencies*	-	4,858,876	(4,858,876)	(100.0%)
Other	1,223,613	959,183	264,430	27.6%
Canada Emergency Subsidy Programs	2,674,397	4,540,260	(1,865,863)	(41.1%)
Other Income	**17,083,639**	**22,027,384**	**(4,943,745)**	**(22.4%)**

**Other Income includes revenue from the insurance agencies recognized prior to the October 1, 2020 sale date. The gain on the sale of the insurance agencies has been excluded from these figures.*

Other income decreased by ($4.9) million or (22.4%) to $17.1 million in 2021. In relation to the size of the organization's balance sheet, other income fell by 16 basis points in 2021 to 0.57% of total assets. The discontinuation of the revenue generated by the insurance agency subsidiaries following the October 1, 2020 sale date along with a reduction in revenue from the Canada Emergency Subsidy Programs contributed significantly to the annual decrease realized in 2021.

Financial Review – Results of Operations



Operating Expenses

Innovation's operating expenses consists of the following major components:

- **Personnel:** costs directly associated with staff in the employment of the credit union and subsidiary organizations including fixed and variable compensation along with costs of recruiting, benefits, and training.
- **Security:** costs associated with regulatory oversight and deposit insurance along with fidelity and burglary insurance.
- **Organizational:** various costs associated with the governance of the credit union including board of director's remuneration and training, annual meeting costs along with costs associated with the organization's relationship with SaskCentral and the Canadian Credit Union Association (CCUA).
- **Occupancy:** various costs related to the various locations owned or leased by the organization including property taxes, insurance, utilities, rent, security, maintenance, and depreciation.
- **General business:** includes a wide range of operating costs including marketing, technology costs including new technology development as well as existing infrastructure security and maintenance, communication costs, postage and statement costs, costs associated with the organization's ATM network, legal and external audit costs as well as equipment and supplies.

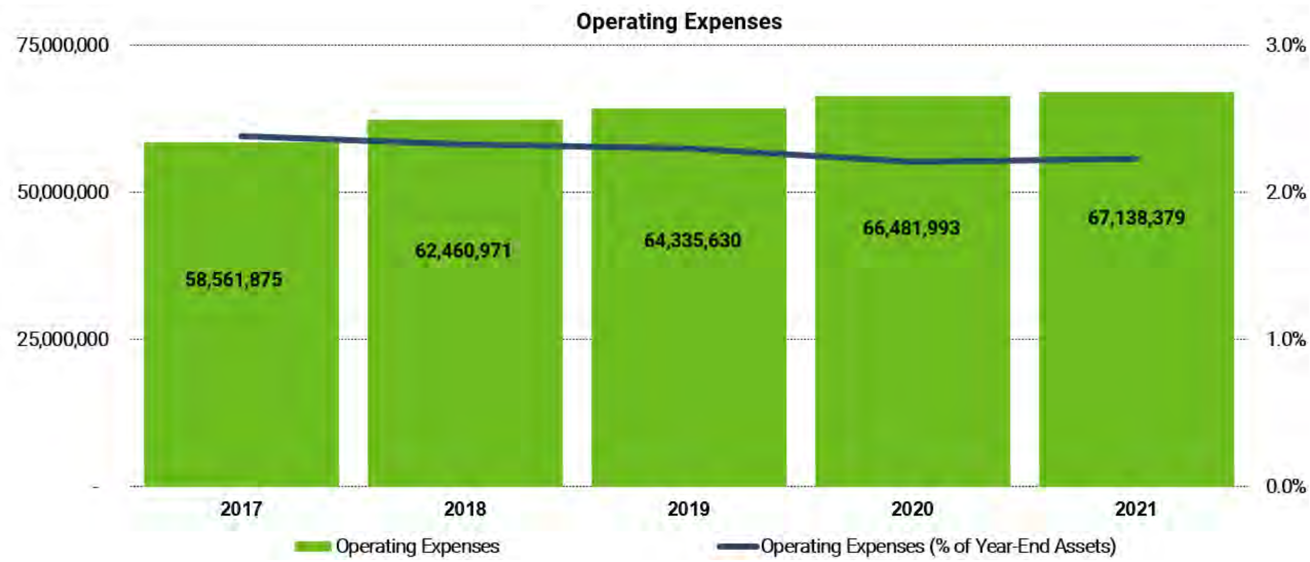
Table 6: Operating Expenses

			Change	
	2021	**2020**	**$**	**%**
Personnel†	38,905,405	35,512,508	3,392,897	9.6%
Security†	2,489,558	2,305,596	183,962	8.0%
Organizational†	812,477	738,164	74,313	10.1%
Occupancy†	3,852,356	3,993,989	(141,633)	(3.5%)
General business†	21,078,583	21,493,048	(414,465)	(1.9%)
Insurance agencies*	-	2,438,688	(2,438,688)	(100.0%)
Operating Expenses	**67,138,379**	**66,481,993**	**656,386**	**1.0%**

** All operating expenses from the insurance agencies recognized prior to the October 1, 2020 sale date*
† Individual operating expense categories include continuing operations only

Financial Review – Results of Operations

Operating expenses increased by $0.7 million or 1.0% to $67.1 million in 2021. In relation to the size of the organization's balance sheet, operating expenses increased by 2 basis points in 2021 to 2.23% of total assets. The average annual growth rate over the past five years equates to 3.5%. 2021 growth of 1.0% fell short of this five-year average while also falling below the prior year annual growth rate of 3.3%.



Net Income

Net income results are shown after provision of income taxes. This figure is also inclusive of all unrealized gains or losses as required under current accounting guidelines. The 2020 net of tax gain on the sale of the insurance agencies in the amount of $13.3 million naturally impacts year-over-year comparisons.

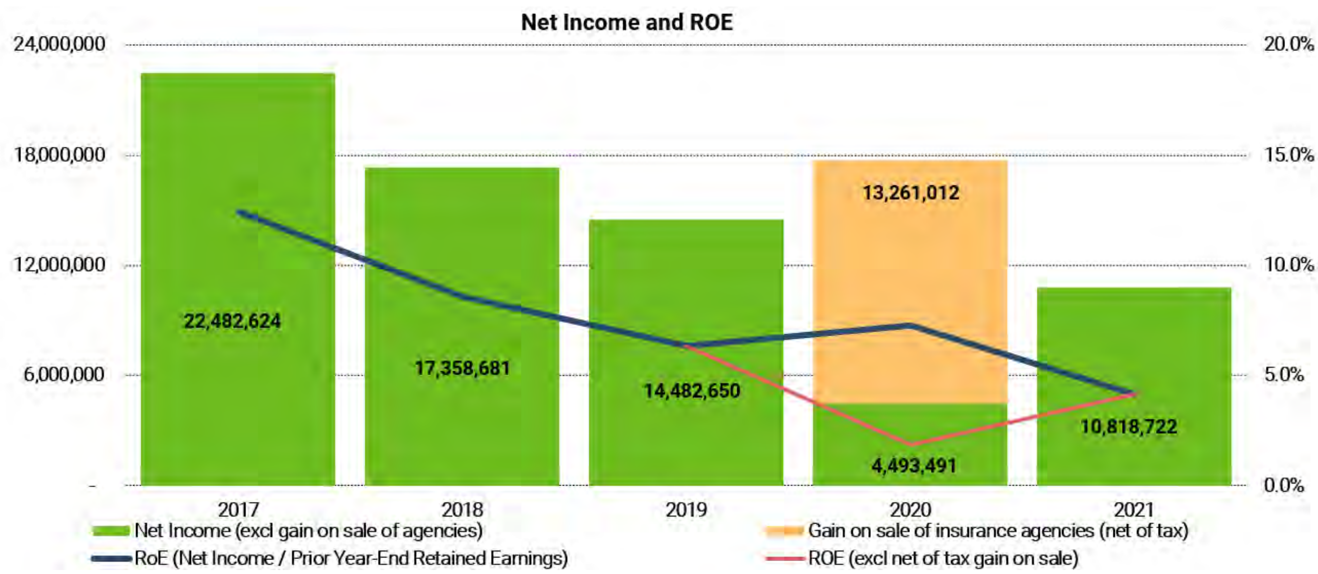
Table 7: Net Income

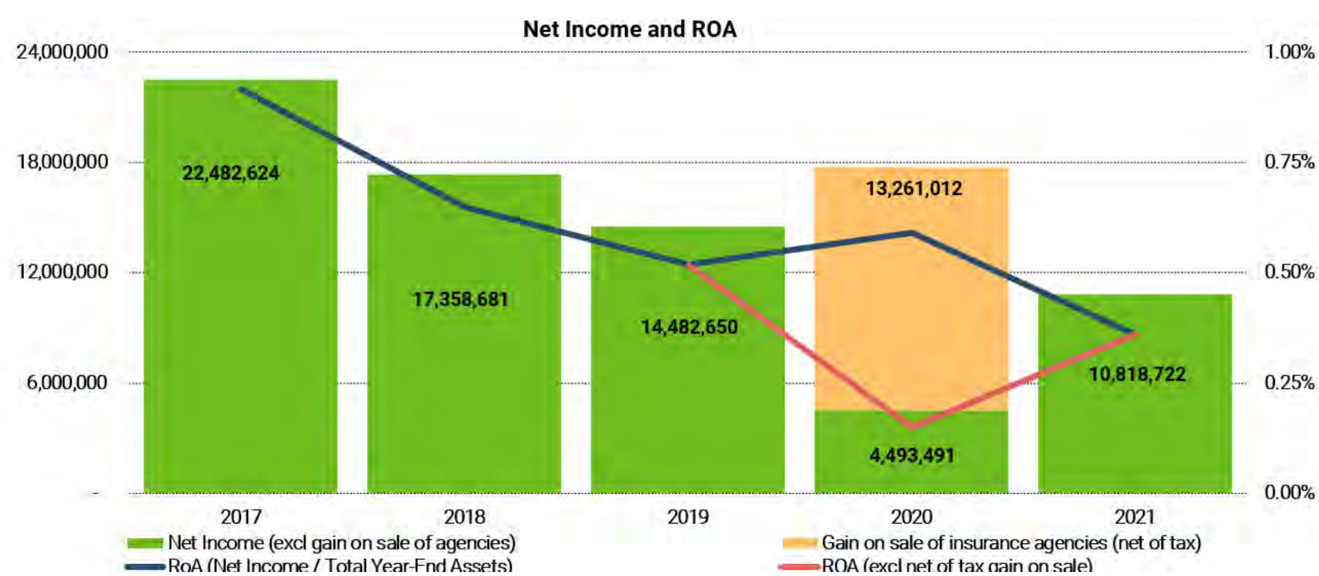
			Change	
	2021	2020	$	%
Net Income	10,818,722	17,754,503	(6,935,781)	(39.1%)
Net Income (excl net of tax gain on sale in 2020)	10,818,722	4,493,491	6,325,231	140.8%
Return on Assets*	0.36%	0.59%		
Return on Assets* (excl net of tax gain on sale)	0.36%	0.15%		
Return on Equity†	4.14%	7.29%		
Return on Equity† (excl net of tax gain on sale)	4.14%	1.84%		

**Return on Assets = Net Income / Year-End Assets*
†Return on Equity = Net Income / Prior Year-End Retained Earnings

Financial Review – Results of Operations

Net income after tax decreased by ($6.9) million or (39.1%) to $10.8 million in 2021. Excluding the net of tax gain on sale of the insurance agencies in 2020, net income results realized in 2021 increased $6.3 million or 140.8%.





Financial Review – Results of Operations

Efficiency

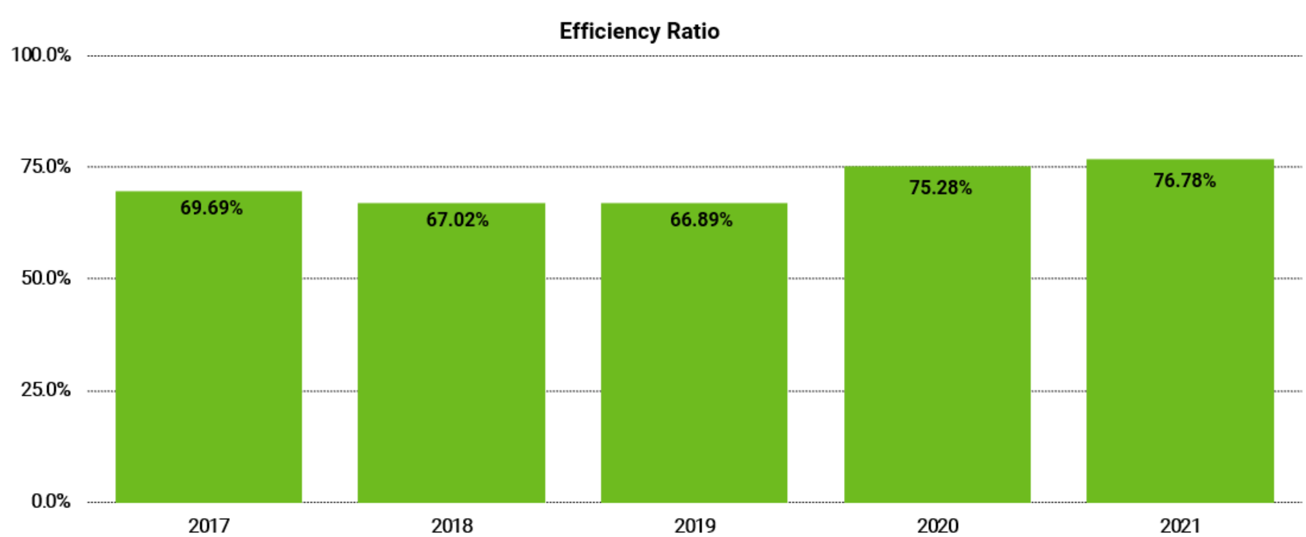
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of resources. The ratio is calculated by comparing operating expenses and total revenue. Total revenue used in this measure is calculated as the sum of net interest income before credit losses (excluding member distributions) and other income.

Income generated and expenses incurred from the insurance subsidiaries during the respective fiscal period have been included in this calculation except for the gain on the sale of the insurance agencies which has been excluded.

Table 8: Efficiency Ratio

			Change	
	2021	**2020**	**$**	**%**
Operating Expenses	67,138,379	66,481,993	656,386	1.0%
Net Interest Income Before Credit Losses	68,441,745	64,639,455	3,802,290	5.9%
Exclude: Member Distributions	1,915,299	1,647,082	268,217	16.3%
Other Income	17,083,639	22,027,384	(4,943,745)	(22.4%)
Total Net Revenue (excl Member Distributions)	87,440,683	88,313,921	(873,238)	(1.0%)
Efficiency Ratio	**76.78%**	**75.28%**		

The efficiency ratio degraded in 2021 to 76.78%, compared to a slightly stronger result of 75.28% in 2020. The weaker result in 2021 was driven by the fact that total net revenue (prior to member distributions) decreased in 2021 by ($0.9) million or (1.0%) while total operating expenses increased by $0.7 million or 1.0%. As expense growth outpaced net revenue growth, the efficiency ratio worsened in 2021.



Financial Review – Balance Sheet

The financial review provides an analysis of the significant categories as shown on the Consolidated Statement of Financial Position (Balance Sheet) and includes a review of the assets and liabilities of the organization along with information pertaining to the capital and liquidity position.

Total Assets Under Administration

Total assets under administration includes assets held on Innovation's balance sheet, such as loans and investments, as well as off-balance sheet assets, such as Innovation Wealth administered investment portfolios and loans syndicated to partner organizations.

Table 9: Assets Under Administration

	2021	2020	Change $	%
On-Balance Sheet Assets	3,012,262,174	3,008,850,940	3,411,234	0.1%
Off-Balance Sheet Assets Under Administration				
Innovation Wealth	875,719,386	739,308,327	136,411,059	18.5%
Sold/Syndicated Loans	64,933,505	47,089,037	17,844,468	37.9%
CEBA Loans under Administration	93,636,157	53,564,685	40,071,472	74.8%
Total Assets Under Administration	**4,046,551,222**	**3,848,812,989**	**197,738,233**	**5.1%**

Total Assets (On-Balance Sheet)

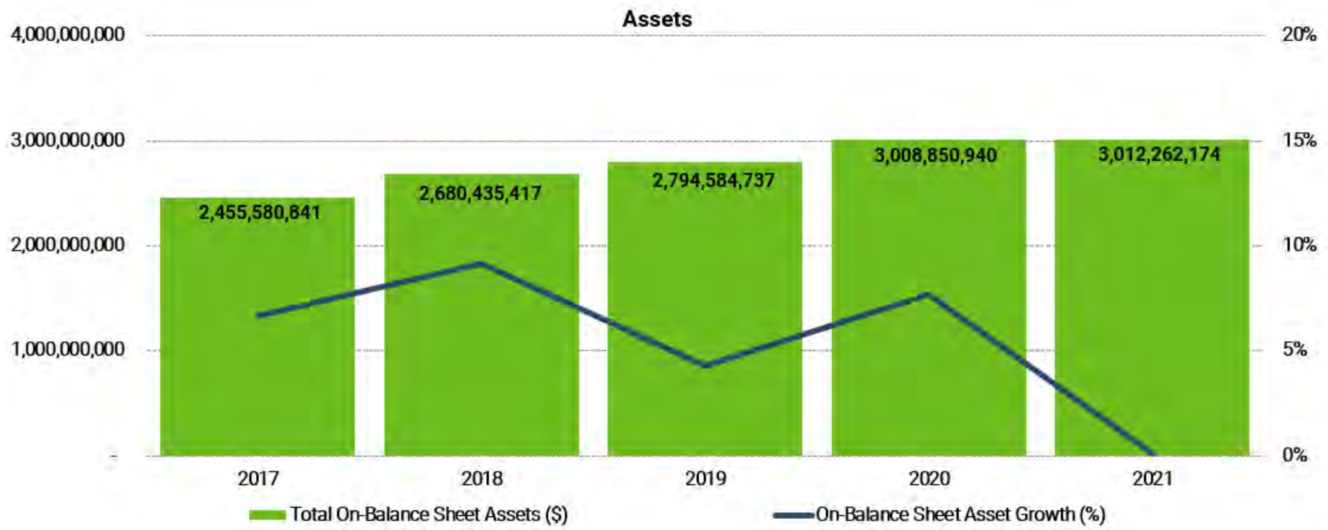
Innovation strives to build and manage a well-diversified balance sheet comprised of high-quality assets providing an appropriate return to the credit union. Funding of the balance sheet is achieved through a variety of sources. Capital is held at levels required based on the size of the balance sheet and the underlying risks faced by the organization.

Table 10: Total Assets

	2021	2020	Change $	%
Cash and cash equivalents	205,631,871	161,051,027	44,580,844	27.7%
Investments	502,086,564	766,952,912	(264,866,348)	(34.5%)
Loans	2,254,222,137	2,025,845,727	228,376,410	11.3%
Property and equipment	15,208,743	16,223,936	(1,015,193)	(6.3%)
Right of use assets	562,032	543,510	18,522	3.4%
Goodwill & intangibles	8,470,314	4,653,429	3,816,885	82.0%
Other assets	26,080,513	33,580,399	(7,499,886)	(22.3%)
Total Assets	**3,012,262,174**	**3,008,850,940**	**3,411,234**	**0.1%**

Total assets increased by $3.4 million or 0.1% to $3.012 billion in 2021. The average annual growth rate over the past five years equates to 5.6%. 2021 growth of 0.1% fell short of this five-year average while also falling short of the prior year annual growth rate of 7.7%.

Financial Review – Balance Sheet



Cash and Investments

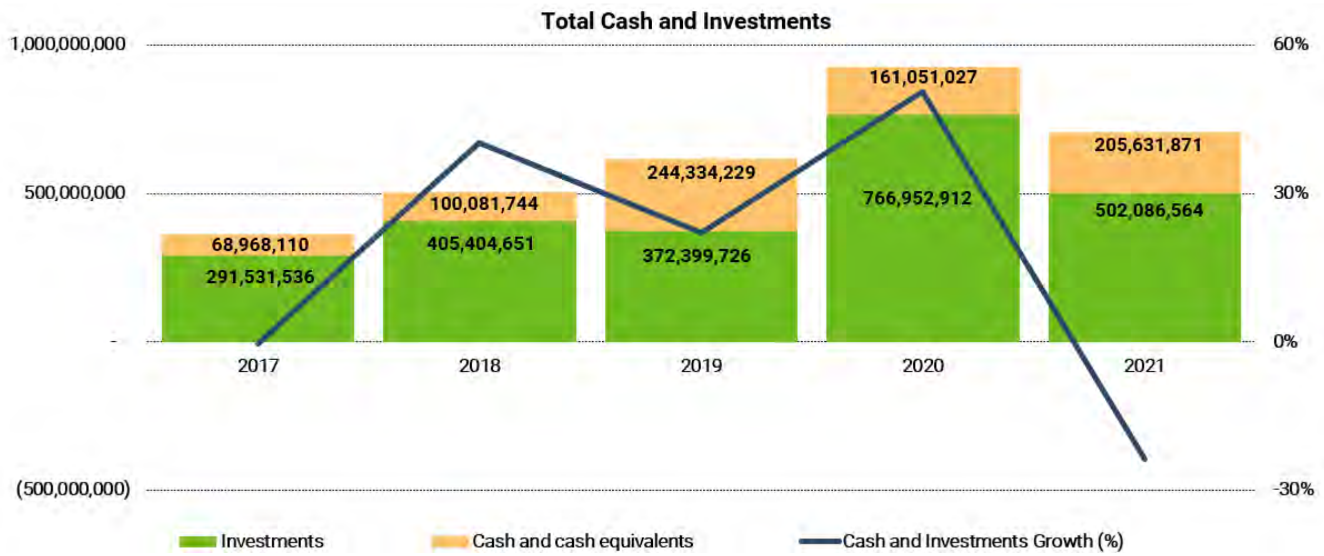
Innovation manages a portfolio of investments along with cash holdings based on the liquidity needs of the organization in a manner which provides appropriate returns to the organization. Under the current provincial regulatory environment, Saskatchewan credit unions are required to maintain 10% of liabilities using a prescribed formula in specified statutory liquidity deposits administered by SaskCentral. As of December 31, 2021 Innovation met the statutory liquidity requirement.

Table 11: Cash and Investments

	2021	2020	Change $	%
Cash and cash equivalents	205,631,871	161,051,027	44,580,844	27.7%
Investments				
Debt Investments (FVTPL)	280,938,946	290,851,959	(9,913,013)	(3.4%)
Debt Investments (Amortized Cost)	186,333,435	445,479,341	(259,145,906)	(58.2%)
Equity Securities (FVTPL)	34,814,183	30,621,612	4,192,571	13.7%
Total Investments	502,086,564	766,952,912	(264,866,348)	(34.5%)
Total Cash and Investments	**707,718,435**	**928,003,939**	**(220,285,504)**	**(23.7%)**

Total cash and investments decreased by ($220.3) million or (23.7%) to $707.7 million in 2021 as the organization was successful in redeploying excess liquidity into higher yielding assets. Holding an appropriate amount of cash and investments on the balance sheet assist in the management of liquidity risk to the organization. Too high a liquidity level can have a detrimental impact on profitability as cash and investments tend to be held in products that carry a lower yield to the credit union.

Financial Review – Balance Sheet



Performing Loans

Innovation manages a portfolio of loans generated through relationships with both members and non-members of the credit union. The total loan portfolio held by the organization consists of performing loans, impaired loans less allowances established.

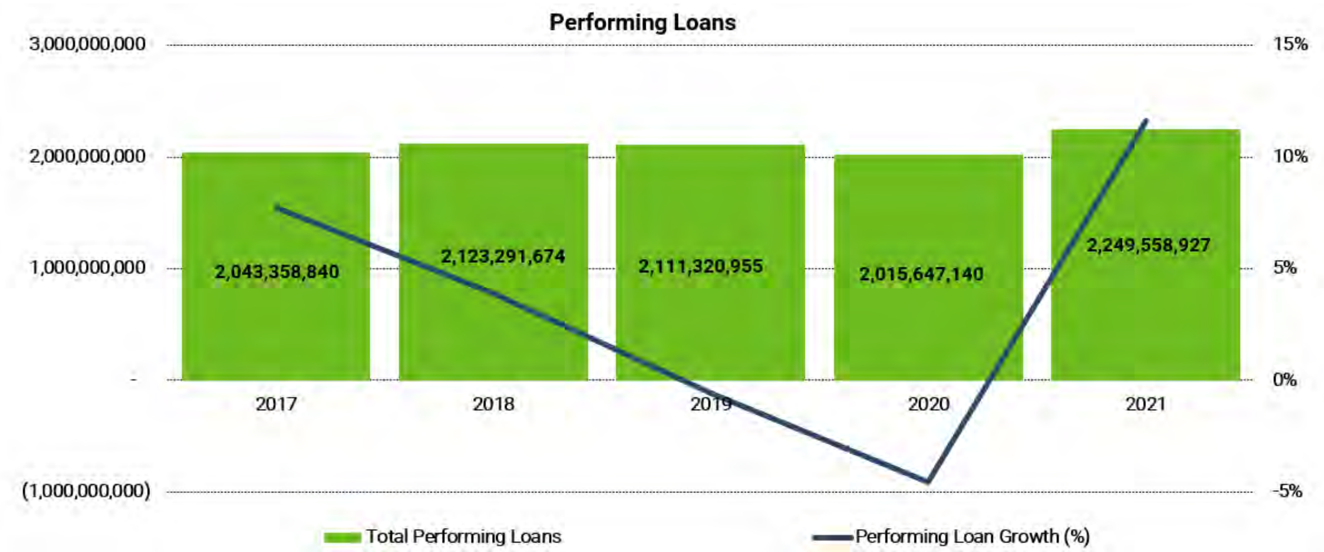
Performing loans contain the principal balance and accrued interest on all loans that have not been deemed as impaired by the organization.

Table 12: Performing Loan Portfolio

	2021	2020	Change $	%
Agriculture	460,591,498	470,325,101	(9,733,603)	(2.1%)
Commercial	689,535,422	571,176,409	118,359,013	20.7%
Consumer	1,078,122,488	948,292,441	129,830,047	13.7%
Finance Leases	12,697,628	16,534,031	(3,836,403)	(23.2%)
Accrued Interest	8,611,891	9,319,158	(707,267)	(7.6%)
Total Performing Loans	**2,249,558,927**	**2,015,647,140**	**233,911,787**	**11.6%**

The total performing loan portfolio increased by $233.9 million or 11.6% to $2.250 billion in 2021. Robust growth was driven from the commercial and consumer loan categories. The credit union was successful in redeploying excess liquidity during the year into higher yielding loan assets. 2021 annual loan growth of 11.6% exceed the previous five-year average annual growth rate of 3.6% and far exceeded the prior year growth rate of (4.5%).

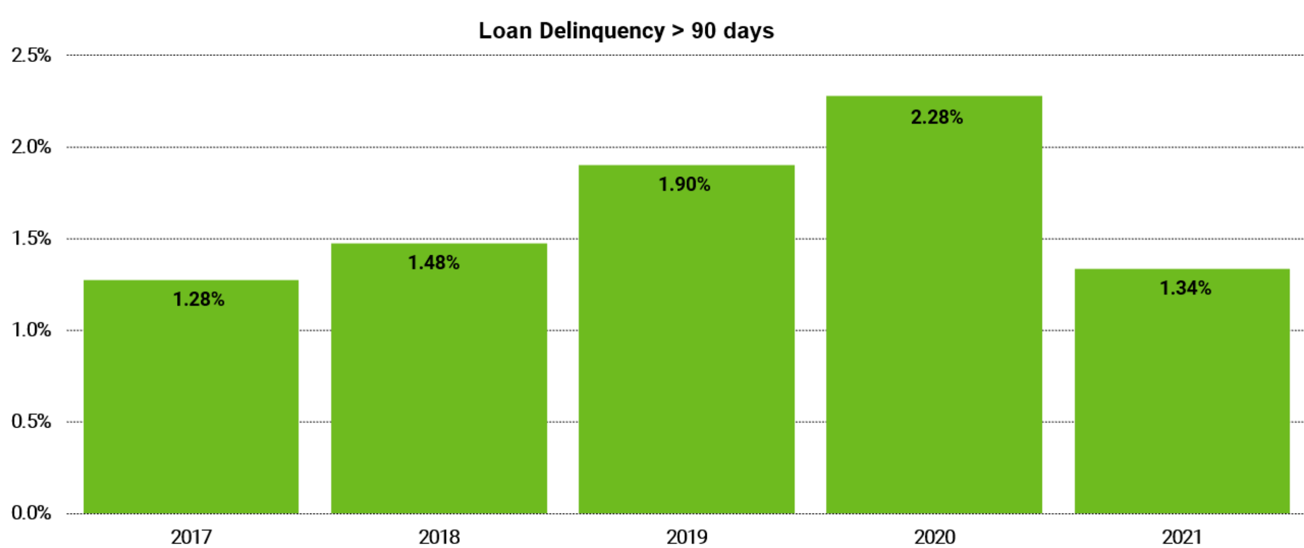
Financial Review – Balance Sheet



Credit Quality

Innovation focuses on the origination of high-quality credit to members and non-members. To achieve this objective the credit union employs stringent underwriting criteria and closely monitors loan portfolios.

A loan is considered past due when a counterparty is contractually in arrears but where payment in full is expected. Loan delinquency is a natural risk faced by all financial institutions. Innovation continues to manage this risk in a prudent fashion, working with members impacted by changing economic conditions. Delinquency greater than 90 days ended 2021 at 1.34%, an improvement from 2.28% in the prior year.



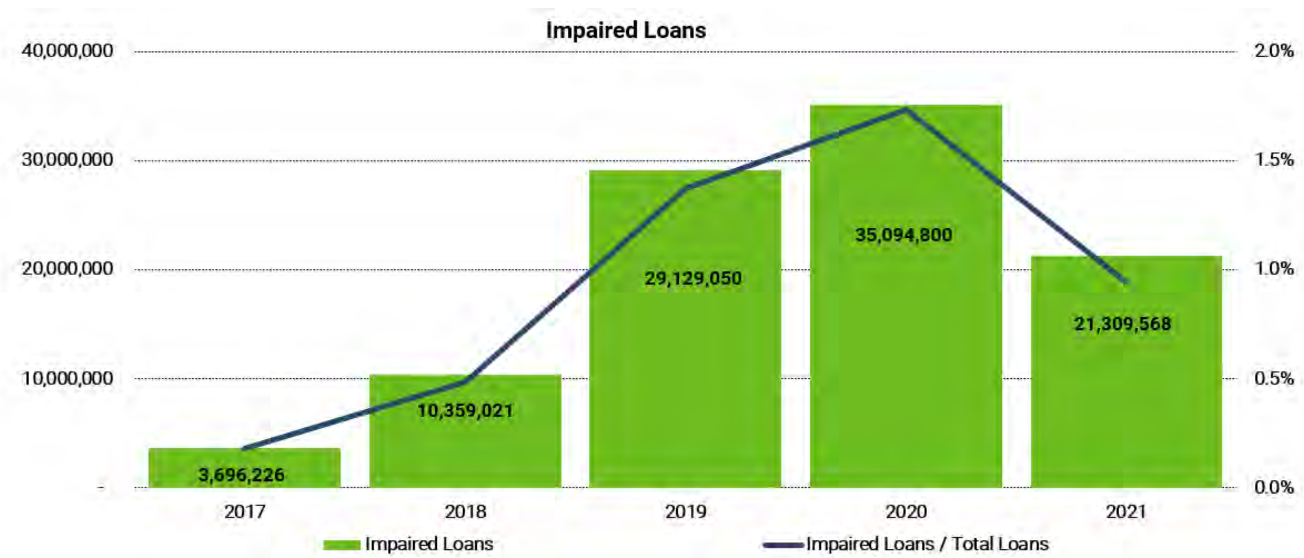
Financial Review – Balance Sheet

In situations where the organization may be unable to collect all principal and interest due according to the contractual terms of the loan agreement, the specific loan will be moved into the impaired category.

Table 13: Impaired Loan Portfolio

			Change	
	2021	**2020**	**$**	**%**
Agriculture	-	527,772	(527,772)	(100.0%)
Commercial	16,220,105	28,325,161	(12,105,056)	(42.7%)
Consumer	1,736,455	1,616,033	120,422	7.5%
Finance Leases	596,963	381,178	215,785	56.6%
Foreclosed Property	415,238	370,721	44,517	12.0%
Accrued Interest	2,340,807	3,873,935	(1,533,128)	(39.6%)
Total Impaired Loans	**21,309,568**	**35,094,800**	**(13,785,232)**	**(39.3%)**

The total impaired loan portfolio decreased by ($13.8) million or (39.3%) to $21.3 million in 2021. In relation to the size of the total loan portfolio, total impaired loan balances decreased to a level of 0.95% of total loans in 2021 from a level of 1.73% in 2020. Exposures to large, connected relationships which move into or out of the impaired category will naturally introduce volatility to this asset class.



In 2018, Innovation fully adopted IFRS 9 Financial Instruments which is an accounting guideline that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses an expected credit loss (ECL) model to determine impairment in financial instruments as opposed to the incurred loss model under IAS 39. The ECL model is forward looking, in that an actual event that signifies a credit loss no longer needs to occur to record the loss. Under IFRS 9, 12-month ECL are calculated for the assets that have not had a significant increase in credit risk and a lifetime ECL is calculated on those assets that have had an increase in credit risk since initial recognition. Financial institutions involved in lending activities are the most affected with the introduction of IFRS 9.

Total ECL can be broken out by loan portfolio as well as by ECL recognition stage.

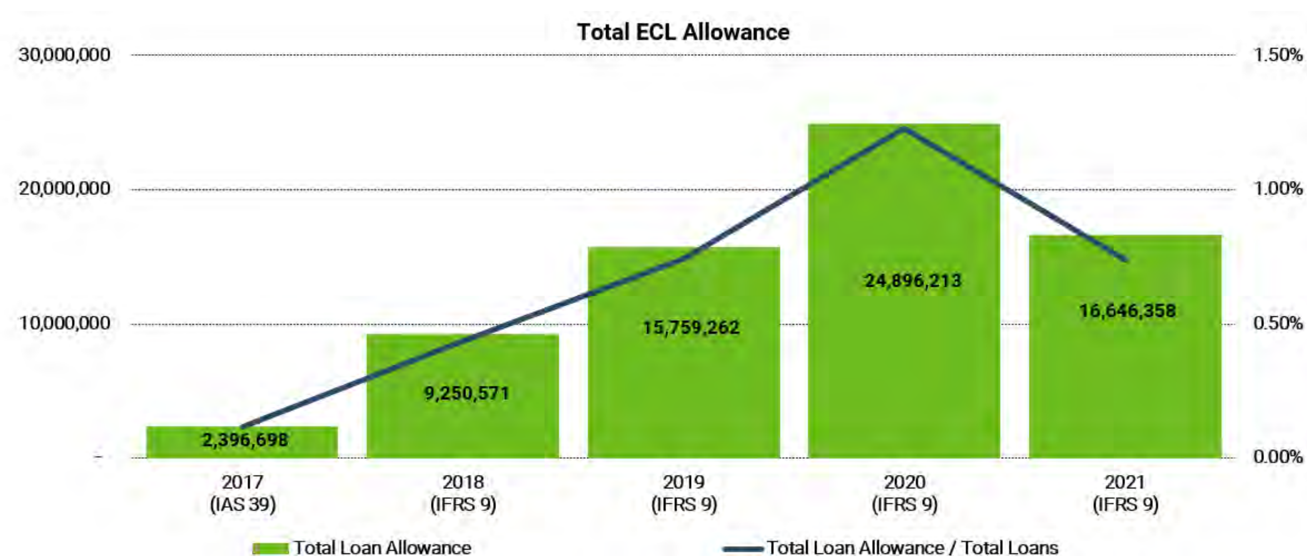
Table 14 (a): Total ECL Allowance by Portfolio

	2021	2020	Change $	Change %
Agriculture	724,293	1,422,227	(697,934)	(49.1%)
Commercial	13,292,715	20,434,477	(7,141,762)	(34.9%)
Consumer	2,629,350	3,039,509	(410,159)	(13.5%)
Total ECL	**16,646,358**	**24,896,213**	**(8,249,855)**	**(33.1%)**

Table 14 (b): Total ECL Allowance by Recognition Stage

	2021	2020	Change $	Change %
Stage 1 – 12-month ECL	2,450,007	1,480,800	969,207	65.5%
Stage 2 – Lifetime ECL not credit impaired	4,929,158	2,478,489	2,450,669	98.9%
Stage 3 – Lifetime ECL credit impaired	9,267,193	20,936,924	(11,669,731)	(55.7%)
Total ECL	**16,646,358**	**24,896,213**	**(8,249,855)**	**(33.1%)**

In relation to the size of the total loan portfolio, total loan allowances ended 2021 at a level of 0.74% of the total loan portfolio, which is a decrease from the prior year-end results of 1.23%. Comparative trends over the past five years will be skewed resulting from changes in accounting standards followed. As mentioned, IAS 39 was followed in 2017 while IFRS 9 was followed in 2018 – 2021.



Financial Review – Balance Sheet

Management is confident that all known issues within the loan portfolio have been captured in the loan allowance figure reported above. Thorough internal processes and controls continue to operate effectively to ensure the value of loans as reported on the balance sheet are accurate and free from misstatement.

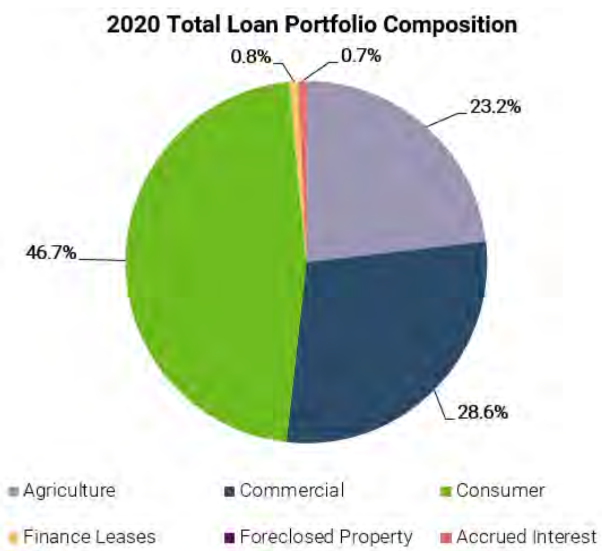
Total Loans

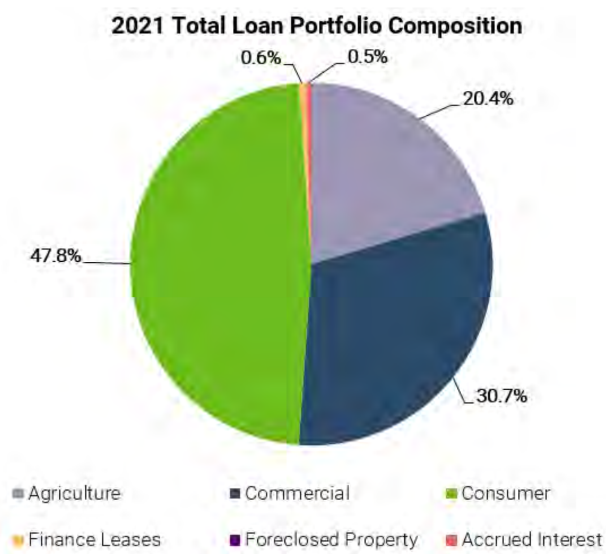
The total loan portfolio aggregates the performing loan portfolio with the impaired loan portfolio less loan allowances.

Table 15: Total Loan Portfolio

			Change	
	2021	**2020**	**$**	**%**
Agriculture	460,076,150	469,973,652	(9,897,502)	(2.1%)
Commercial	692,446,406	579,234,052	113,212,354	19.5%
Consumer	1,077,229,595	946,868,965	130,360,630	13.8%
Finance Leases	13,102,050	16,205,244	(3,103,194)	(19.1%)
Foreclosed Property	415,238	370,721	44,517	12.0%
Accrued Interest	10,952,698	13,193,093	(2,240,395)	(17.0%)
Total Loans	**2,254,222,137**	**2,025,845,727**	**228,376,410**	**11.3%**

The total loan portfolio increased by $228.4 million or 11.3% to $2.254 billion in 2021. Robust growth was driven from the commercial and consumer portfolios. As a result of this growth pattern, the proportion of the total loan portfolio held in the commercial and consumer loan categories has increased when compared to the prior year.





The average annual growth rate over the past five years equates to 3.6%. 2021 growth of 11.3% exceeded this five-year average while also far exceeding the prior year annual growth rate of (4.7%).

Financial Review – Balance Sheet

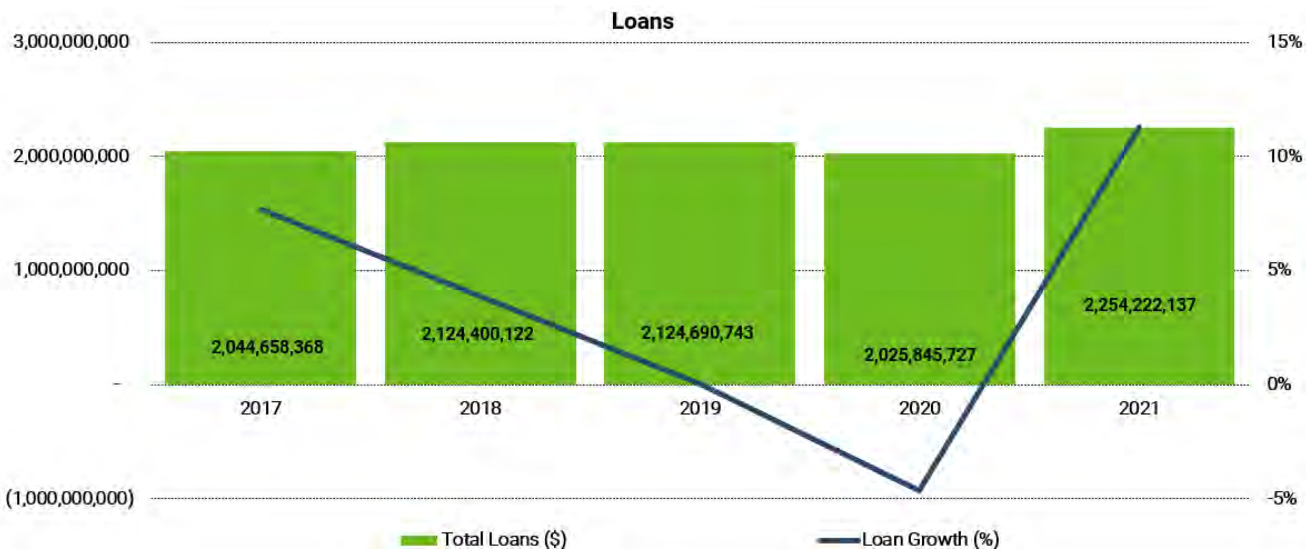


Table 16: Loan Concentration – By Source

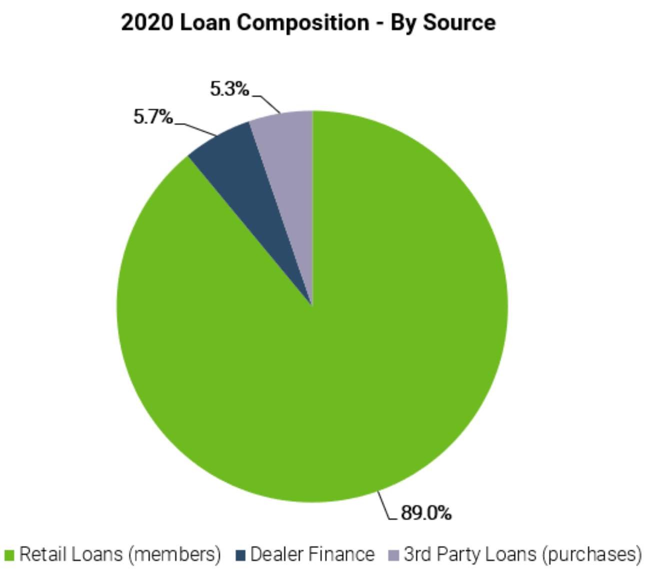
			Change	
	2021	**2020**	**$**	**%**
Retail Loans (members)	1,708,248,909	1,812,965,492	(104,716,583)	(5.8%)
Dealer Finance Loans	103,490,550	117,071,016	(13,580,466)	(11.6%)
3rd Party Loans (purchases)	447,761,100	107,141,618	(340,619,482)	317.9%
Total Loans*	**2,259,500,559**	**2,037,178,126**	**222,322,433**	**10.9%**

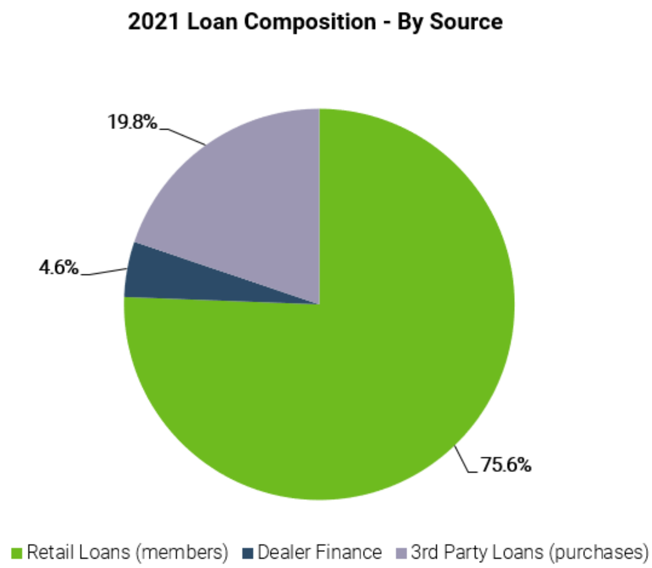
**Total Loans excludes ECL allowance, foreclosed property, and accrued interest*

Innovation has established numerous strategic partnerships with various financial entities across the country to ensure the credit union has the ability to purchase commercial and residential mortgages that fall within Innovation's risk appetite. Innovation leverages these additional loan sources to augment the activity generated from the membership of the credit union.

Loan growth sourced directly from Innovation's membership as well as through the dealer finance entity declined in 2021. As a result, Innovation successfully leveraged its various strategic partnerships to satisfy overall loan demand. These activity levels resulted in the proportionate share of total purchased loans increasing from 5.3% as of December 31, 2020 to 19.8% as of December 31, 2021.

Financial Review – Balance Sheet





Residential Mortgage Portfolio
In accordance with regulatory guidelines, Innovation is required to provide additional credit disclosures regarding our residential mortgage portfolio.

Innovation is limited to providing residential mortgages of no more than 80% of the collateral value. Lending at a higher loan-to-value (LTV) is permitted but requires default insurance. The insurance is contractual coverage that protects Innovation's real estate secured lending portfolio against potential losses caused by borrower default. Default insurance can be provided by either government backed entities or other approved private mortgage insurers. Currently Innovation uses Canada Mortgage and Housing Corporation (CMHC) and Sagen to provide mortgage default insurance.

A Home Equity Line of Credit (HELOC) is a form of non-amortizing (revolving) credit that is secured by a residential property. Unlike a traditional residential mortgage, most HELOCs are not structured to fit a predetermined amortization, although regular, minimum periodic payments are required. Innovation is limited to providing HELOCs of no more than 65% of the collateral value.

To determine the potential impact of an economic downturn, which may result in an increase in defaults and a decrease in housing prices, Innovation performs stress tests. The stress testing uses historical delinquency and write-off information over the past 5 years. Our results show that in an economic downturn, Innovation's capital position would be sufficient to absorb residential mortgage and HELOC losses.

The following tables 17-24 provide details of Innovation's residential mortgage portfolio to allow for evaluation of the soundness and condition of Innovation's residential mortgage operations.

Financial Review – Balance Sheet

Table 17: Residential Mortgage Loan Portfolio

	2021	% of Portfolio	2020	% of Portfolio	Change $	Change %
Insured	364,937,399	40.9%	354,267,020	47.4%	10,670,379	3.0%
Uninsured – Prime	428,436,027	48.0%	375,654,401	51.7%	52,781,626	14.1%
Uninsured – Alt A	84,852,934	9.5%	0	0%	84,852,934	n/a
Non-conforming	8,829,239	1.0%	10,371,644	1.4%	(1,542,405)	(14.9%)
HELOC (Home Equity Line of Credit)	5,018,501	0.6%	6,577,002	0.9%	(1,558,501)	(23.7%)
Total Loans	**892,074,100**	**100%**	**746,870,067**	**100%**	**145,204,034**	**19.4%**

Table 18: Residential Mortgage Portfolio by Amortization

Amortization Range	Number	Mortgage Balance	% of Portfolio	Average Balance
Less than 10 years	817	35,789,237	4.0%	43,806
10 – 15 years	1,018	101,433,326	11.4%	99,640
16 – 20 years	1,706	277,328,078	31.1%	162,560
21 – 25 years	1,564	343,561,726	38.5%	219,669
Greater than 25 years	277	133,961,733	15.0%	483,616
Total	**5,382**	**892,074,100**	**100%**	**165,751**

Table 19: Residential Mortgage Portfolio by Province

Location	Number	Mortgage Balance	% of Portfolio	Average Balance
Saskatchewan	4,955	717,487,456	80.4%	144,801
Ontario	205	112,015,830	12.6%	546,419
Alberta	154	36,661,480	4.1%	238,062
British Columbia	57	23,825,731	2.7%	417,995
Prince Edward Island	5	1,115,207	0.1%	223,041
Manitoba	2	402,946	0.1%	201,473
Nova Scotia	2	346,420	0.0%	173,210
Newfoundland and Labrador	2	219,030	0.0%	109,515
Total	**5,382**	**892,074,100**	**100%**	**165,751**

Financial Review – Balance Sheet

Table 20: Residential Mortgage Loan Term Portfolio by Loan to Value (LTV)

Loan to Value (LTV)	Number	Mortgage Balance	% Of Portfolio	Average Balance
Less than 25%	635	21,651,761	2.4%	34,097
25% – 50%	1,038	114,126,943	12.8%	109,949
50% – 60%	589	88,308,441	9.9%	149,929
60% – 70%	912	170,928,844	19.2%	187,422
70% – 80%	1,217	298,434,854	33.5%	245,222
80% – 90%	574	108,680,953	12.2%	189,340
Greater than 90%	417	89,942,304	10.0%	215,689
Total	**5,382**	**892,074,100**	**100%**	**165,751**

Table 21: Residential Mortgage Loan Term Portfolio by Credit Score

Category	Beacon Score	Number of Borrowers	Mortgage Balance	% Of Portfolio
Super Prime	741+	2,671	490,871,926	55.0%
Prime	681 – 740	1,187	224,018,443	25.1%
Near Prime	621 – 680	520	113,852,590	12.8%
Sub Prime	541 – 620	200	35,737,427	4.0%
Deep Sub Prime	< 540	49	6,456,926	0.7%
No score		215	21,136,788	2.4%
Total		**4,842**	**892,074,100**	**100%**

Table 22: Residential Mortgage Loan Portfolio by Age of Borrower

Age	Number of Borrowers	Mortgage Balance	% Of Portfolio
19 to 24	99	16,214,837	1.8%
25 to 34	1,002	203,659,429	22.8%
35 to 44	1,329	287,994,893	32.3%
45 to 54	966	187,852,347	21.1%
55 to 64	878	133,069,785	14.9%
65+	568	63,282,809	7.1%
Total	**4,842**	**892,074,100**	**100%**

Financial Review – Balance Sheet

Table 23: Residential Mortgage Loan Portfolio by Delinquency Category

Delinquency	Number	Mortgage Balance	% Of Portfolio
Not Delinquent	5,295	877,186,511	98.3%
1 – 29 days	50	9,666,956	1.1%
30 – 89 days	20	2,881,106	0.3%
90 – 179 days	6	843,276	0.1%
180 – 364 days	1	28,888	0.0%
365 days or greater	10	1,467,363	0.2%
Total	**5,382**	**892,074,100**	**100%**

Table 24: Residential Mortgage Loan Portfolio by Write Offs

	2021	#	2020	#
Insured	32,350	6	31,136	5
Uninsured	248,661	9	35,352	1
HELOC (Home Equity Line of Credit)	-	-	-	-
Total Loans	**281,011**	**15**	**66,488**	**6**

Deposits

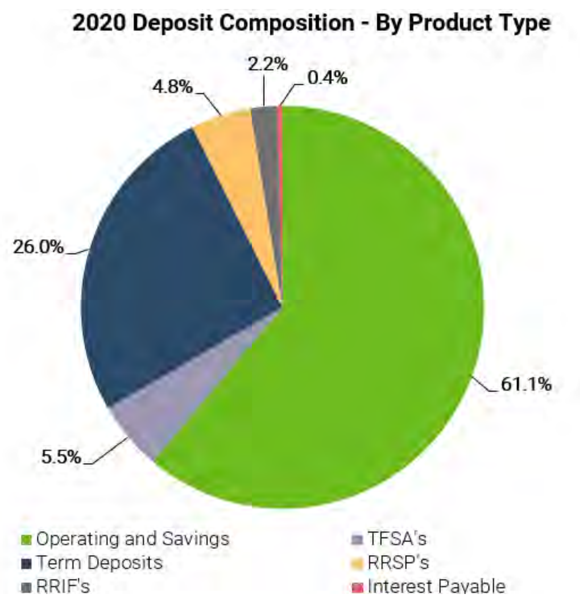
Innovation offers a variety of competitive deposit products to members including registered and non-registered investments.

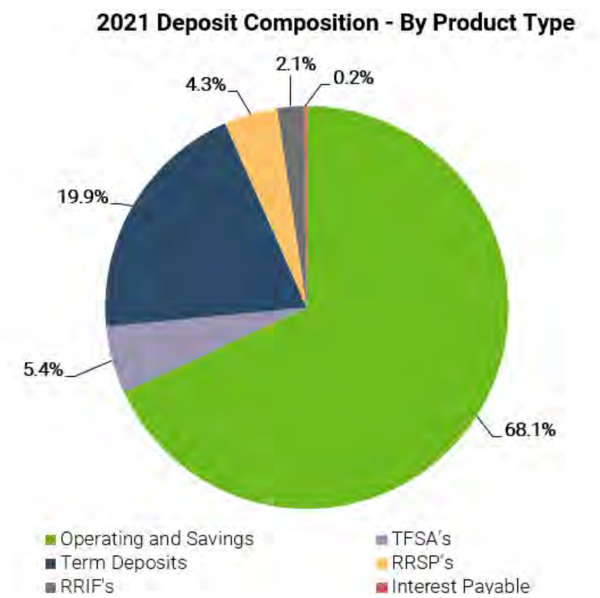
Table 25: Deposit Concentration - By Product Type

			Change	
	2021	**2020**	**$**	**%**
Operating and Savings	1,774,982,289	1,565,952,014	209,030,275	13.3%
TFSA's	140,938,842	141,390,210	(451,368)	(0.3%)
Term Deposits	518,514,945	665,366,935	(146,851,990)	(22.1%)
RRSP's	111,855,397	123,084,188	(11,228,791)	(9.1%)
RRIF's	55,525,853	55,287,695	238,158	0.4%
Interest Payable	5,932,899	10,848,190	(4,915,291)	(45.3%)
Total Deposits	**2,607,750,225**	**2,561,929,232**	**45,820,993**	**1.8%**

Total deposits grew by $45.8 million or 1.8% to $2.608 billion in 2021. The primary source of deposit growth was from within the operating and savings products while the term deposit category declined year-over-year.

Financial Review – Balance Sheet





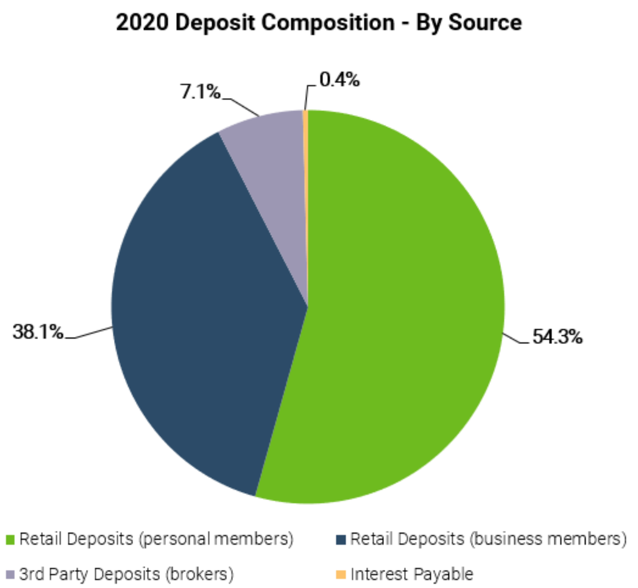
The organization strives to continue to grow the deposit portfolio through enhancing relationships with current personal and business members as well as through expanding the membership base. To provide greater funding assurance, Innovation has established multiple diversified deposit funding sources outside the current membership base. These 3rd party sourced deposits are sourced through individual relationships with multiple national investment dealers while also leveraging Innovation's listing on the CANNEX Financial Network.

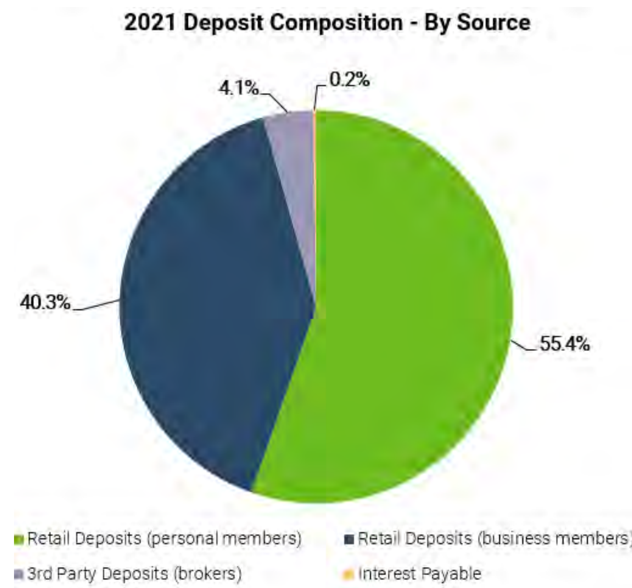
Table 26: Deposit Concentration - By Source

	2021	2020	Change $	%
Retail Deposits (members)				
Personal Members	1,443,419,433	1,392,096,744	51,322,689	3.7%
Business Members	1,050,621,252	976,477,639	74,143,613	7.6%
Total Retail Deposits (members)	2,494,040,685	2,368,574,383	125,466,302	5.3%
3rd Party Deposits (brokers)	107,776,641	182,506,659	(74,730,018)	(40.9%)
Interest Payable	5,932,899	10,848,190	(4,915,291)	(45.3%)
Total Deposits	**2,607,750,225**	**2,561,929,232**	**45,820,993**	**1.8%**

Innovation continues to leverage its wide range of funding sources based on the cash flow needs of the credit union. Growth patterns witnessed during 2021 provided an opportunity to continue to shift the mix of the total deposit portfolio. The proportionate share of total deposits sourced from 3rd parties (brokers) decreased from 7.1% as of December 31, 2020 to 4.1% as of December 31, 2021.

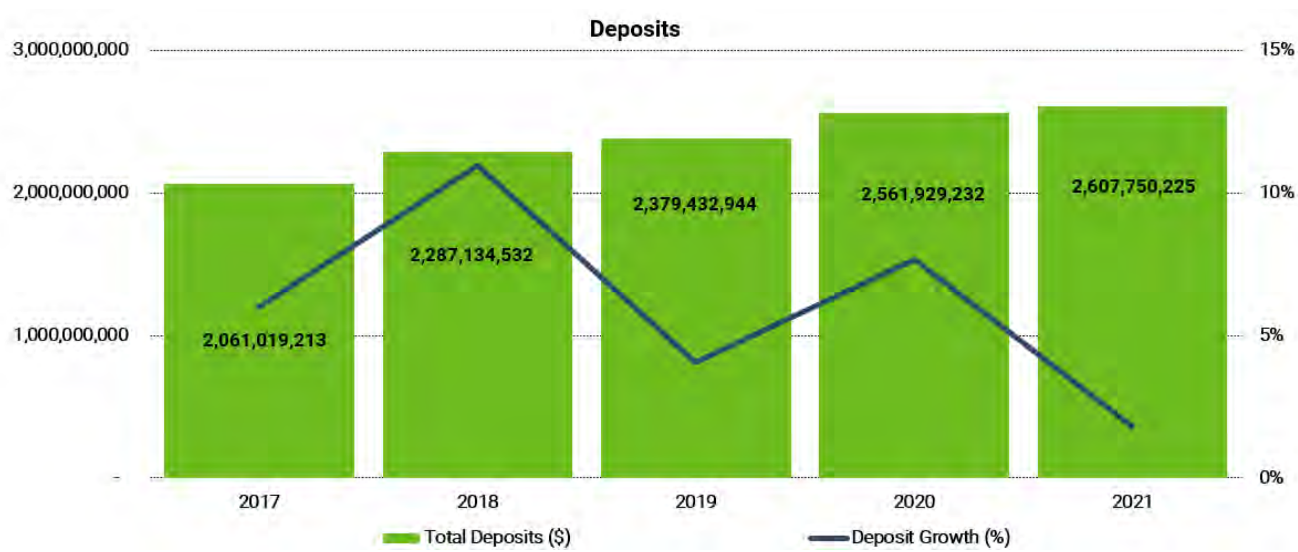
Financial Review – Balance Sheet





The average annual growth rate over the past five years equates to 6.1%. 2021 growth of 1.8% fell below this five-year average while also falling below the prior year annual growth rate of 7.7%.

Referencing the deposit portfolio sourced directly from the membership of Innovation, 2021 growth of 5.3% was slightly below the five-year average growth rate of 5.5% while also trailing the prior year result of 13.4%.



Financial Review – Balance Sheet

Liquidity Management

One of Innovation's primary objectives as a financial institution is to prudently manage liquidity to ensure Innovation can generate or obtain sufficient cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they become due, even under stressed conditions. Innovation's liquidity management framework, targets and strategies are established and documented in a Liquidity Plan as well as a Contingency Funding Plan, which is approved by the board of directors on an annual basis.

The principles of Innovation's liquidity management framework are:

- maintaining a strategy and policies for managing liquidity risk
- maintaining a stock of liquid assets
- measuring and monitoring funding requirements
- managing market access to funding sources
- contingency planning
- ensuring internal controls over liquidity risk management process

Innovation has an established policy with respect to liquidity and has many processes and practices with respect to the management of funding requirements. Innovation has built and maintains access to numerous funding sources. A very important source of funding is the deposit portfolio which totaled $2.608 billion as at 2021 year-end.

In addition to deposits, Innovation maintains external borrowing facilities from various sources with a combined credit limit of $145.8 million. These credit sources are well diversified and are comprised of the following individual credit arrangements:

- $36.5 million (CDN) line of credit with SaskCentral
- $0.5 million (USD) line of credit with SaskCentral
- $18.8 million (CDN) demand loan with SaskCentral
- $40.0 million (CDN) demand loan with Concentra Bank
- $50.0 million (CDN) demand loan with Desjardins

During 2021 Innovation used external borrowing facilities minimally. Liquidity testing was conducted mid-year to assure funding channels are available and accessible while also ensuring internal processes and procedures are in place for efficient advancement as required.

Innovation leverages the securitization market for funding purposes as well as to assist in building an effective liquidity management framework. Innovation periodically securitizes assets to generate funding through the capital markets, resulting in on-balance sheet securitization liabilities or high-quality liquid assets. 2021 securitization transactions totaled $38.1 million, all of which were held as HQLA. Total securitization liabilities decreased by $46.0 million (32.3%) to $96.5 million in 2021 due to repayments on the underlying assets contained within this portfolio.

Loans may also be syndicated/sold to numerous credit unions and other organizations for funding purposes. In 2021, Innovation was able to fund several loan opportunities with syndication partners, ensuring the total commitment exposure was acceptable.

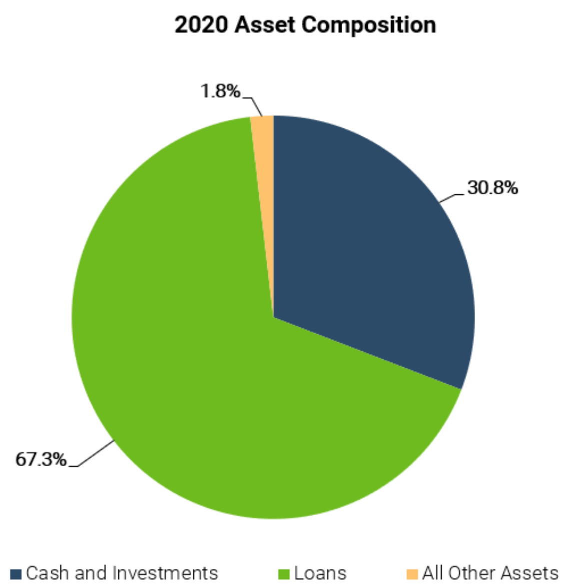
Utilizing these diversified funding sources improves the overall funding assurance of the organization. The balance sheet structure continues to influence the organization's ability to manage liquidity risk.

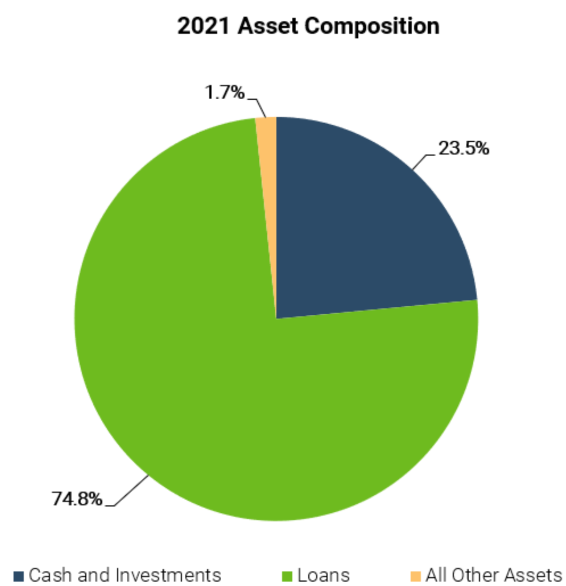
Financial Review – Balance Sheet

Table 27: Asset Composition

	2021	2020	Change $	%
Cash and Investments	707,718,435	928,003,939	(220,285,504)	(23.7%)
Loans	2,254,222,137	2,025,845,727	228,376,410	11.3%
All other assets	50,321,602	55,001,274	(4,679,672)	(8.5%)
Total Assets	**3,012,262,174**	**3,008,850,940**	**3,411,234**	**0.1%**

Entering 2021, the liquidity position of the credit union operated outside the risk appetite as approved by the board of directors. Throughout 2021 the organization was successful in redeploying excess liquidity into higher yielding loan assets. As a result of these efforts, the structure of the balance sheet has shifted to hold more loans as a proportionate share of total assets.





Balance sheet composition is important from a liquidity management perspective as the organization must ensure it carries an appropriate level of high-quality liquid assets. Innovation maintains a cushion of high quality, liquid assets to be drawn upon to meet unforeseen funding requirements. These assets are reported on the balance sheet as cash or cash equivalents, investments, and residential mortgages. Residential mortgages securitized and held as HQLA total $60 million as of December 31, 2021.

An important measure of liquidity risk Innovation employs is the Liquidity Coverage Ratio (LCR). The objective of the LCR is to ensure there is an adequate stock of unencumbered high-quality liquid assets (HQLA) that:

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

In the pursuit to become a federal credit union, processes and reporting have been established to meet the regulatory capital and liquidity requirements set by the Office of the Superintendent of Financial Institutions.

Table 28 (a): Liquidity Coverage Ratio (LCR) – provincial regulatory environment

	2021	2020	Change $	Change %
Level 1 Weighted Assets	296,058,136	304,757,180	(8,699,044)	(2.9%)
Level 2A Weighted Assets	1,616,708	2,916,442	(1,299,734)	(44.6%)
Level 2B Weighted Assets	52,530,855	23,663,782	28,867,073	122.0%
High Quality Liquid Assets (HQLA)	**350,205,699**	**331,337,404**	**18,868,295**	**5.7%**
Retail and Small Business Deposit Run-Off	59,355,196	51,666,337	7,688,859	14.9%
Unsecured Wholesale Funding Run-Off	102,556,641	92,109,153	10,447,488	11.3%
Secured Funding Run-Off	-	-	-	-
Additional Requirements	21,291,937	20,145,249	1,146,688	5.7%
Total Prescribed Outflows	183,203,775	163,920,739	19,283,036	11.8%
Total Prescribed Cash Inflows *	137,402,831	122,940,554	14,462,277	11.8%
Net Prescribed Cash Outflows	**45,800,944**	**40,980,185**	**4,820,759**	**11.8%**
Liquidity Coverage Ratio (LCR) - provincial	**764.63%**	**808.53%**		

** Prescribed cash inflows are capped at 75% of total prescribed outflows (2021 calculated prescribed inflows = $216,640,700)*

Table 28 (b): Liquidity Coverage Ratio (LCR) – federal regulatory environment

	2021	2020	Change $	Change %
Level 1 Weighted Assets	335,764,929	332,269,008	3,495,921	1.1%
Level 2A Weighted Assets	192,138	2,916,442	(2,724,304)	(93.4%)
Level 2B Weighted Assets	12,480,978	2,661,479	9,819,499	368.9%
High Quality Liquid Assets (HQLA)	**348,438,045**	**337,846,929**	**10,591,116**	**3.1%**
Eligible Non-Operational Demand Deposits	77,315,611	40,765,006	36,550,605	89.7%
HQLA & Eligible Non-Op Demand Deposits	**425,753,656**	**378,611,935**	**47,141,721**	**12.5%**
Retail and Small Business Deposit Run-Off	78,291,279	71,639,802	6,651,477	9.3%
Unsecured Wholesale Funding Run-Off	191,769,637	181,728,311	10,041,326	5.5%
Secured Funding Run-Off	-	-	-	-
Additional Requirements	114,295,076	82,958,852	31,336,224	37.8%
Total Prescribed Outflows	384,355,993	336,326,965	48,029,028	14.3%
Total Prescribed Cash Inflows *	127,589,005	252,245,223	(124,656,218)	(49.4%)
Net Prescribed Cash Outflows	**256,766,988**	**84,081,742**	**172,685,246**	**205.4%**
Liquidity Coverage Ratio (LCR) – federal	**165.81%**	**450.29%**		

** Prescribed cash inflows were capped at 75% of total prescribed outflows in 2020 (2020 calculated prescribed inflows = $262,917,755)*

The organization's risk appetite statement (RAS) contains a board of director approved LCR range of 120%-200% under the federal environment. The LCR ended 2020 above the range defined within the risk appetite statement. Throughout 2021 the organization was successful in redeploying excess liquidity into higher yielding loan assets. These efforts, along with efforts in managing the credit union's investment assets, resulted in the LCR ending 2021 within the risk appetite statement acceptable range.

In 2018, Innovation introduced the net cumulative cash flow (NCCF) liquidity risk metric to the organization. The NCCF metric is used within the federal regulatory environment to supervise and monitor liquidity at an individual financial institution. The NCCF calculates a horizon for net positive cash flows to capture the risk posed by funding mismatches between assets and liabilities. By utilizing this type of cash flow analysis, institutions may be able to better mitigate the risk of disruption to market confidence and maintain the ability to meet short-term liabilities in a liquidity crisis.

In addition, Innovation continues to monitor liquidity risk utilizing a stress testing program which models the impacts of twenty-two distinct scenarios and calculates a survival horizon over a twelve-month period. The results of this stress testing program are reported monthly to senior management and quarterly to the Audit & Conduct Review Committee of the board.

Finally, Innovation also conducts a variety of stress tests against the future financial forecast. The results of these stress tests are consolidated and presented to the board of directors as part of the annual budget process.

Capital Management

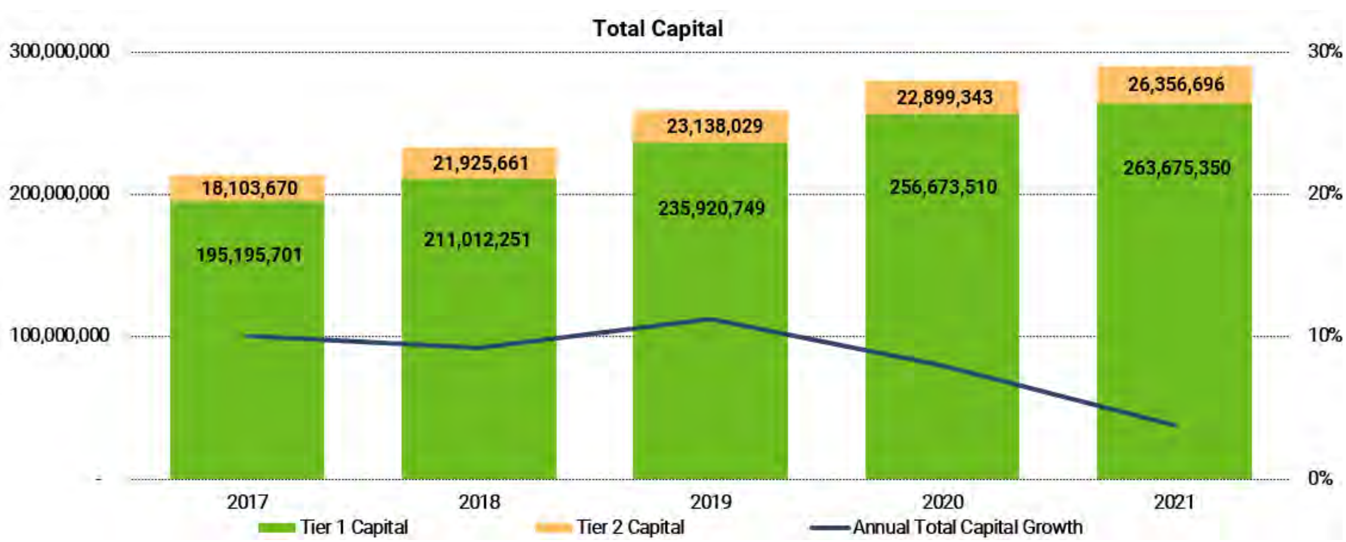
Innovation's capital management framework is designed to maintain an optimal level of capital. Accordingly, capital polices are designed to ensure that Innovation meets its regulatory capital requirement, meets its internal assessment of required capital and to build long-term membership value. Innovation retains a portion of its annual earnings to meet these capital objectives. Once these capital objectives are met, additional earnings are allocated to members through member distributions authorized by the board of directors. A portion of these quarterly member distributions are in the form of patronage allocations which are in turn utilized to increase the value of each member's membership share held in the organization.

Financial Review – Balance Sheet

Table 29: Regulatory Capital

	2021	2020	Change $	%
Retained Earnings	272,145,664	261,326,939	10,818,725	4.1%
Deduct: Intangible Assets	(8,470,314)	(4,653,429)	(3,816,885)	82.0%
Common Equity Tier 1 (CET1) Capital	**263,675,350**	**256,673,510**	**7,001,840**	**2.7%**
Additional Tier 1 Capital	-	-	-	-
Membership Shares – Par Value	293,265	288,970	4,295	1.5%
Membership Shares – Patronage Allocations	18,593,070	18,651,084	(58,014)	(0.3%)
ECL (stage 1 + stage 2)	7,470,361	3,959,289	3,511,072	88.7%
Tier 2 Capital	**26,356,696**	**22,899,343**	**3,457,353**	**15.1%**
Total Capital	**290,032,046**	**279,572,853**	**10,459,193**	**3.7%**

Total capital grew by $10.5 million or 3.7% to $290.0 million in 2021. Innovation continues to build and maintain a very solid capital base.



The adequacy of the capital base of the organization is measured in relation to either the risk weighted assets or total leverage exposures.

Risk weighted assets are determined by applying the regulatory prescribed rules to on-balance sheet and off-balance sheet exposures.

Table 30: Risk Weighted Assets – provincial regulatory environment

	2021			2020		
	Net Exposure	**Effective Risk %**	**Risk-Weighted Amount**	**Net Exposure**	**Effective Risk %**	**Risk-Weighted Amount**
On-Balance Sheet						
Cash and cash equivalents	205,631,871	0%	-	161,051,027	0%	-
Investments	502,086,564	24.4%	122,576,621	766,952,912	19.6%	149,986,022
Loans	2,254,222,137	63.7%	1,435,270,584	2,025,845,727	63.5%	1,287,263,797
Property and equipment	15,208,743	100.0%	15,208,743	16,223,936	100.0%	16,223,936
Right of Use Assets	562,032	100.0%	526,032	543,510	100.0%	526,032
Goodwill & intangible	8,470,314	0%	-	4,653,429	0%	-
All other assets	26,080,513	231.4%	60,355,255	33,580,399	219.8%	73,838,963
Total Assets	**3,012,262,174**	**54.2%**	**1,633,973,235**	**3,008,850,940**	**50.8%**	**1,527,856,228**
Off-Balance Sheet Items						
Derivatives	21,767,188	0.2%	48,275	68,027,537	0.2%	113,441
Credit Commitments	412,797,082	26.5%	109,405,226	419,778,406	19.6%	82,146,172
Total Credit Risk	**434,564,270**	**25.2%**	**109,453,501**	**487,805,943**	**16.9%**	**82,259,613**
Operational Risk			**167,748,767**			**170,259,530**
Total Risk-Weighted Assets	**3,446,826,444**	**55.4%**	**1,911,175,503**	**3,496,656,883**	**50.9%**	**1,780,375,371**

The Basel III capital reforms introduced a non-risk-based leverage ratio requirement to act as a supplementary measure to the risk-based capital requirements. The leverage ratio is defined by Credit Union Deposit Guarantee Corporation (CUDGC) as total capital divided by the leverage exposure. The leverage exposure is the total unweighted on-balance sheet assets and off-balance sheet commitments.

Financial Review – Balance Sheet

Table 31: Leverage Exposure

	2021	2020	Change $	%
On-Balance Sheet Assets	3,012,262,174	3,008,850,940	3,411,234	0.1%
Less: Deductions from Capital	(8,470,314)	(4,653,429)	(3,816,885)	82.0%
Add: Off-Balance Sheet Exposures	114,677,959	87,216,542	27,461,417	31.5%
Total Leverage Exposure	**3,118,469,819**	**3,091,414,053**	**27,055,766**	**0.9%**

CUDGC, the regulator of Saskatchewan credit unions, as well as the Office of the Superintendent of Financial Institutions (OSFI), have prescribed capital adequacy measures and minimum capital requirements. The capital adequacy requirements are based on the Basel III capital standards framework established by the Bank of International Settlements and adopted by financial institutions around the globe.

Four prescribed tests have been established to assess the capital adequacy of financial institutions:

- Common Equity Tier 1 (CET1) Capital / Total Risk Weighted Assets
- Tier 1 Capital / Total Risk Weighted Assets
- Total Eligible Capital / Total Risk Weighted Assets
- Total Eligible Capital / Total Leverage Exposure

Innovation's board of directors approves internal capital policy targets that:

- support prudent operations
- are appropriate for the organization's risk profile, risk appetite and risk tolerance
- are aligned with the credit union's stress testing program and internal capital adequacy assessment process (ICAAP)
- are stricter than regulatory minimums.

This standard setting is the first line of defense to ensure capital levels exceed regulatory minimums even in times of significant loss or unplanned growth. Capital planning is integral to Innovation's business planning. Innovation's business plan must demonstrate its ability to strive to meet board level capital standards. In addition to striving to meet board level standards for capital adequacy, management (as part of the Strategic Financial Management Committee) sets operating objectives for capital levels. Innovation manages capital to these operating objectives. Balance sheet strategies are designed to ensure these capital levels are achieved in addition to achieving other strategies, such as growth and profitability targets.

Current board capital management policies have been approved with the following targets:

Table 32: Capital Measures

	Regulatory Minimum	Policy Target
Common Equity Net Tier 1 / Risk Weighted Assets	7.00%	8.54%
Total Tier 1 Capital / Risk Weighted Assets	8.50%	10.37%
Total Eligible Capital / Risk Weighted Assets	10.50%	12.81%
Total Eligible Capital / Leverage Assets	5.00%	6.10%

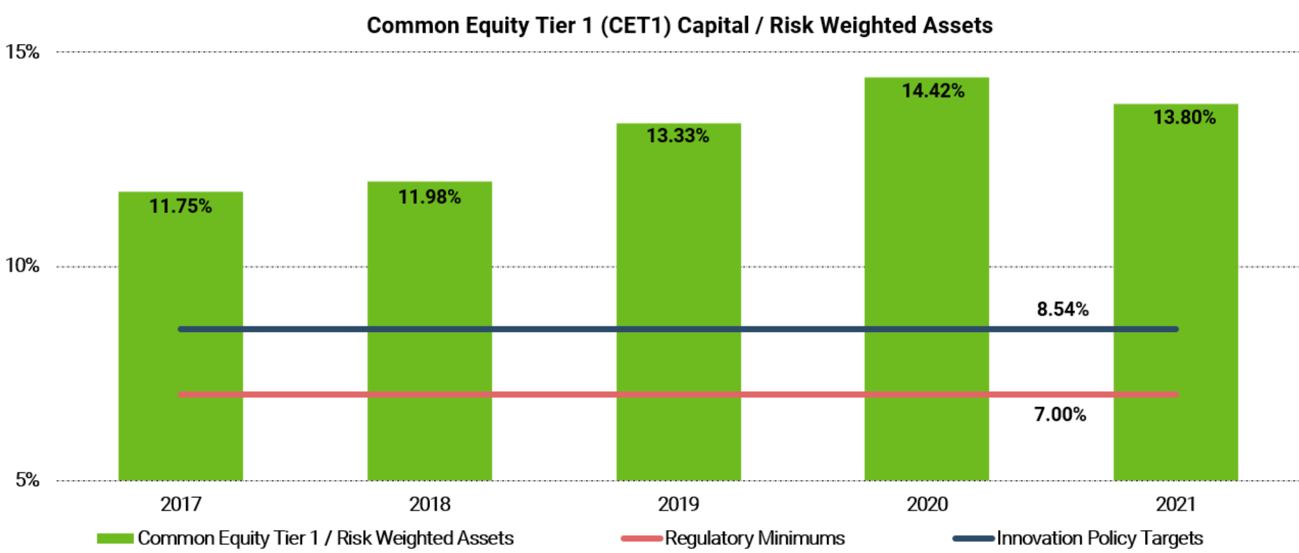
Financial Review – Balance Sheet

The first capital adequacy ratio focuses on the common equity tier 1 capital (CET1) as a percentage of total risk weighted assets.

Table 33: CET1 Capital Ratio

			Change	
	2021	**2020**	**$**	**%**
Common Equity Tier 1 Capital	263,675,350	256,673,510	7,001,840	2.7%
Risk Weighted Assets	1,911,175,503	1,780,375,371	130,800,132	7.3%
CET1 Capital Ratio	**13.80%**	**14.42%**		

Common equity tier 1 (CET1) capital ratio declined in 2021 by 62 basis points to 13.80%. This result was driven by the annual 7.3% growth rate of the total risk weighted assets held by the organization outpacing the annual 2.7% growth rate of CET1 capital. CET1 capital continues to be strong, well above internal policy targets and well above regulatory requirements.



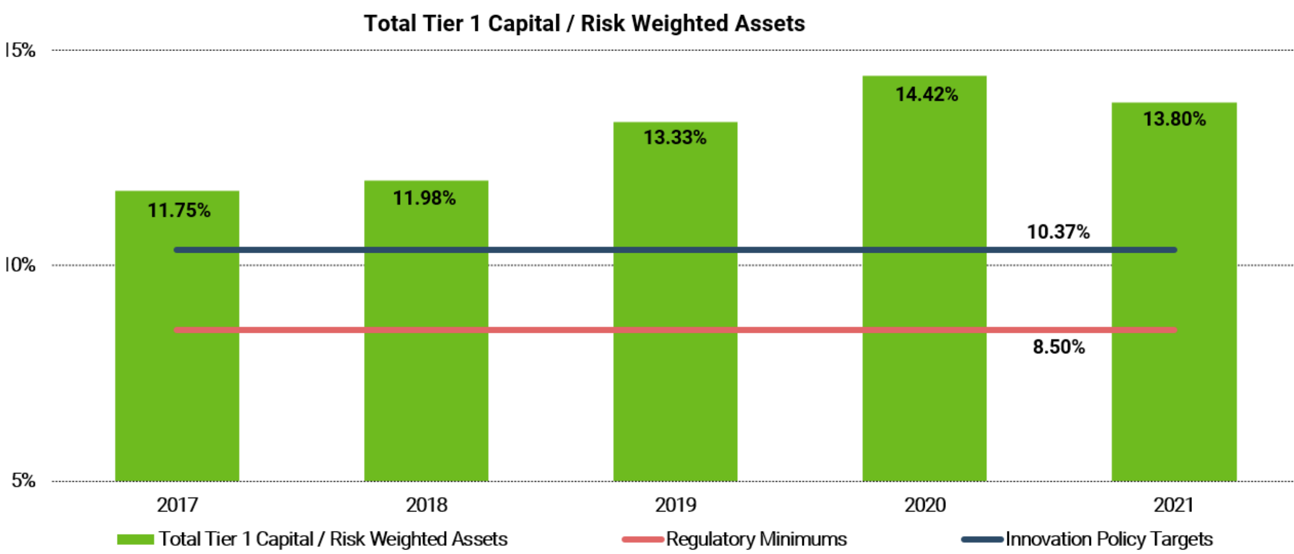
The second capital adequacy ratio focuses on total tier 1 capital as a percentage of total risk weighted assets. Innovation currently has no additional forms of tier 1 capital aside from the common equity tier 1 (CET1) capital.

Financial Review – Balance Sheet

Table 34: Total Tier 1 Capital Ratio

	2021	2020	Change $	%
Common Equity Tier 1 Capital	263,675,350	256,673,510	7,001,840	2.7%
Additional Tier 1 Capital	-	-	-	-
Total Tier 1 Capital	263,675,350	256,673,510	7,001,840	2.7%
Total Risk Weighted Assets	1,911,175,503	1,780,375,371	130,800,132	7.3%
Total Tier 1 Capital Ratio	**13.80%**	**14.42%**		

The total tier 1 capital ratio declined in 2021 by 62 basis points to 13.80%. This result was driven by the annual 7.3% growth rate of the total risk weighted assets held by the organization outpacing the annual 2.7% growth rate of total tier 1 capital. Total tier 1 capital continues to be strong, well above internal policy targets and well above regulatory requirements.



The third capital adequacy ratio focuses on total eligible capital as a percentage of total risk weighted assets.

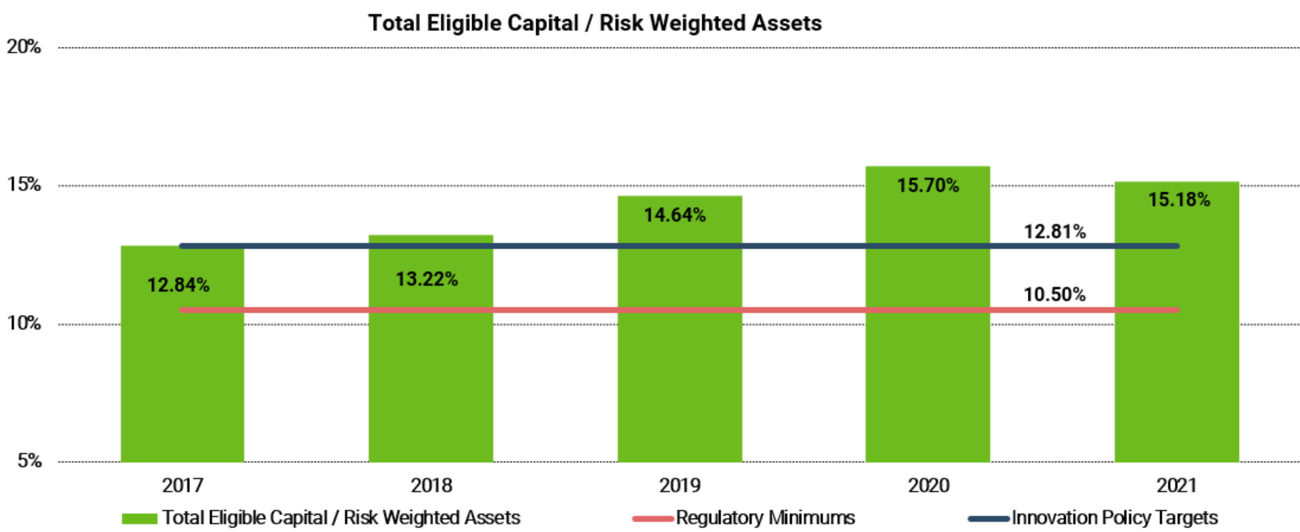
Table 35: Total Capital Ratio

	2021	2020	Change $	%
Total Capital	290,032,046	279,572,853	10,459,193	3.7%
Risk Weighted Assets	1,911,175,503	1,780,375,371	130,800,132	7.3%
Total Capital Ratio	**15.18%**	**15.70%**		

Financial Review – Balance Sheet

The total capital ratio declined in 2021 by 52 basis points to 15.18%. This result was driven by total capital growth outpacing the growth of the total risk weighted assets held by the organization. Total capital continues to be strong, well above internal policy targets and well above regulatory requirements.

This result was driven by the annual 7.3% growth rate of the total risk weighted assets held by the organization outpacing the annual 3.7% growth rate of total capital. Total capital continues to be strong, well above internal policy targets and well above regulatory requirements.



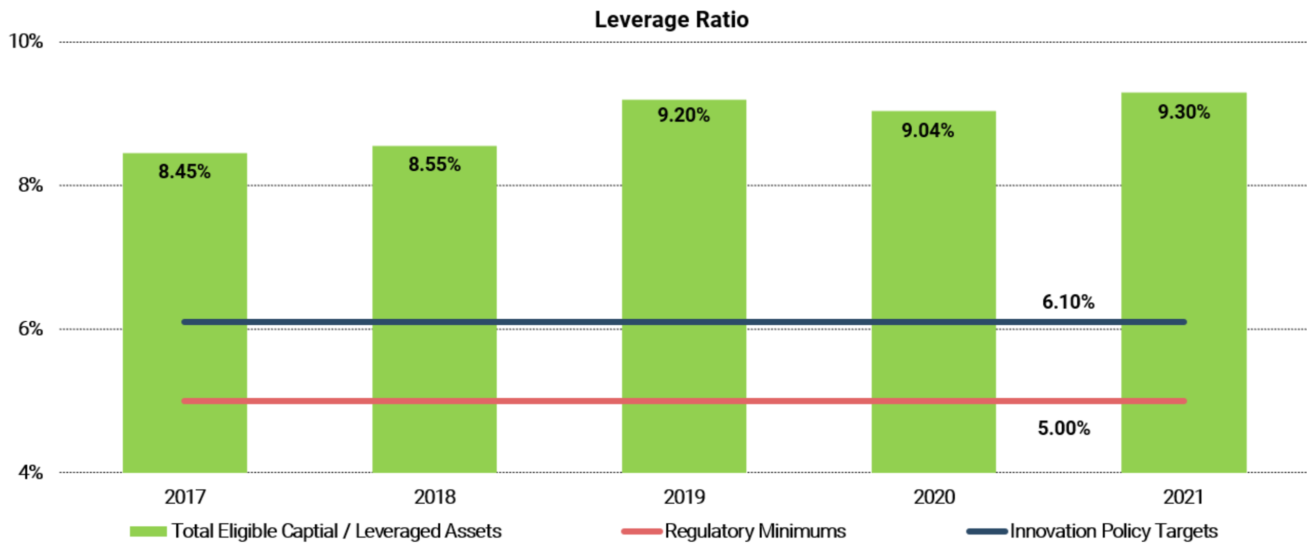
The final capital adequacy ratio focuses on total eligible capital in relation to total leverage exposures. This ratio is commonly referred to as the leverage ratio. Total leverage assets include on-balance sheet assets less deductions from capital along with specified off-balance sheet items such as the undrawn balances on approved loans and letters of credit.

Table 36: Leverage Ratio

			Change	
	2021	**2020**	**$**	**%**
Total Capital	290,032,046	279,572,853	10,459,193	3.7%
Leverage Exposure	3,118,469,819	3,091,414,053	27,055,766	0.9%
Leverage Ratio	**9.30%**	**9.04%**		

The total leverage ratio improved in 2021 by 26 basis points to 9.30%. This result was driven by the 3.7% pace of growth in total capital exceeding the 0.9% pace of growth in the leverage exposure. From a historic perspective, the 2021 results continue to trend far above internal policy targets and regulatory minimum standards.

Financial Review – Balance Sheet



Saskatchewan Credit unions that are not in compliance with the standards and expectations as set forth by the provincial regulator, CUDGC, may face necessary actions including but not limited to:

- reducing or restricting the credit union's authorities and limits
- subjecting the credit union to preventive intervention
- issuing a compliance order
- placing the credit union under supervision or administration
- issuing an amalgamation order

Enterprise Risk Management

As a financial institution, Innovation is exposed to a wide variety of risks. As a result, the credit union must properly measure and assess the existing and the potential risks to ensure it is adequately prepared to serve our members and communities now and in the future. The enterprise risk management (ERM) process is mandated by CUDGC as a requirement for all credit unions in Saskatchewan. The CUDGC ERM approach is used for the identification, measurement and monitoring of risks. Innovation has a structured ERM framework designed to not only manage its existing risks, but to anticipate potential changes that may negatively affect the organization.

Risk Governance

Innovation risk governance provides the oversight structure to ensure an appropriate risk framework with supporting risk policies/procedures/practices and a defined risk appetite have been implemented. It provides the organization clear levels of authority and specific responsibilities for risk decisions. The following groups and committees have the authority and responsibility for risk decisions within Innovation.

Board of Directors:

- Approve risk policies, the overall risk appetite, and oversees execution of our ERM program by management
- Monitor overall risk profile, key and emerging risks and risk management activities
- Review and assess the impact of business strategies, opportunities, and initiatives regarding the overall risk position

Risk Committee and the Audit and Conduct Review Committee of the Board:

- Responsible for Innovation's Risk Management framework.
- Monitors major risks and recommends acceptable risk levels to the board
- Reviews the appropriateness and effectiveness of risk management and compliance practices
- Provides oversight of external and internal audit functions

Executive Management:

- Implements strategies and policies approved by the board
- Develops processes that identify, measure, monitor and control risks
- Co-ordinates the completion and documentation of board and operating policy and procedures
- Co-ordinates the strategic and operational planning process

Enterprise Risk Committee (ERC)

- Ongoing review and assessment of current risks
- Identification of possible new risks
- Measurement of risk by analysis in terms of probability, and impact in the context of current controls and strategies as operationally implemented
- Evaluation and prioritization of risks
- Implementation and monitoring of risk control strategies including development of remediation strategies as well as action plan treatments
- Monitoring and reviewing the effectiveness of the risk management system

Enterprise Risk Management

Credit Management Committee (CMC)

- Oversees, at the leadership and operational level, management of Innovation's loan portfolio.
- Ensures the efficient and effective management of Innovation's loan portfolio, consistent with direction from the Enterprise Risk Committee, with Innovation's risk appetite, and with applicable regulatory standards.
- Implements practices and procedures to identify, monitor and mitigate credit risk.
- Ensures those practices and procedures are designed to maintain operational viability and to safeguard Innovation's credit portfolio.

Internal Audit, Compliance and ERM areas:

These specialized areas each have a direct channel to report to the Risk Committee and the Audit and Conduct Committee of the Board.

- Monitor compliance with policy and procedure and assess the adequacy of controls
- Provide independent and objective assurance on the effectiveness of risk management and control processes to management and the respective Committees of the Board
- Oversee enterprise-wide management of risk and compliance throughout the organization

Strategic Financial Management Committee (SFM):

- Establishes market and liquidity risk policies and oversees related programs and practices
- Monitors overall market and liquidity risk profile, key and emerging risk exposures and risk management activities
- Monitors compliance with market and liquidity risk policies
- Establishes balance sheet operational strategies with a focus on achieving financial targets, managing marketing and liquidity risk, and optimizing the use of capital

Corporate Finance:

- Establishes capital management policies and oversees related strategies and practices
- Monitors capital and liquidity position
- Establishes pricing policies and tools

Significant Risk Areas

Seven categories of risk were identified as significant to Innovation and they are as follows:

A. Strategic Risk

Strategic risk is the risk that adverse business 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.

Key Strategic Risks

Strategic risk is inherent in providing products and services to consumers. The Board direction and how it is translated into day-to-day activities must be compatible with what the consumer wants. Products and services must be competitive and profitable, and resources must be used appropriately for Innovation to be successful.

Strategic Risk Management
Innovation has annual strategic planning sessions for the Board and Executive Management. Strategic objectives, performance measures and key initiatives are identified and form part of the balanced scorecard which is communicated to all staff and used to measure organizational performance. Strategies are regularly reviewed and adapted as necessary due to the changing financial environment. Management is responsible to execute business plans and quarterly progress reports track performance.

B. Market Risk

The balance sheet of Innovation is subject to market risk, which is defined as the potential for change in the market value of rate sensitive assets and rate sensitive liabilities. Risk can arise from adverse changes in interest rates, credit spreads, foreign exchange rates and other relevant parameters, such as market volatility.

Key Market Risks
The key risk in this category are market changes and other specific risks including price risk, interest rate risk, foreign exchange risk and derivatives risk which can impact the credit union's financial strength. At Innovation, market risk primarily arises from movements in interest rates, and is caused specifically from timing differences in the re- pricing of assets and liabilities, both on and off statement of financial position.

Market Risk Management
Effective management of market risk includes documented policies which address roles and responsibilities, delegation of authority and limits, risk measurement and reporting, valuation, and back testing, hedging policies and exception management. Some elements of market risk management have been discussed in other parts of this report. Market risk exposure limits have been set in Innovation policy; methods of scenario and stress testing are carried out to determine if the limits are exceeded. The corporate finance department is responsible for reporting on and monitoring market risk, with oversight by the Audit and Conduct Committee of the Board. Corporate finance monitors market risk exposure by measuring the impact of interest rates on the financial position and earnings through several models and tests given various interest rate scenarios. Derivatives are utilized to manage market risks, such as economic value of equity and change in net interest income.

C. 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.

Key Liquidity Risks
Liquidity risk falls into three categories: Mismatch – the risk that the demand for repayment of deposit obligations will outstrip the capacity to raise new liabilities or liquidate assets. Contingent – the risk of not having sufficient funds to meet future sudden and unexpected short-term obligations. Market – the inability to sell assets at or near fair market value. The key risk identified in this area is if liquidity restraints impact member service, financial strength, and reputation.

Liquidity Risk Management
Innovation uses a variety of sources to fund operating requirements, such as: member deposits, cash and securities, lines of credit and corporate borrowings, sale of assets through securitization and syndication and provincial and national statutory liquidity programs. Some of these sources of funds are immediate and some require more long-term planning.

The elements of liquidity risk management are similar to the other risk categories already discussed. Effective management of liquidity involves policies, limits, reporting and proactive management. Liquidity policies and limits are well documented at Innovation. The liquidity risk management plan is updated annually and presented to the Board. Corporate finance measures and monitors available liquidity daily, weekly, and forward over a twelve-month time horizon. The Audit and Conduct Committee of the Board receives quarterly reports on the liquidity position and sets operating targets. The Board also receives regular reports on liquidity.

D. Credit Risk

Credit risk refers to the inability of the organization to deal with adjudication, asset quality and asset growth challenges affecting its ability to fulfill the credit union mandate. Credit risk arises from a counterparty's potential inability or unwillingness to fully meet its on and/or off-balance sheet contractual obligations.

Key Credit Risks
At Innovation, credit risk comes primarily from our direct lending activities and to a lesser extent, our holdings of investment securities. Individual risks identified in this category are default risk, portfolio concentration risk, inadequate allowance risk, and policy exceptions risk. The key risk is that asset impairments could impact financial strength.

Credit Risk Management
Credit risk management focuses on underwriting and pricing loans according to their risk and ensuring the overall portfolio is well diversified. There are five parts to credit risk management including policy, credit granting, monitoring and exposure, portfolio management and audit.

Tolerances and lending practices are set by Board and operating policy and procedure. Review and revision of lending policy and procedures is done on an ongoing basis with regular reviews and updates.

Credit granting includes analysis, pricing, terms, and documentation of lending. Loan pricing tools are in place to support lenders in pricing decisions. Consistent lending documentation is used by all Innovation Advice Centres.

Reports based on North American Industry Classification System (NAICS) codes are used to monitor exposure by industry.

The Audit and Conduct Committee and the board committee meet on a quarterly basis and review liquidity and capital risk as well as financial results on a quarterly basis.

The internal audit department carries out credit review as part of their regular, ongoing audit plan.

E. Legal & Regulatory Risk

Legal and regulatory compliance risk is the risk associated with the failure to meet legal obligations from legislative, regulatory, or contractual perspectives, the risk associated with failing to obtain and/or enforce contractual commitments from third parties, and the risk associated with intentional or unintentional employee or director misconduct that creates liability for Innovation.

Key Legal & Regulatory Risks
As a financial institution, Innovation operates in a heavily regulated environment. In addition, each of the industries that our subsidiary companies operate in has their own specific regulatory requirements. As a business operating within Saskatchewan, we are also subject to all provincial and federal legislation applicable to our operations, such as labour and anti-money laundering laws. Key risk in this category is that compliance failures impact operational effectiveness, member service and Innovation's reputation.

Legal & Regulatory Risk Management
Governance, policy and procedures and awareness aid Innovation in complying with laws and regulations, and therefore, are effective ways to manage legal and regulatory risk. Innovation has established compliance functions that provide an oversight role to ensure that operational areas are aware of applicable laws and regulations. The compliance functions are also responsible to co-ordinate reporting to the Risk Committee of the Board on compliance.

There are specific departments that are responsible for creating and updating operating policy and procedures. These departments are responsible to make sure that policy and procedures take into consideration all applicable legal and regulatory parameters.

All departments are knowledgeable in the regulations that pertain to their areas. In some cases, third party expertise is used through contracted services. For example, Wyth Financial is our resource for trust and estate services and is the administrator of our registered products. The governance area also provides support to Innovation in regulatory matters and external legal advice is sought when necessary.

F. Reputation Risk

Reputation risk is where negative perception jeopardizes Innovation's credibility, achievement of business goals and strategic objectives, or ability to maintain the credit union as a preeminent financial institution. A risk of loss resulting from damages to an organization's reputation, in lost revenue, increased operating, capital or regulatory costs.

Reputation Risk Management
Reputation risk is defined as the risk resulting from changes in the credit union's reputation resulting from ethics, safety, security, sustainability, quality, or innovation which may result in lost revenue, increased operating, capital or regulatory costs, or destruction of shareholder value. It is inherent in everything that Innovation does, including the relationships it develops with third parties. It is generally thought of as a second order risk – i.e. a risk that results from an actual failure or perceived failure in one of the other risk categories.

Oversight of reputational risk management is the responsibility of the Board and the Community and Member Relations Committee. In addition, the Business Continuity Management Program has been established to address potential reputational risks that could arise from an event. The program includes a Business Continuity Plan, Pandemic Plan, Business Resumption Plans, Disaster Recovery Plan, and a Crisis Communication Plan.

G. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk. The risk of loss resulting from people includes, for example, operational risk events relating specifically to internal or external fraud, non-adherence to internal procedures, values, objectives, or unethical behaviour more broadly.

Key Operational Risks (Taxonomy)
The purpose of an operational risk taxonomy is to provide the identification and assessment of operational risk in an organized and consistent manner. These risks are deemed critical and could affect the organization's objectives. The following taxonomy has been adopted by Innovation.

- People: Human resource management risks include ensuring the ability to attract and retain a highly engaged, diverse, talented, and trained workforce. This includes monitoring for fraudulent or unsafe practices as well as adherence to all labour and compliance standards.
- Information Communication Technology: Information Communication Technology (ICT) risk includes threats and opportunities regarding the capacity and sustainability. Monitoring and managing risks for both the internal and member-facing ICT environment, including cyber security, are the basis of operational risk management.
- Outsourcing: Outsourcing (third party management) risk arises from adverse events and risk concentrations due to failures in vendor selection, insufficient controls, and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor. The Outsourcing Risk Management Program consists of three elements: vendor management, the service level agreement and billing accuracy.
- Business Intelligence: The risk of incomplete or inaccurate collection and analysis of business information. Data integrity, reporting relevance and timeliness are of key concern.
- Business: Key operational business risks are processes, products, effectiveness, disruption, external fraud, and records management. All change management processes will also be reviewed.
- Growth: There is a close relationship between operational processes and the ability for the credit union to grow. This relationship is analyzed comparing the operational friction versus the growth mandate. Key metrics of growth include members, loans, and deposits.
- Financial Metrics: Financial Metrics are a key indicator of credit union health. If certain metrics are outside of acceptable standards, and this variance is the result of operational issues, the operations need to be reviewed and appropriate controls put into place.
- Legal/Regulatory: Legal risk could materialize in any of the operational risk categories. Innovation may be the subject of a claim or proceedings alleging non-compliance with legal or statutory responsibility and/or losses allegedly due to inaccurately drafted contracts.

Enterprise Risk Management

Operational Risk Management

Innovation has implemented a formal operational risk process. Accountability for the management of operational risk is a key component of the Innovation operational risk program. The basis is the use of the three lines of defence structure.

The first line of defence is responsible for planning, directing, and controlling the day-to-day operations of significant activity/enterprise-wide processes and for identifying and managing the inherent operational risks in products, activities, processes, and systems for which it is accountable.

The second line of defence designs and implements the operational risk management framework. Oversight activities include the identification, measurement, monitoring and reporting operational risk on an enterprise basis. The second line of defence provides an objective assessment of the business line inputs to and the outputs from Innovation risk management and establishes appropriate reporting tools to ensure reasonable assurance.

The third line of defence provides objective review and testing of Innovation operational risk management controls, processes, systems, and the effectiveness of the first and second line of defence functions. It is separate from both the first and second lines of defence and the internal audit function is charged with the third line of defence.

INNOVATION CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021

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Independent Auditor's Report

To the Members of
Innovation Credit Union

Opinion

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

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual 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 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.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Deloitte LLP

Chartered Professional Accountants
Regina, Saskatchewan
March 30, 2022

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2021

	Note	2021	2020
ASSETS			
Cash and cash equivalents	4	**$ 205,631,871**	$ 161,051,027
Investments	5	**502,086,564**	766,952,912
Loans	6	**2,254,222,137**	2,025,845,727
Accounts receivable		**4,640,788**	8,672,204
Prepaid expenses		**2,641,397**	1,766,508
Derivative assets	8	**1,024,479**	305,656
Property and equipment	9	**15,208,743**	16,223,936
Right of use assets	10	**562,032**	543,510
Intangible assets and goodwill	11	**8,470,314**	4,653,429
Income taxes receivable		**3,204,698**	6,577,890
Deferred income tax asset	22	**14,569,151**	16,258,141
		$ 3,012,262,174	$ 3,008,850,940
LIABILITIES			
Deposits	12	**$ 2,607,750,225**	$ 2,561,929,232
Securitized borrowings	14	**96,460,598**	142,477,440
Accounts payable		**7,749,990**	14,470,466
Derivative liabilities	8	**341,227**	569,008
Lease liabilities	10	**585,748**	563,306
Deferred income tax liabilities	22	**256,320**	289,260
Deferred revenue		**432,545**	449,292
Membership shares and distributions	16	**26,539,860**	26,775,997
		2,740,116,513	2,747,524,001
Commitments	21		
EQUITY			
Retained earnings including contributed surplus		**272,145,661**	261,326,939
		272,145,661	261,326,939
		$ 3,012,262,174	$ 3,008,850,940

The accompanying notes are an integral part of the consolidated financial statements

APPROVED BY THE BOARD

DocuSigned by: Michael Davis .... **Director**

DocuSigned by: .... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended December 31, 2021

	Note	2021	2020
INTEREST INCOME			
Loans		$ **78,507,872**	$ 82,567,104
Investments		**8,343,326**	10,528,679
Derivative instruments		**-**	105,343
		86,851,198	93,201,126
INTEREST EXPENSE			
Deposits		**15,303,187**	24,653,881
Borrowings		**2,163,695**	2,553,777
Member distributions	16	**1,915,299**	1,647,082
Derivative instruments		**169,196**	-
		19,551,377	28,854,740
REALIZED GAIN ON FVTPL INVESTMENTS		**1,141,924**	293,069
NET INTEREST INCOME BEFORE CREDIT LOSSES		**68,441,745**	64,639,455
PROVISION FOR CREDIT LOSSES	7	**7,350,429**	11,810,841
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**61,091,316**	52,828,614
UNREALIZED GAIN (LOSS) ON FVTPL INVESTMENTS		**567,674**	(166,589)
UNREALIZED GAIN (LOSS) ON DERIVATIVE INSTRUMENTS		**855,253**	(939,874)
OTHER INCOME	15	**17,083,639**	17,168,508
NET INTEREST AND OTHER INCOME		**79,597,882**	68,890,659
OPERATING EXPENSES			
Personnel		**38,905,405**	35,512,508
Security		**2,489,558**	2,305,596
Organizational		**812,477**	738,164
Occupancy		**3,852,356**	3,993,989
General business		**21,078,583**	21,493,048
		67,138,379	64,043,305
INCOME BEFORE PROVISION FOR INCOME TAXES		**12,459,503**	4,847,354
PROVISION FOR (RECOVERY OF) INCOME TAXES			
Current	22	**(15,270)**	158,658
Deferred	22	**1,656,051**	1,981,366
		1,640,781	2,140,024
NET INCOME FROM CONTINUING OPERATIONS		**10,818,722**	2,707,330
DISCONTINUED OPERATIONS	23		
Revenue from Insurance Subsidiaries		-	4,858,876
Expenses from Insurance Subsidiaries		-	2,438,688
Income from Insurance Subsidiaries before taxes		-	2,420,188
Gain on sale of Insurance Subsidiaries		-	15,291,056
Income taxes attributable to:			
Income from Insurance Subsidiaries	22	-	634,027
Gain on sale of Insurance Subsidiaries	22	-	2,030,044
		-	2,664,071
NET INCOME FROM DISCONTINUED OPERATIONS		-	15,047,173
NET INCOME AND COMPREHENSIVE INCOME		$ **10,818,722**	$ 17,754,503

The accompanying notes are an integral part of the consolidated financial statements

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2021

	Note		2021		2020
RETAINED EARNINGS INCLUDING CONTRIBUTED SURPLUS					
Balance, beginning of year		**$**	**261,326,939**	$	243,572,436
Net income			**10,818,722**		17,754,503
Balance, end of year		**$**	**272,145,661**	$	261,326,939

The accompanying notes are an integral part of the consolidated financial statements

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2021

	Note	2021	2020
OPERATING ACTIVITIES			
Net income		$ **10,818,722**	$ 17,754,503
Adjustments for non-cash items:			
Net interest income before credit losses		**(68,441,745)**	(64,639,455)
Provision for credit losses	7	**7,350,429**	11,810,841
Unrealized (gain) loss on financial instruments		**(1,422,927)**	1,106,463
Gain on sale of insurance subsidiaries		**-**	(15,291,056)
Gain on disposal of property and equipment		**(11,713)**	(64,995)
Depreciation - property and equipment	9	**2,343,120**	2,546,593
Depreciation - right of use assets	10	**173,615**	144,196
Amortization - intangible assets	11	**655,622**	372,547
Current income tax (recovery) expense	22	**(15,270)**	158,658
Deferred income tax expense	22	**1,656,051**	4,011,410
Changes in non-cash working capital			
Loans		**(237,992,133)**	87,221,802
Accounts receivable		**4,031,416**	(5,641,674)
Prepaid expenses		**(874,889)**	(536,474)
Deposits		**50,736,284**	185,862,114
Accounts payable		**(6,720,476)**	(2,674,736)
Deferred revenue		**(16,747)**	(13,257)
Dividends received		**1,650,123**	1,910,750
Interest received		**88,669,767**	90,270,675
Interest paid		**(22,642,721)**	(29,659,797)
Income taxes received (paid)		**3,388,462**	(6,815,793)
		(166,665,010)	277,833,315
INVESTING ACTIVITIES			
Net change in investments		**265,372,548**	(393,141,061)
Purchase of property and equipment	9	**(1,367,146)**	(781,421)
Proceeds from disposal of property and equipment		**50,932**	51,152
Proceeds from disposal of subsidiary		**-**	18,854,826
Purchase of intangible assets	11	**(4,472,507)**	(2,465,479)
		259,583,827	(377,481,983)
FINANCING ACTIVITIES			
Net change in securitized borrowing		**(46,016,842)**	18,152,843
Repayment of lease liabilities	10	**(169,695)**	(135,406)
Membership distributions paid		**(2,155,731)**	(1,656,947)
Increase in membership shares		**4,295**	4,976
		(48,337,973)	16,365,466
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**44,580,844**	(83,283,202)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**161,051,027**	244,334,229
CASH AND CASH EQUIVALENTS, END OF YEAR		$ **205,631,871**	$ 161,051,027

The accompanying notes are an integral part of the consolidated financial statements

1. REPORTING ENTITY

Innovation Credit Union and its subsidiaries (collectively the "Credit Union") is a credit union domiciled in Canada. The address of the Credit Union's registered office is 198 1st Avenue NE, Swift Current, Saskatchewan. The Credit Union is a financial service provider.

The Credit Union was continued pursuant to *The Credit Union Act, 1998* of the Province of Saskatchewan, and operates 25 (2020 – 24) Credit Union advice centers. The Credit Union serves members and non-members in North Battleford, Swift Current, Meadow Lake and surrounding areas. In accordance with *The Credit Union Act, 1998*, Credit Union Deposit Guarantee Corporation ("CUDGC"), a provincial corporation, guarantees the repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements for the year ended December 31, 2021 were authorized for issue by the Board of Directors (the "Board") on March 30, 2022.

The consolidated financial statements have been prepared using the historical cost basis unless otherwise noted in the significant accounting policies. The consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates, Key Judgments and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and disclosure of contingent assets and contingent liabilities at the date of these consolidated financial statements as well as the reported amounts of income and expenses during the reporting year.

Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate was revised and in any future years affected.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions (continued)

The most significant uses of judgments, estimates and assumptions are as follows:

a) 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. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include consideration of liquidity and other risks affecting the specific instrument.

b) Determination of Allowance for Credit Losses

The Credit Union measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for debt investments that are determined to have low credit risk at the reporting date, and loans where credit risk has not increased significantly since their initial recognition. The measurement of loss allowances on loans is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior. A number of significant judgments are also required in applying the account requirements for measuring the ECL, such as:

- Determining criteria for significant increase of credit risk: IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Credit Union takes into account qualitative and quantitative reasonable and supportable information.
- Choosing appropriate models and assumptions: The Credit Union uses various models and assumptions in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.
- When measuring ECL the Credit Union uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers.
- Probability of default (“PD”): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, and assumptions/expectations of future conditions.
- Loss Given Default (“LGD”): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect the receive, taking into account cash flows from collateral.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions (continued)

c) Securitized Borrowings

The Credit Union securitizes groups of assets by selling them to an independent special purpose or qualifying special purpose entity (“SPE”) or trust. Such transactions create liquidity for the Credit Union and release capital for future needs. As the Credit Union remains exposed to credit risk, the underlying loans have not been derecognized and are reported in the Credit Union’s consolidated statement of financial position as secured borrowings. Securitized loans are derecognized from the consolidated statement of financial position when substantially all the risks and rewards of ownership are transferred to the SPE. Judgment is required in making this determination.

d) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

e) Intangible Assets

Amortization methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

f) Impairment of Non-Financial Assets

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. These are called CGUs and the allocation of assets to CGUs requires estimation and judgment.

An impairment loss is recognized immediately in profit and loss if the carrying amount of an asset or a CGU exceeds its recoverable amount. There is estimation uncertainty in the determination of the recoverable amounts for CGUs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed immediately through profit and loss if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions (continued)

g) Classification of Financial Assets

Business Model Assessment

The Credit Union assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated;
- the stated objective for managing the financial asset, frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. Examples of events that could change the amount and timing of cash flows are leverage features, prepayment and extension terms, terms that limit the Credit Union's claim to cash flows from specified assets and features that modify consideration of the time value of money.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Credit Union and its subsidiaries. Assets, liabilities, income and expenses of subsidiaries are included in the consolidated financial statements after eliminating inter-company transactions and balances.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Included in the consolidated financial statements is Innovative Holdings Inc., a subsidiary headquartered in Swift Current, Saskatchewan in which the Credit Union holds 100% of the voting rights.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. For every business combination, an acquirer is identified, which is the combining entity that obtains control of the other combining entity. The effective date of the business combination is the date the acquirer gains control of the acquired entity. The identifiable assets and liabilities of the acquired entity are measured at fair value. The excess of the consideration transferred over the fair values of the identifiable net assets is recognized as goodwill. The transaction costs incurred for the business combination are expensed as incurred.

Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the instrument.

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Classification and Subsequent Measurement

a) Financial assets: debt instruments

Financial assets which meet the definition of debt, including loans, certain investments and derivatives are classified into one of the following measurement categories:

- Amortized cost; or
- FVOCI; or
- FVTPL

Debt instruments may be designated at FVTPL upon initial recognition if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. For all other debt

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and subsequent measurement (continued)

instruments, classification is determined based on an assessment of: (i) the business model under which the asset is held; and (ii) the contractual cash flow characteristics of the instrument.

The Credit Union does not hold debt instruments measured at FVOCI.

ai) Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent strictly payments of principal and interest (SPPI). After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization of premiums, discounts and other transaction costs is included in interest income in the consolidated statement of comprehensive income.

Impairment of debt instruments measured at amortized cost is calculated using the expected credit loss (“ECL”) approach. Debt instruments, including loans and certain investments are presented net of the related allowance for impairments on the consolidated statement of financial position.

aii) Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis, assets whose cash flows do not represent payments that are SPPI, and assets which are designated as such at initial recognition. These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognized immediately in the consolidated statement of comprehensive income. Realized and unrealized gains and losses are recognized as part of realized and unrealized gains on FVTPL investments and derivatives in the consolidated statement of comprehensive income.

b) <u>Financial assets: equity instruments</u>

Financial assets which meet the definition of equity are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase.

For equity instruments measured at FVTPL, changes in fair value are recognized as part of the consolidated statement of comprehensive income.

The Credit Union can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer-term investment purposes. The FVOCI election is made upon initial recognition, on an instrument-by-instrument basis and once

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and Subsequent Measurement (continued)

made is irrevocable. Both realized and unrealized gains and losses on these instruments are recorded in OCI and are not subsequently reclassified to the consolidated statement of comprehensive income. Dividends received are recorded in interest income in the consolidated statement of comprehensive income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the consolidated statement of comprehensive income on sale of the security.

c) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities may be designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities at FVTPL are measured at fair value with changes in fair value being recognized in the consolidated statement of comprehensive income. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

With the exception of its derivative financial instruments which are FVTPL, the Credit Union's holdings in financial liabilities are classified as measured at amortized cost.

d) Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when the Credit Union has transferred substantially all the risks and rewards of ownership of the assets.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Credit Union derecognizes the transferred asset only if it no longer controls the asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized in full, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received, including any new assets and/or liabilities recognized.

Financial liabilities are derecognized when the associated obligation has been discharged, cancelled, or otherwise extinguished.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and Subsequent Measurement (continued)

e) Derivative Financial Instruments

The Credit Union enters into derivative transactions to manage interest rate risk. The Credit Union also enters into derivative transactions on an intermediary basis on behalf of its members. The Credit Union does not have a trading program for derivatives.

Derivative financial instruments are classified as FVTPL and measured at fair value in the consolidated statement of financial position. Changes in fair value are included in the consolidated statement of comprehensive income within unrealized (loss) gain on derivatives.

f) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The Credit Union has embedded derivatives that require bifurcation in its index-linked deposit products.

g) Fair value of financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair values are determined, where possible, by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market-based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The Credit Union classifies fair value measurements of financial instruments recognized in the consolidated statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

- Level 1: Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities; and
- Level 2: Fair value measurements are derived from inputs other than quoted prices that are included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Fair value measurements derived from valuation techniques that include significant unobservable inputs.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and Subsequent Measurement (continued)

value hierarchy. See Note 19 for further discussion on the classification and fair value of financial instruments.

h) Financial asset impairment

The Credit Union establishes an allowance for credit losses for the following categories of financial assets that are not measured at FVTPL:

- Financial assets at amortized cost; and
- Undrawn lending commitments.

hi) Expected credit loss ("ECL") impairment model

The Credit Union uses an ECL methodology to measure impairment of its financial instruments. ECLs reflect the present value of all cash shortfalls related to default events which may occur over a specified period of time. The Credit Union's allowance for credit losses are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The allowances reflect an unbiased, probability-weighted outcome which considers multiple scenarios, based on reasonable and supportable forecasts.

The Credit Union's ECL impairment model measures loss allowances using a three-stage approach based on the change in credit risk since origination:

- 12-month ECL (Stage 1) – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months ECL is recorded. The ECL is computed using a probability of default occurring over the next 12 months.
- Lifetime ECL not credit-impaired (Stage 2) – When a financial instrument experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the probability of default over the remaining estimated life of the financial instrument.
- Lifetime ECL credit-impaired (Stage 3) – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime ECLs.

Financial assets may migrate forward or backward through the three stages as their credit risk deteriorates or improves. When measuring ECLs, the Credit Union considers the maximum contractual period over which it is exposed to credit risk (expected life). All contractual terms are considered when determining the expected life, including prepayment and extension options.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and Subsequent Measurement (continued)

hii) Model parameters

The following variables represent the key inputs in the Credit Union's ECLs:

- Probability of Default ("PD") – an estimate of the likelihood of default over a given time horizon.
- Loss Given Default ("LGD") – an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.
- Exposure at Default ("EAD") – an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.

These parameters are generally derived from the Credit Union's own historical loss data by major asset class.

hiii) Significant increase in credit risk

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. In making this assessment, the Credit Union considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Credit Union allocates its loans to a relevant credit risk grade depending on their credit quality. The quantitative information is primary indicator of significant increase in credit risk and is based on the change in lifetime PD. Significant increase in credit risk is evaluated based on the risk rating migration of the exposures with consideration of forward-looking macroeconomic factors.

For corporate lending there is a particular focus on assets that are included on a 'watch list', given an exposure is on a watch list once there is a concern that the creditworthiness of the specific

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and Subsequent Measurement (continued)

counterparty has deteriorated. For retail lending the Credit Union considers the credit score changes of its members and events such as bankruptcy.

There is a rebuttable presumption that the credit risk of the financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days overdue. The Credit Union currently does not rebut this presumption.

hiv) Forward-looking information

The measurement of ECLs for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

In its models, the Credit Union relies on forward-looking macroeconomic factors, such as the Government of Canada bond rates, unemployment rates and real GDP.

The Credit Union utilizes multiple probability-weighted scenarios to estimate the forward-looking macroeconomic factors. The Credit Union considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Credit Union relies upon forecasts generated by an external vendor.

The external vendor provides multiple forecasted scenarios which are then assessed and probability-weighted by the Credit Union using judgment.

Typically, the Credit Union will probability-weight the “base case” scenario most heavily as it represents the most likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The economic scenarios used in the determination of ECLs at December 31, 2021 include the following ranges of macroeconomic factors:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and Subsequent Measurement (continued)

	12 Month Average Forecast			5 Year Average Forecast		
% Change [1]	Base Case	Best Case	Worst Case	Base Case	Best Case	Worst Case
3 Month GOC Bond Rate	416.00%	636.00%	1.90%	125.86%	163.17%	55.74%
3 Month BA Rate	278.80%	384.79%	49.28%	93.71%	111.19%	43.37%
Unemployment Rate	-14.67%	-20.59%	-0.05%	-7.19%	-8.46%	-2.62%
Housing Price Index (HPI)	5.59%	7.88%	0.04%	2.50%	3.97%	0.63%

[1] The % change represents the change in the macro economic factor as a % difference from the most recent publicly available results as of December 31, 2021

The sensitivity of ECLs to future economic conditions is measured by assuming each forward-looking scenario (i.e. baseline, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios. The resulting increase (decrease) in the allowance for credit losses arising under these range of scenarios for the year ended December 31, 2021 would be $31,762 to ($128,361) (2020 - $116,625 to ($48,081)).

hv) Modified financial assets

If the terms of a financial asset are modified, the Credit Union evaluates whether the cash flows of the modified instrument are substantially different by comparing the present value of the original cash flows to the revised cash flows discounted at the effective interest rate. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial instrument are deemed to have expired. In this case, the original financial asset or liability is derecognized and a new financial asset or liability is recognized in the consolidated statement of financial position at fair value.

If the cash flows of the modified financial instrument carried at amortized cost are not substantially different, then the modification does not result in derecognition and the gross carrying amount of the asset or liability is adjusted to match the present value of the revised contractual cash flows. The difference between the original and revised gross carrying amount is recognized as a modification gain or loss in the consolidated statement of comprehensive income.

If such a modification is carried out on a credit-impaired (Stage 3) loan, then the gain or loss is included within the provision for credit losses. In all other cases, it is recorded as other income.

hvi) Definition of default

The Credit Union considers a financial instrument to be in default (Stage 3) as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and Subsequent Measurement (continued)

event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- Measurable decrease in the estimated future cash flows from the loan or value of the underlying collateral.

In addition to these observable indicators, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. The Credit Union does not currently rebut this presumption except for certain insured loans where, due to the strength of the underlying credit enhancement, it is reasonably certain that collection efforts will result in a full recovery of the defaulted loan.

hvii) Write-off policy

The Credit Union writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may occur earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the net provision for credit losses in the consolidated statement of comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid securities with an original maturity of less than or equal to three months. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments. Cash and cash equivalents are carried at amortized cost on the consolidated statement of financial position.

Loans

Loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are reported at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in profit and loss and is calculated using the straight-line method over the estimated useful life of the related asset as follows (with the exception of land, which is not depreciated):

Facilities	10 - 40 years
Computer hardware	4 - 8 years
Furniture and equipment	5 years
Automotive	5 years

The estimated useful lives, residual values and depreciation methods are reviewed annually and adjusted if appropriate.

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

Intangible Assets

Intangible assets are recognized and reported separately from goodwill and include certain computer software, naming rights and low-cost core deposits arising from stable member relationships obtained through business combinations where the Credit Union is considered the acquirer. All intangibles are initially recorded at cost or at their assessed fair value at the time of the business combination.

All the Credit Union's intangible assets have a finite life, and are amortized using the straight-line method over the useful life of the asset as follows:

Computer software	2 - 10 years
Naming rights	40 years
Core deposits	9 years

Amortization is included in general business expense in the consolidated statement of comprehensive income. The estimated useful lives and amortization methods are reviewed annually and adjusted if appropriate. Gains and losses on the disposal of intangible assets are recorded in profit or loss in the year of disposal.

The International Financial Reporting Interpretations Committee ("IFRIC") issued a final agenda decision on accounting for configuration or customization costs on a supplier's software in a cloud computing arrangement, often referred to as a Software as a Service ("SaaS") arrangement. In these types of arrangements, access to software is usually provided through the Internet. The main conclusion is that, where the costs do not give rise to an intangible asset that is separate from the software, they are recognized as an expense when the customer receives the configuration or customization services. IFRIC determined that sufficient guidance exists within the relevant accounting standards and that the conclusions, as set out in the final agenda

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

decision, form part of the interpretation of IFRS. As such, any changes from these interpretations would be accounted for as a retrospectively applied accounting policy change in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The Credit Union is currently assessing the impact of these interpretations on its consolidated financial statements and expects to finalize its assessment during the year ended December 31, 2022.

Impairment of Tangible and Intangible Assets

Annually, the Credit Union reviews the carrying amounts of 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 in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of a group of assets (or CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is 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 expectations about possible variations in the amount and timing of those cash flows. The estimated 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 a CGU is estimated to be less than the carrying amount, the carrying amount of the asset or assets within a CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Goodwill

Goodwill is measured as the excess of the fair value of consideration given over the Credit Union’s proportionate share of the fair value of the net identifiable assets of the business acquired as at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses, if any.

In the prior year, the Credit Union’s goodwill was fully disposed as part of the sale of its insurance subsidiaries (Note 23).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Income tax expense comprises of current and deferred income tax. Current and deferred income taxes are recognized in profit or loss except to the extent that they relate 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 substantively enacted at the reporting date, and any adjustment 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 taxation purposes. These amounts are measured using enacted or substantively enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of the 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 tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the year of change, except when they relate to items recognized directly in other comprehensive income.

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

Leases

a) As lessor

At inception, the Credit Union classifies a lease which transfers substantially all of the risks and rewards incidental to ownership of the underlying asset as a finance lease. All other leases are classified as operating leases.

When assets are held subject to a finance lease, the Credit Union recognizes a finance lease asset included in loans receivable in the consolidated balance sheet representing its net investment in the lease. Interest income is recognized over the term of the lease using the implicit interest rate, which reflects a constant rate of return.

For operating leases, the Credit Union recognizes lease payments received as income on a straight-line basis over the term of the lease.

b) As lessee

The Credit Union classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period of time in exchange for

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

consideration. With the exception of certain short-term and low-value leases, the Credit Union recognizes a right-of-use asset and lease liability for all leases at commencement.

Lease liabilities are initially measured at the present value of the lease payments due over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Credit Union's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed contractual payments, variable contractual payments based upon a rate or index and any amounts payable with respect to purchase, extension and/or termination options when it is reasonably certain that the Credit Union will exercise the option. Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability plus initial direct costs and estimated decommissioning costs, less any lease incentives received. Right-of-use assets are subsequently amortized on a straight-line basis over the term of the lease or the estimated useful life of the asset, whichever is shorter.

Revenue Recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. The interest income is calculated by applying the effective interest rate to the gross carrying amount of the non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the effective interest rate to the amortized cost of the credit-impaired financial assets.

Other income includes service charges on products, transaction fees, other fees and commissions and insurance fees, which are recognized over the period the services are performed.

Membership Equity

Membership shares are classified as financial liabilities in the consolidated statement of financial position in accordance with their terms. All shares are redeemable at the option of the member after one year from the request of membership withdrawal.

Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities that are measured in terms of 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 that the fair value was determined.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation (continued)

Translation gains and losses are included in other income in the consolidated statement of comprehensive income.

Employee Future Benefits

The Credit Union's employee future benefit program consists of a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Credit Union pays fixed contributions into a separate entity. 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.

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $1,734,934 (2020 - $1,694,460) were paid to defined contribution retirement plans during the year.

COVID-19 Considerations

The COVID-19 pandemic continues to evolve and the economic environment in which the Credit Union operates continues to be subject to sustained volatility. The duration of the pandemic and the effectiveness of steps undertaken by Canadian governments in response to the pandemic remain uncertain. The current environment requires particular complex judgments and estimations in the consolidated financial statements detailed below.

In response to the COVID-19 pandemic, the Credit Union participated in the following assistance programs provided by the Government of Canada:

- Canada Emergency Business Account ("CEBA"): under the CEBA program, the Credit Union has provided interest-free loans until December 31, 2022 (and at a rate of 5% thereafter), funded by the Export Development Bank of Canada ("EDC"), to existing eligible small business members. As the Credit Union does not retain substantially all the risks and rewards of the financial assets, and all cash flows are passed through to the EDC, these loans are derecognized from the Credit Union's consolidated statement of financial position.

- Canadian Emergency Wage Subsidy ("CEWS"): the Credit Union has applied for government assistance under the CEWS program, whereby companies meeting specified eligibility criteria based on declines in revenue experienced during the pandemic are eligible to receive a subsidy to cover a portion of their employee wages. The Credit Union has determined that there is reasonable assurance that it will comply with all conditions attached to the program and that payment will be received and therefore has recognized the estimated CEWS funding as revenue within other income on a systemic basis over the periods in which the associated personnel expenses were incurred.

4. CASH AND CASH EQUIVALENTS

		2021		2020
Cash on hand	**$**	**6,143,727**	$	10,939,007
Cash held with SaskCentral		**11,408,516**		37,581,268
Cash held with Concentra Bank		**10,733,778**		21,617,052
Cash held with National Bank		**177,345,850**		90,913,700
Total Cash	**$**	**205,631,871**	$	161,051,027

5. INVESTMENTS

The following table provides information on the investments held by the Credit Union.

	2021	2020
Debt Investments (Amortized Cost)		
SaskCentral - Statutory Liquidity Term Pool	**$ 27,364,130**	$ 48,064,130
Concentra Bank Term Deposits	**89,041,860**	187,078,150
Central 1 Term Deposits	**1,588,250**	636,950
Bank of Nova Scotia Deposit Note	**9,956,500**	25,000,000
RBC Deposit Note	**10,000,000**	-
CIBC Term Deposits	**-**	160,000,000
Mortgage-Backed Securities	**16,964,266**	23,071,833
Government Bonds	**6,000,000**	-
Corporate Bonds	**25,003,100**	-
Accrued Interest	**506,804**	1,744,652
Allowances for credit losses	**(91,475)**	(116,374)
	186,333,435	445,479,341
Debt Investments (FVTPL)		
SaskCentral - Statutory Liquidity Variable Deposit	**234,117,854**	205,345,479
Concentra Bank	**-**	25,073,528
Chartered Bank Bail-In Bonds	**41,516,007**	60,007,696
Vancity Credit Union	**5,003,253**	-
Accrued Interest	**301,832**	425,256
Equity Securities (FVTPL)		
SaskCentral Membership Shares	**18,086,871**	16,755,105
Concentra Bank Class A Series 1 Preferred Shares	**1,750,000**	1,750,000
APEX (I,II and III)	**4,487,412**	3,988,237
WestCap	**6,177,322**	5,195,208
WaterCredit	**1,525,914**	1,505,362
Other	**2,271,531**	1,045,542
Accrued Interest	**515,133**	382,158
	315,753,129	321,473,571
Total Investments	**$ 502,086,564**	$ 766,952,912

The Credit Union’s investment securities portfolio is comprised of a large number of investment securities carrying a wide variety of terms, conditions and issuers held for the purpose of liquidity management and effective utilization of excess funds.

Pursuant to Regulation 18(1)(a), Credit Union Central of Saskatchewan (“SaskCentral”) requires that the Credit Union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, CUDGC, requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2021, the Credit Union met this requirement.

5. INVESTMENTS (continued)

At December 31, 2021, $101,508,547 (2020 - $175,514,796) of debt investments mature more than 12 months after the reporting date.

SaskCentral Membership Shares

Currently the Credit Union holds $18,086,871 (2020 - $16,755,105) in membership shares of SaskCentral. The voting rights, characteristics, and value of membership shares are set out in the bylaws of SaskCentral. Membership shares of SaskCentral carry an issuance and redemption price of $10 per share.

These shares are classified as FVTPL. There is no active market for these shares as they are issued only by virtue of membership in SaskCentral. The shares are redeemable upon withdrawal of membership or at the discretion of the board of directors of SaskCentral. The shares may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a SaskCentral by-law providing for the redemption of its share capital. The Credit Union has no intention of withdrawing from membership at SaskCentral.

Concentra Bank Preferred Shares

Currently the Credit Union holds $1,750,000 in Class A Series 1 Preferred shares in Concentra Bank (2020 - $1,750,000). These shares entitle the holders to an annual, non-cumulative fixed dividend for a five year period expiring on January 31, 2026. Upon expiration of this period, and every five years thereafter, the annual, non-cumulative fixed dividend rate of the Class A Series 1 preferred shares will reset to an amount equal to the Government of Canada five-year bond yield plus 3.59%.

These shares are classified as FVTPL. There is no active market for these. The shares are redeemable at the option of Concentra Bank for $25 per share no earlier than January 31, 2021, subject to the approval of OSFI and the requirements of the Bank Act (Canada).

6. LOANS

													2021
						ECL Allowance							
		Performing		**Impaired**		**12 month ECL**		**Lifetime ECL not credit-impaired**		**Lifetime ECL credit-impaired**			**Net**
Agriculture	$	460,591,498	$	-	$	249,617	$	265,731	$	-		$	**460,076,150**
Commercial		689,535,420		16,220,105		1,245,852		3,858,136		8,205,131			**692,446,406**
Consumer		1,078,122,489		1,736,456		888,654		805,291		935,405			**1,077,229,595**
Finance Leases		12,697,628		596,963		65,884		-		126,657			**13,102,050**
Foreclosed Property		-		415,238		-		-		-			**415,238**
Accrued Interest		8,611,891		2,340,807		-		-		-			**10,952,698**
Total Loans	**$**	**2,249,558,926**	**$**	**21,309,569**	**$**	**2,450,007**	**$**	**4,929,158**	**$**	**9,267,193**		**$**	**2,254,222,137**

												2020
						ECL Allowance						
		Performing		Impaired		12 month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Net
Agriculture	$	470,325,101	$	527,772	$	117,137	$	373,403	$	388,681	$	469,973,652
Commercial		571,176,409		28,325,161		354,984		953,332		18,959,202		579,234,052
Consumer		948,292,441		1,616,033		946,651		1,129,749		963,109		946,868,965
Finance Leases		16,534,031		381,178		62,028		22,005		625,932		16,205,244
Foreclosed Property		-		370,721		-		-		-		370,721
Accrued Interest		9,319,158		3,873,935		-		-		-		13,193,093
Total Loans	$	2,015,647,140	$	35,094,800	$	1,480,800	$	2,478,489	$	20,936,924	$	2,025,845,727

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2021 was:

		2021				2020		
		Performing		**Impaired**		Performing		Impaired
Current	**$**	**2,231,236,873**	**$**	**71,526**	$	1,992,440,461	$	91,510
32-60 days		**2,117,533**		**35,669**		3,547,442		2,995
61-90 days		**1,067,971**		**-**		247,183		47,155
91 -120 days		**1,122,009**		**14,514**		487,776		39,175
120+ days		**5,402,649**		**18,847,053**		9,605,119		31,040,031
Accrued Interest		**8,611,891**		**2,340,807**		9,319,159		3,873,934
Total	**$**	**2,249,558,926**	**$**	**21,309,569**	$	2,015,647,140	$	35,094,800

The Credit Union holds collateral against loans to members in the form of interests over property, other securities over assets, and guarantees.

During the year, the Credit Union obtained residential property with a carrying value of $415,238 (2020 - $370,721) by taking possession of collateral held as security. Repossessed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument.

	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2021	$ 1,480,800	$ 2,478,489	$ 20,936,924	$ 24,896,213
Transfer to 12-month ECL	875,456	(862,510)	(12,946)	-
Transfer to lifetime ECL not credit-impaired	(91,373)	139,360	(47,987)	-
Transfer to lifetime ECL credit-impaired	(8,902)	(73,223)	82,125	-
Net remeasurement of loss allowance	147,201	4,039,093	23,246,072	27,432,366
New financial assets originated	253,512	108,779	307	362,598
Financial assets that have been derecognized	(206,687)	(900,830)	(19,312,119)	(20,419,636)
Write-offs	-	-	(15,625,183)	(15,625,183)
Balance at December 31, 2021	**$ 2,450,007**	**$ 4,929,158**	**$ 9,267,193**	**$ 16,646,358**

Agricultural	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2021	$ 153,769	$ 373,402	$ 895,056	$ 1,422,227
Transfer to 12-month ECL	172,663	(172,663)	-	-
Transfer to lifetime ECL not credit-impaired	(1,340)	1,340	-	-
Transfer to lifetime ECL credit-impaired	(1,650)	-	1,650	-
Net remeasurement of loss allowance[1]	(87,079)	152,049	197,934	262,904
New financial assets originated	73,970	41,386	307	115,663
Financial assets that have been derecognized	(7,750)	(73,804)	(408,993)	(490,547)
Write-offs	-	-	(585,954)	(585,954)
Balance at December 31, 2021	**$ 302,583**	**$ 321,710**	**$ 100,000**	**$ 724,293**

[1]Includes finance leases from our agricultural borrowers with a total allowance of $134,654.

Commercial	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2021	$ 380,381	$ 975,337	$ 19,078,759	$ 20,434,477
Transfer to 12-month ECL	327,051	(320,740)	(6,311)	-
Transfer to lifetime ECL not credit-impaired	(37,134)	64,708	(27,574)	-
Transfer to lifetime ECL credit-impaired	(2,496)	(43,127)	45,623	-
Net remeasurement of loss allowance[2]	640,460	3,807,635	21,542,058	25,990,153
New financial assets originated	57,793	6,013	-	63,806
Financial assets that have been derecognized	(107,284)	(687,670)	(18,596,668)	(19,391,622)
Write-offs	-	-	(13,804,099)	(13,804,099)
Balance at December 31, 2021	**$ 1,258,771**	**$ 3,802,156**	**$ 8,231,788**	**$ 13,292,715**

[2]Includes finance leases from our commercial borrowers with a total allowance of $57,887.

7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES (continued)

Consumer	**12-month ECL (Stage 1)**	**Lifetime ECL not credit-impaired (Stage 2)**	**Lifetime ECL credit-impaired (Stage 3)**	**Total ECL**
Beginning Balance, January 1, 2021	$ 946,651	$ 1,129,749	$ 963,109	$ 3,039,509
Transfer to 12-month ECL	375,742	(369,107)	(6,635)	-
Transfer to lifetime ECL not credit-impaired	(52,899)	73,312	(20,413)	-
Transfer to lifetime ECL credit-impaired	(4,756)	(30,096)	34,852	-
Net remeasurement of loss allowance	(406,180)	79,409	1,506,080	1,179,309
New financial assets originated	121,749	61,380	-	183,129
Financial assets that have been derecognized	(91,653)	(139,356)	(306,458)	(537,467)
Write-offs	-	-	(1,235,130)	(1,235,130)
Balance at December 31, 2021	**$ 888,654**	**$ 805,291**	**$ 935,405**	**$ 2,629,350**

2020

	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2020	$ 2,167,666	$ 1,578,162	$ 12,013,435	$ 15,759,263
Transfer to 12-month ECL	624,382	(601,201)	(23,181)	-
Transfer to lifetime ECL not credit-impaired	(520,373)	582,536	(62,163)	-
Transfer to lifetime ECL credit-impaired	(22,213)	(85,675)	107,888	-
Net remeasurement of loss allowance	(401,889)	1,189,788	12,055,205	12,843,104
New financial assets originated	233,959	109,565	-	343,524
Financial assets that have been derecognized	(600,732)	(294,686)	(546,700)	(1,442,118)
Write-offs	-	-	(2,607,560)	(2,607,560)
Balance at December 31, 2020	$ 1,480,800	$ 2,478,489	$ 20,936,924	$ 24,896,213

Agricultural	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2020	$ 84,713	$ 235,539	$ 452,538	$ 772,790
Transfer to 12-month ECL	64,430	(64,430)	-	-
Transfer to lifetime ECL not credit-impaired	(27,846)	27,846	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-
Net remeasurement of loss allowance[1]	(9,256)	165,404	522,695	678,843
New financial assets originated	44,505	12,479	-	56,984
Financial assets that have been derecognized	(2,777)	(3,436)	(11,479)	(17,692)
Write-offs	-	-	(68,698)	(68,698)
Balance at December 31, 2020	$ 153,769	$ 373,402	$ 895,056	$ 1,422,227

[1]Includes finance leases from our agricultural borrowers with a total allowance of $543,005.

7. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES (continued)

Commercial	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2020	$ 205,556	$ 797,686	$ 10,578,395	$ 11,581,637
Transfer to 12-month ECL	354,368	(354,368)	-	-
Transfer to lifetime ECL not credit-impaired	(60,505)	61,055	(550)	-
Transfer to lifetime ECL credit-impaired	(4,644)	(69,259)	73,903	-
Net remeasurement of loss allowance[2]	(47,138)	739,417	9,705,085	10,397,364
New financial assets originated	43,672	30,422	-	74,094
Financial assets that have been derecognized	(110,928)	(229,616)	(85,085)	(425,629)
Write-offs	-	-	(1,192,989)	(1,192,989)
Balance at December 31, 2020	$ 380,381	$ 975,337	$ 19,078,759	$ 20,434,477

[2]Includes finance leases from our commercial borrowers with a total allowance of $166,960.

Consumer	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Total ECL
Beginning Balance, January 1, 2020	$ 1,877,396	$ 544,937	$ 982,502	$ 3,404,835
Transfer to 12-month ECL	205,584	(182,403)	(23,181)	-
Transfer to lifetime ECL not credit-impaired	(432,022)	493,635	(61,613)	-
Transfer to lifetime ECL credit-impaired	(17,569)	(16,416)	33,985	-
Net remeasurement of loss allowance	(345,492)	284,962	1,827,426	1,766,896
New financial assets originated	145,781	66,668	-	212,449
Financial assets that have been derecognized	(487,027)	(61,634)	(450,137)	(998,798)
Write-offs	-	-	(1,345,873)	(1,345,873)
Balance at December 31, 2020	$ 946,651	$ 1,129,749	$ 963,109	$ 3,039,509

The following table summarized the net provision for credit losses and recoveries included in the consolidated statement of comprehensive income:

	2021	2020
Debt instruments at Amortized Cost		
Agriculture loans	**$ (111,980)**	$ 718,136
Commercial loans	**6,662,337**	10,045,829
Consumer loans	**824,971**	980,548
Investments	**(24,899)**	66,328
Total Provision for Credit Losses	**$ 7,350,429**	$ 11,810,841

8. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at December 31, 2021 and are not indicative of either the market risk or the credit risk.

	Maturities of derivatives (notional amount)					Fair value			
				2021	2020	2021		2020	
	Under 1 year	1 to 5 years	Over 5 years	Total	Total	Assets	Liabilities	Assets	Liabilities
Derivatives at FVPL									
Interest rate swaps	$ -	$ 20,000,000	$ -	$ 20,000,000	$ 65,000,000	$ 683,252	$ -	$ -	$ 263,352
Index-linked options	870,459	896,729	-	1,767,188	3,027,537	341,227	341,227	305,656	305,656
Balance	**$ 870,459**	**$ 20,896,729**	**$ -**	**$ 21,767,188**	$ 68,027,537	**$ 1,024,479**	**$ 341,227**	$ 305,656	$ 569,008

Interest rate swaps

The Credit Union currently enters into interest rate swaps with Concentra Bank to manage exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows based on agreed upon rates to a notional amount.

Generally, counterparties exchange a fixed and floating interest rate payment to manage exposure to interest rate risk by modifying the interest rate characteristics of assets or liabilities.

Index-linked options

The Credit Union offers index-linked deposit products to its members that pay interest to the depositors at the end of the term, based on stock market index performance. The Credit Union has entered into index-linked options with SaskCentral that have equivalent maturities to offset the exposure associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from SaskCentral payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

9. PROPERTY AND EQUIPMENT

	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
						2021
Cost						
Balance at December 31, 2020	$ 1,717,525	$ 34,390,917	$ 11,128,845	$ 3,755,596	$ 1,271,429	**$ 52,264,312**
Additions	-	174,608	1,112,234	33,554	46,750	**1,367,146**
Disposals	-	(33,078)	(924,009)	(50,374)	(44,613)	**(1,052,074)**
Balance at December 31, 2021	**$ 1,717,525**	**$ 34,532,447**	**$ 11,317,070**	**$ 3,738,776**	**$ 1,273,566**	**$ 52,579,384**
Depreciation and impairment losses						
Balance at December 31, 2020	$ -	$ 22,200,364	$ $ 9,454,760	$ 3,446,342	$ 938,910	**$ 36,040,376**
Depreciation	-	1,242,011	841,264	105,990	153,855	**2,343,120**
Disposals	-	(551)	(924,009)	(50,374)	(37,921)	**(1,012,855)**
Balance at December 31, 2021	**$ -**	**$ 23,441,824**	**$ 9,372,015**	**$ 3,501,958**	**$ 1,054,844**	**$ 37,370,641**
Net Book Value						
Balance at December 31, 2021	**$ 1,717,525**	**$ 11,090,623**	**$ 1,945,055**	**$ 236,818**	**$ 218,722**	**$ 15,208,743**

	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
						2020
Cost						
Balance at December 31, 2019	$ 1,717,525	$ 34,564,563	$ 11,084,192	$ 3,995,096	$ 1,319,017	$ 52,680,393
Additions	-	94,244	641,708	45,469	-	781,421
Disposals	-	(267,890)	(597,055)	(284,969)	(47,588)	(1,197,502)
Balance at December 31, 2020	$ 1,717,525	$ 34,390,917	$ 11,128,845	$ 3,755,596	$ 1,271,429	$ 52,264,312
Depreciation and impairment losses						
Balance at December 31, 2019	$ -	$ 21,146,074	$ 9,180,831	$ 3,594,854	$ 769,526	$ 34,691,285
Depreciation	-	1,322,180	870,984	136,457	216,972	2,546,593
Disposals	-	(267,890)	(597,055)	(284,969)	(47,588)	(1,197,502)
Balance at December 31, 2020	$ -	$ 22,200,364	$ 9,454,760	$ 3,446,342	$ 938,910	$ 36,040,376
Net Book Value						
Balance at December 31, 2020	$ 1,717,525	$ 12,190,553	$ 1,674,085	$ 309,254	$ 332,519	$ 16,223,936

10. LEASES

Right of use (ROU) asset

	Facilities	Other	Total
			2021
Cost			
Balance at December 31, 2020	$ 792,975	$ 29,443	**$ 822,418**
Additions	192,137	-	**192,137**
Balance at December 31, 2021	**$ 985,112**	**$ 29,443**	**$ 1,014,555**
Depreciation			
Balance at December 31, 2020	$ 262,474	$ 16,434	**$ 278,908**
Depreciation	165,398	8,217	**173,615**
Balance at December 31, 2021	**$ 427,872**	**$ 24,651**	**$ 452,523**
Net Book Value			
Balance at December 31, 2021	**$ 557,240**	**$ 4,792**	**$ 562,032**

10. LEASES (continued)

Right of use (ROU) asset (continued)

						2020
		Facilities		Other		Total
Cost						
Balance at December 31, 2019	$	737,310	$	29,443	$	766,753
Additions		55,665		-		55,665
Balance at December 31, 2020	$	792,975	$	29,443	$	822,418
Depreciation						
Balance at December 31, 2019	$	126,495	$	8,217	$	134,712
Depreciation		135,979		8,217		144,196
Balance at December 31, 2020	$	262,474	$	16,434	$	278,908
Net Book Value						
Balance at December 31, 2020	$	530,501	$	13,009	$	543,510

Lease liabilities

		2021		2020
Lease Liabilities				
Interest expense	**$**	**24,495**	$	27,178
Variable lease payments		**86,836**		102,340
Total amounts recognized in net income	**$**	**111,331**	$	129,518
Repayment of lease liabilities		**169,695**		135,406
Total cash outflow from leases	**$**	**281,026**	$	264,924

The variable lease payments that are not included in the calculation of the lease liability include operating costs associated with the lease that are not based on index or rate. The lease liability carrying value as at December 31, 2021 is $585,748 (2020 - $563,306).

11. INTANGIBLE ASSETS AND GOODWILL

2021

		Intangible Assets			
	Goodwill	**Software**	**Naming Rights**	**Core Deposits**	**Total**
Cost					
Balance at December 31, 2020	$ -	$ 8,702,155	$ 1,500,000	$ 901,145	**$ 11,103,300**
Additions	-	4,472,507	-	-	**4,472,507**
Balance at December 31, 2021	**$ -**	**$ 13,174,662**	**$ 1,500,000**	**$ 901,145**	**$ 15,575,807**
Amortization and impairment losses					
Balance at December 31, 2020	$ -	$ 5,849,619	$ 400,000	$ 200,252	**$ 6,449,871**
Amortization	-	515,213	37,500	102,909	**655,622**
Balance at December 31, 2021	**$ -**	**$ 6,364,832**	**$ 437,500**	**$ 303,161**	**$ 7,105,493**
Carrying Value					
Balance at December 31, 2021	**$ -**	**$ 6,809,830**	**$ 1,062,500**	**$ 597,984**	**$ 8,470,314**

2020

		Intangible Assets			
	Goodwill	Software	Naming Rights	Core Deposits	Total
Cost					
Balance at December 31, 2019	$ 5,091,190	$ 6,296,495	$ 1,500,000	$ 901,145	$ 13,788,830
Additions	-	2,465,479	-	-	2,465,479
Disposals	(5,091,190)	(59,819)	-	-	(5,151,009)
Balance at December 31, 2020	$ -	$ 8,702,155	$ 1,500,000	$ 901,145	$ 11,103,300
Amortization and impairment losses					
Balance at December 31, 2019	$ -	$ 5,674,517	$ 362,500	$ 100,126	$ 6,137,143
Amortization	-	234,921	37,500	100,126	372,547
Disposals	-	(59,819)	-	-	(59,819)
Balance at December 31, 2020	$ -	$ 5,849,619	$ 400,000	$ 200,252	$ 6,449,871
Carrying Value					
Balance at December 31, 2020	$ -	$ 2,852,536	$ 1,100,000	$ 700,893	$ 4,653,429

12. DEPOSITS

		2021		2020
Operating and Savings	$	**1,774,982,289**	$	1,565,952,014
TFSA's		**140,938,842**		141,390,210
Term Deposits		**518,514,945**		665,366,935
RRSP's		**111,855,397**		123,084,188
RRIF's		**55,525,853**		55,287,695
Interest Payable		**5,932,899**		10,848,190
Balance, end of year	$	**2,607,750,225**	$	2,561,929,232

At December 31, 2021, $235,536,000 (2020 - $332,926,699) of deposits are expected to be settled more than 12 months after the reporting date.

13. LOANS PAYABLE

The Credit Union has an authorized line of credit bearing interest at prime less 0.50% (2020 – prime less 0.50%) in the amount of $36,500,000 (2020 - $36,500,000) with SaskCentral. The Credit Union also has an authorized line of credit bearing interest at prime plus 0.50% (2020 – prime plus 0.50%) in the amount of $500,000 USD with SaskCentral (2020 - $500,0000 USD). At December 31, 2021, the Credit Union had $Nil (2020 - $Nil) drawn on these lines of credit.

The Credit Union has an authorized demand loan with Concentra Bank of $40,000,000 (2020 - $40,000,000) with a balance outstanding of $Nil (2020 - $Nil) bearing interest at 3 month CDOR rate plus 2.50% (2020 – 3 month CDOR rate plus 2.50%) and an annual standby fee of 0.22% (2020 – 0.22%).

The Credit Union is authorized to borrow up to $18,800,000 (2020 - $18,800,000) under a commercial paper program with SaskCentral with a balance outstanding of $Nil (2020 - $Nil) bearing interest at 1 month Banker’s Acceptance rate plus 0.375% (2020 – 0.375%).

The Credit Union has an authorized demand loan with Desjardin of $50,000,000 (2020 - $50,000,000) with a balance outstanding of $Nil (2020 - $Nil) bearing interest at Desjardin’s internal cost of funds plus 0.70% (2020 – 0.70%) and an annual standby fee of 0.20% to 0.15% (2020 annual standby fee of 0.20% to 0.15%).

These loans are secured by an assignment of book debts, residential mortgages and accounts receivable, a financial services agreement and operating account agreement.

14. SECURITIZED BORROWINGS

The Credit Union participates in the Canada Mortgage and Housing Corporation (“CMHC”) sponsored National Housing Act Mortgage-Backed Securities (“NHA MBS”) program where the Credit Union assigns all legal rights, interest and title in certain insured residential mortgages to CMHC in exchange for NHA MBS certificates. As the Credit Union continues to be exposed to

14. SECURITIZED BORROWINGS (continued)

substantially all the risks and rewards of ownership of the original mortgages, the Credit Union has determined that the assignment of the mortgages does not constitute a transfer.

At December 31, 2021, the carrying value of the residential mortgage loans, including accrued interest is $97,213,913 (2020 - $143,410,641). Due to retention of substantially all the risks and rewards of ownership of these assets, the Credit Union continues to recognize them within loans on the consolidated statement of financial position, and the transfers are accounted for as secured financing transactions. The associated liability of $96,460,598 (2020 - $142,477,440), secured by these assets, is included in securitized borrowings on the consolidated statement of financial position and is carried at amortized cost.

The Credit Union also retains certain amounts of its issued NHA MBS certificates as part of its liquidity management strategy. As at December 31, 2021 residential mortgages of $60,867,053 (2020 - $28,003,069) with a fair value of $61,251,434 (2020 - $29,124,491) were assigned to NHA MBS certificates and retained by the Credit Union. These unsold NHA MBS certificates are reported in consumer loans on the consolidated statement of financial position.

15. OTHER INCOME

		2021		2020
Service Charges on Products	**$**	**1,210,517**	$	1,202,814
Loan Fees, Commissions and Insurance		**3,794,393**		3,383,314
Other Fees and Commissions		**2,803,235**		2,408,269
Wealth Management		**5,377,484**		4,674,668
Other		**1,223,613**		959,183
Canada Emergency Subsidy Programs		**2,674,397**		4,540,260
	$	**17,083,639**	$	17,168,508

16. MEMBERSHIP SHARES AND DISTRIBUTIONS

Membership shares are as provided for by *The Credit Union Act* and administered according to the terms of Policy 1000.02 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. Prior to 1998, the Act allowed membership shares to be held jointly. *The Act* now requires each member to have a separate membership share. Those in place prior to 1998 were grandfathered Member share accounts and are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors. *The Credit Union Act* also provides the ability for credit unions to distribute to members surplus earnings in the form of patronage allocations and/or dividends. Patronage allocations may be utilized to purchase additional membership shares in the credit union.

16. MEMBERSHIP SHARES AND DISTRIBUTIONS (continued)

Membership shares and distributions is comprised of the following:

		2021		2020
Membership shares - par value	**$**	**293,265**	$	288,970
Membership shares - patronage allocations		**18,593,070**		18,651,084
Membership rewards - unrestricted		**7,653,525**		7,835,943
Total Membership Shares and Distribution	**$**	**26,539,860**	$	26,775,997

Unrestricted Member Rewards included available distributions made to members including dividends. These balances are disbursable at the option of the member.

The Board of Directors declared total member distributions in the amount of $1,915,299 (2020 - $1,647,082) based on 2021 earnings. The member distributions approved by the Board of Directors quarterly were based on the balance of active Member Reward accounts, members under the age of 19 as of that quarter, loan interest paid and deposit interest earned by each member during the quarter (excluding credit cards, dealer finance loans, and registered deposit products).

The member distributions are reported on the consolidated financial statements as follows: $674,182 (2020 - $753,641) cash dividends, $58,735 (2020 - $57,735) youth cash dividends, $1,182,382 (2020 - $835,706) patronage allocations to Membership Shares.

17. CAPITAL MANAGEMENT

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 250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 10.5%, a minimum total tier 1 capital to risk-weighted assets of 8.5% and a minimum common equity tier 1 capital to risk-weighted assets of 7.0%. Eligible capital consists of total tier 1 and tier 2 capital.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity and additional tier 1 capital. Common equity 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

17. CAPITAL MANAGEMENT (continued)

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, restricted membership rewards, 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 may also exclude from total assets mortgages securitized through Canada Mortgage and Housing Corporate (CMHC) programs up to and including March 31, 2010 and all existing and future reinvestments related to Canada Mortgage Bonds (CMB) Insured Mortgage Purchase Program transactions completed up to and including March 31, 2010.

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 2021:

	Regulatory Minimum	**Innovation Policy Target**
Common Equity Tier 1 Capital/Total Risk Weighted Assets	7.00%	8.54%
Tier 1 Capital/Total Risk Weighted Assets	8.50%	10.37%
Total Eligible Capital/Total Risk Weighted Assets	10.50%	12.81%
Leverage Ratio	5.00%	6.10%

During the year, the Credit Union complied with all external capital requirements. Non-compliance may result in CUDGC taking necessary action including reducing or restricting authorities and limits of the Credit Union, imposing a higher deductible on any insured losses paid by the master bond fund, imposing preventive intervention, issuing a compliance order, or placing the Credit Union under supervision or administration.

17. CAPITAL MANAGEMENT (continued)

The following table summarizes key capital information:

Capital Summary		**2021**		2020
Eligible Capital				
Common Equity Tier 1 Capital	**$**	**263,675,350**	$	256,673,510
Additional Tier 1 Capital		**-**		-
Total Tier 1 Capital		**263,675,350**		256,673,510
Total Tier 2 Capital		**26,356,696**		22,899,343
Total eligible capital	**$**	**290,032,046**	$	279,572,853
Risk-weighted assets	**$**	**1,911,175,503**	$	1,780,375,371
Leveraged assets		**3,118,469,819**		3,091,414,053
Common equity tier 1 to risk weighted assets		**13.80%**		14.42%
Total Tier 1 to risk weighted assets		**13.80%**		14.42%
Total eligible capital to risk weighted assets		**15.18%**		15.70%
Total eligible capital to leveraged assets		**9.30%**		9.04%

18. 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 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

At December 31, 2021, certain directors, senior management and their spouses, children and dependents were indebted to the Credit Union for an amount totaling $3,473,008 (2020 - $8,096,384). The loans to the directors were granted under the same lending policies applicable to other members. Certain management loans qualify for the staff lending program at preferential rates. These loans have been recorded at amortized cost with the discount amortized using the effective interest method. Director and management loans are included in loans on the consolidated statement of financial position.

There were no loans forgiven or written down during the year with related parties.

18. RELATED PARTY TRANSACTIONS (continued)

Deposits

As of December 31, 2021, certain directors, executive management, their spouses and dependents, and companies over which the director or executive has substantial control had deposits at the Credit Union for an amount totaling $3,561,230 (2020 - $3,402,365).

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

Remuneration

Compensation for directors and other key management personnel was comprised of:

		2021		2020
Salaries and other short-term employee benefits	$	**2,863,096**	$	2,689,561
Other long-term benefits		**116,840**		111,320
Total compensation	$	**2,979,936**	$	2,800,881

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarize the classification of the Credit Union's financial instruments:

	2021			2020		
	FVTPL	Amortized Cost	Total Carrying Value	FVTPL	Amortized Cost	Total Carrying Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ 205,631,871	$ 205,631,871	$ -	$ 161,051,027	$ 161,051,027
Investments	315,753,129	186,333,435	502,086,564	321,473,571	445,479,341	766,952,912
Loans	-	2,254,222,137	2,254,222,137	-	2,025,845,727	2,025,845,727
Accounts Receivable	-	4,640,788	4,640,788	-	8,672,204	8,672,204
Derivative Assets	1,024,479	-	1,024,479	305,656	-	305,656
FINANCIAL LIABILITIES						
Deposits	-	2,607,750,225	2,607,750,225	-	2,561,929,232	2,561,929,232
Securitized Borrowings	-	96,460,598	96,460,598	-	142,477,440	142,477,440
Accounts Payable	-	7,749,990	7,749,990	-	14,470,466	14,470,466
Derivative liabilities	341,227	-	341,227	569,008	-	569,008
Membership shares and distributions	-	26,539,860	26,539,860	-	26,775,997	26,775,997

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or income. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

- The carrying values for cash and cash equivalents, accounts receivable, accounts payable and membership shares and distributions approximated their fair values.

- Estimated fair values of investments are based on quoted market prices of similar investments (Level 2). Venture capital funds are carried at the last disclosed net asset value (Level 3).

- For variable interest rate loans that re-price frequently, carrying values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.

- Fair value of deposits without a specified maturity term is the stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

- Fair values of securitized borrowings are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.

- The fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity. These instruments have been valued assuming they will not be sold, using present value or other techniques, and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

The interest rates used to discount estimated cash flows, when applicable, are based on the government treasury bill rates for investments with maturities less than a year and government bond rates for longer-term investments. Loan discount rates are based on the Credit Union's best consumer rate plus an adequate credit spread. These are as follows:

	2021	2020
Investments	0.16% - 1.31%	0.07% - 0.41%
Loans	3.95% - 4.42%	2.49% - 4.89%
Deposits	0.00% - 1.75%	0.00% - 0.95%

The fair value and related carrying value of the financial instruments have been summarized in the table below by level within the fair value hierarchy, except for those financial instruments whose carrying amount is a reasonable approximation of fair value.

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2021

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Measured at FVTPL					
Investments	$ 315,753,129	$ 315,753,129	$ -	$ 301,208,135	$ 14,544,994
Derivative assets	1,024,479	1,024,479	-	1,024,479	-
Measured at Amortized Cost					
Investments	186,333,435	186,270,244	-	186,270,244	-
Loans	2,254,222,137	2,253,492,718	-	2,253,492,718	-
	$ 2,757,333,180	**$ 2,756,540,570**	**$ -**	**$ 2,741,995,576**	**$ 14,544,994**
FINANCIAL LIABILITIES					
Measured at FVTPL					
Derivative Liabilities	$ 341,227	$ 341,227	$ -	$ 341,227	$ -
Measured at Amortized Cost					
Deposits	2,607,750,225	2,593,682,297	-	2,593,682,297	-
Securitized Borrowings	96,460,598	99,124,794	-	99,124,794	-
	$ 2,704,552,050	**$ 2,693,148,318**	**$ -**	**$ 2,693,148,318**	**$ -**

2020

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Measured at FVTPL					
Investments	$ 321,473,571	$ 321,473,571	$ -	$ 309,766,179	$ 11,707,392
Derivative assets	305,656	305,656	-	305,656	-
Measured at Amortized Cost					
Investments	445,479,341	447,543,311	-	447,543,311	-
Loans	2,025,845,757	2,054,271,049	-	2,054,271,049	-
	$ 2,793,104,325	$ 2,823,593,587	$ -	$ 2,811,886,195	$ 11,707,392
FINANCIAL LIABILITIES					
Measured at FVTPL					
Derivative Liabilities	$ 569,008	$ 569,008	$ -	$ 569,008	$ -
Measured at Amortized Cost					
Deposits	2,561,929,232	2,561,909,660	-	2,561,909,660	-
Securitized Borrowings	142,477,440	147,101,779	-	147,101,779	-
	$ 2,704,975,680	$ 2,709,580,447	$ -	$ 2,709,580,447	$ -

There were no transfers between Level 1 and Level 2 in the period and there are no liabilities measured using Level 3 of the fair value hierarchy.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	FVTPL Unlisted Shares	
	2021	2020
Beginning Balance	**$ 11,707,392**	$ 10,258,578
Unrealized gains (losses) included in net income	**1,938,864**	(484,498)
Purchases	**1,548,094**	2,116,721
Disposals	**(605,461)**	(550,141)
Change in accrued interest	**(43,895)**	366,732
Closing Balance	**$ 14,544,994**	$ 11,707,392

20. FINANCIAL INSTRUMENT RISK MANAGEMENT

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to them.

Credit Risk

The business of the Credit Union necessitates the management of credit risk. Credit risk arises from a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on loans.

The Board of Directors of the Credit Union oversees the risk management process. In addition, CUDGC establishes standards with which the Credit Union must comply. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective credit granting process to assess the borrower's ability to repay.

The Credit Union also mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an ongoing basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union are, but are not limited to, real and non-real property by way of mortgages and security agreements.

In addition, the Credit Union monitors its loan concentration to ensure it is in compliance with its policies.

Credit risk also may arise from principal and interest amounts on investments. The Credit Union manages credit risk through adherence to internal policies and procedures for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return.

The Credit Union's investment portfolio excluding accrued interest and impairment is as follows:

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

		2021		2020
Long Term Issuer Rating AAA	**$**	**22,964,266**	$	23,071,833
Long Term Issuer Rating A(low) to A(high)		**14,984,305**		-
Long Term Issuer Rating BBB(low) to BBB(high)		**10,018,796**		-
Short Term Issuer Rating R-1 (high)		**61,472,507**		160,000,000
Short Term Issuer Rating R-1 (middle)		**1,588,250**		60,644,646
Short Term Issuer Rating R-1 (low)		**355,527,097**		482,316,392
Unrated		**34,299,050**		38,484,349
	$	**500,854,270**	$	764,517,220

At December 31, 2021, the Credit Union does not hold any credit derivative financial instruments (2020 - $Nil). The Credit Union is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments but does not anticipate non-performance by any of the counterparties. Management monitors the credit risk and credit standing of counterparties on a regular basis.

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

Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event a member cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members. Documentary and commercial letters of credit are instruments issued on behalf of a member 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 member and 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 unused portion of authorized loans and lines of credit and from standby letters of credit totals $404,575,504 (2020 - $413,058,604). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk is the risk 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.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports to the Board monthly on the Credit Union's compliance with the policy. In addition, CUDGC establishes standards to which the Credit Union must comply.

The Credit Union enters into transactions to purchase goods and services on credit and to borrow funds from SaskCentral or Concentra Bank, for which repayment is required at various maturity dates. Liquidity is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from these transactions by investing in liquid assets such as money market term deposits and by entering into agreements to access loans as described in Note 13.

CUDGC prescribes liquidity adequacy measures and minimum liquidity requirements. The liquidity adequacy rules issued by CUDGC have been based on the Basel III liquidity adequacy standards established for International Settlements and adopted by financial institutions around the globe, including Canadian banks.

The primary measures for liquidity adequacy at the Credit Union include the Liquidity Coverage Ratio (LCR). The LCR is calculated as the stock of high-quality liquid assets (HQLA) divided by net cash outflows over a 30-day stress scenario. The Credit Union seeks to maintain this ratio greater than or equal to 100%. HQLA are assets that can be easily converted into cash at little or no loss of value and include eligible investments held as liquidity pool deposits at SaskCentral. CUDGC defines the LCR in the Standards of Sound Business Practices – Liquidity Adequacy Requirements, by grouping HQLA into either Level 1 or Level 2 categories and applying various weightings to reflect their value in stressed conditions. Level 1 assets are the highest quality assets whereas Level 2 assets are considered less liquid. Net cash outflows are defined as total expected cash outflows minus total expected inflows; various categories of outflows are applied run-off rates while inflows are multiplied by the rate they are expected to flow in under a stressed scenario.

Regulatory standards require credit unions to maintain a minimum liquidity coverage ratio of 100% in 2021. During the year the Credit Union maintained internal liquidity adequacy targets that exceed regulatory requirements.

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The following are the undiscounted contractual maturities of the Credit Union's non-derivative financial liabilities:

	< 1 year	1-2 years	2-3 years	3 + Years	2021 Total
Non-derivative financial liabilities					
Deposits	$ 2,372,213,712	$ 100,785,725	$ 83,367,424	$ 51,383,364	**$ 2,607,750,225**
Securitized borrowings	14,641,589	14,836,369	30,314,961	36,667,679	**96,460,598**
Accounts payable	7,749,990	-	-	-	**7,749,990**
Membership shares and distributions	-	-	-	26,539,860	**26,539,860**
Total	**$ 2,394,605,291**	**$ 115,622,094**	**$ 113,682,385**	**$ 114,590,903**	**$ 2,738,500,673**

	< 1 year	1-2 years	2-3 years	3 + Years	2020 Total
Non-derivative financial liabilities					
Deposits	$ 2,229,002,532	$ 147,593,541	$ 80,036,887	$ 105,296,272	$ 2,561,929,232
Securitized borrowings	25,005,356	24,547,438	17,312,019	75,612,627	142,477,440
Accounts payable	14,470,466	-	-	-	14,470,466
Membership shares and distributions	-	-	-	26,775,997	26,775,997
Total	$ 2,268,478,354	$ 172,140,979	$ 97,348,906	$ 207,684,896	$ 2,745,653,135

Market Risk

Market risk is the risk of loss in value of financial instruments or the cash flows arising from them, which may arise from changes in market factors such as interest rates, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. The primary market risk that the Credit Union is exposed to is interest rate risk.

The Credit Union uses different risk management processes to manage market risk.

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.

Senior management is responsible for managing market risk in accordance with the Credit Union's internal policy. Senior management reports monthly to the Board the Credit Union's compliance with the policy and regulatory requirements and dollar volume and yields of all investments by investment category. All exceptions noted are to be reported to the Board.

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented.

Interest Rate Risk

Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. The Credit Union's exposure to interest rate risk arises due to the timing differences in the re-pricing of assets and liabilities as well as due to financial assets and liabilities with fixed and floating rates.

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-statement of financial position 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.

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, representing the weighted average effective yield.

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2021 Total
ASSETS							
Cash and cash equivalents	$ 88,079,630	$ 100,000,000	$ -	$ -	$ -	$ 17,552,241	**$ 205,631,871**
Effective interest rate	0.27%	0.40%	-	-	-	-	**0.47%**
Investments	152,257,706	138,247,447	102,671,524	101,267,973	6,409,620	1,232,294	**502,086,564**
Effective interest rate	0.36%	0.80%	1.33%	2.78%	2.55%	-	**1.23%**
Loans	748,867,166	80,268,930	301,284,480	1,074,305,320	55,657,970	(6,161,729)	**2,254,222,137**
Effective interest rate	3.94%	3.89%	3.69%	3.38%	4.50%	-	**3.82%**
Accounts receivable	-	-	-	-	-	4,640,788	**4,640,788**
	$ 989,204,502	**$ 318,516,377**	**$ 403,956,004**	**$ 1,175,573,293**	**$ 62,067,590**	**$ 17,263,594**	**$ 2,966,581,360**
LIABILITIES							
Deposits	$ 1,609,968,814	$ 191,989,518	$ 329,936,319	$ 235,343,447	$ 193,067	$ 240,319,060	**$ 2,607,750,225**
Effective interest rate	0.19%	0.78%	0.70%	1.41%	1.90%	-	**0.70%**
Securitized borrowings	-	6,309,238	18,973,910	71,177,450	-	-	**96,460,598**
Effective interest rate	-	1.90%	2.17%	1.43%	-	-	**1.52%**
Accounts payable	-	-	-	-	-	7,749,990	**7,749,990**
Membership shares and distributions	-	-	-	-	-	26,539,860	**26,539,860**
	$ 1,609,968,814	**$ 198,298,756**	**$ 348,910,229**	**$ 306,520,897**	**$ 193,067**	**$ 274,608,910**	**$ 2,738,500,673**
2021 Statement of Financial Position Gap	**$ (620,764,312)**	**$ 120,217,621**	**$ 55,045,775**	**$ 869,052,396**	**$ 61,874,523**	**$ (257,345,316)**	**$ 228,080,687**

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2020 Total
ASSETS							
Cash and cash equivalents	$ 62,382,060	$ 50,148,693	$ -	$ -	$ -	$ 48,520,274	$ 161,051,027
Effective interest rate	0.37%	0.60%	-	-	-	-	0.47%
Investments	247,226,681	42,124,597	322,460,096	152,705,846	-	2,435,692	766,952,912
Effective interest rate	1.21%	1.26%	1.01%	1.87%	-	-	1.23%
Loans	733,441,305	84,223,279	251,587,321	904,909,541	62,828,507	(11,144,226)	2,025,845,727
Effective interest rate	3.78%	4.29%	4.14%	3.67%	4.59%	-	3.82%
Accounts receivable	-	-	-	-	-	8,672,204	8,672,204
	$ 1,043,050,046	$ 176,496,569	$ 574,047,417	$ 1,057,615,387	$ 62,828,507	$ 48,483,944	$ 2,962,521,870
LIABILITIES							
Deposits	$ 1,421,113,991	$ 185,451,215	$ 402,878,775	$ 332,248,638	$ 678,061	$ 219,558,552	$ 2,561,929,232
Effective interest rate	0.16%	1.93%	1.10%	1.86%	1.91%	-	0.70%
Securitized borrowings	-	6,500,620	27,018,950	108,957,870	-	-	142,477,440
Effective interest rate	-	1.52%	1.81%	1.45%	-	-	1.52%
Accounts payable	-	-	-	-	-	14,470,466	14,470,466
Membership shares and distributions	-	-	-	-	-	26,775,997	26,775,997
	$ 1,421,113,991	$ 191,951,835	$ 429,897,725	$ 441,206,508	$ 678,061	$ 260,805,015	$ 2,745,653,135
2020 Statement of Financial Position Gap	$ (378,063,945)	$ (15,455,266)	$ 144,149,692	$ 616,408,879	$ 62,150,446	$ (212,321,071)	$ 216,868,735

The above tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates. The above table excludes derivative instruments, including interest rate swaps and index-linked deposit options. Refer to Note 8 for maturity dates of derivative instruments.

A 1.00% reduction in interest rates with all other variables held constant would result in a decrease in the Credit Union's comprehensive income for the year ended December 31, 2021 of $3,468,940 (2020 - $2,534,760). A 1.00% increase in interest rates with all other variables held constant would result in an increase in the Credit Union's comprehensive income for the year ended December 31, 2021 of $4,643,670 (2020 - $4,699,960). These changes are primarily due to changes in cash flows from variable rate assets and liabilities.

The Credit Union uses both discrete and stochastic methods to simulate the effect of a change in the market rate of interest. The interest rate sensitivity information was prepared based on management's assumption that approximately $240 million (2020 - $208 million) of deposits have little or no sensitivity to changes in general market rates and $736 million (2020 - $659 million) respond with 75% of the move in prime.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union's exposure to foreign currency risk arises due to members' U.S. dollar deposits. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union enters into U.S. dollar money market investments which protect against any adverse movements in the exchange rate.

21. COMMITMENTS

The Credit Union has entered into various commitments that include the following:

- Invest up to $8,221,580 (2020 - $6,719,800) of additional capital in certain venture capital funds.
- Invest $1,096,606 (2020 - $1,096,606) in community development initiatives.

In addition, there are other commitments related to strategic initiatives and information technology contracts. These other commitments are as follows:

2022	$	4,988,690
2023		3,959,330
2024		4,741,880
2025		5,199,755
Thereafter		7,271,598
Total Other Commitments	**$**	**26,161,253**

22. INCOME TAXES

Income tax expense is comprised of:

		2021		2020
Current income tax (recovery) expense				
Current period	**$**	**143,203**	$	158,658
Adjustments for prior periods		**(158,473)**		-
		(15,270)		158,658
Deferred income tax expense				
Origination and reversal of temporary differences		**1,656,051**		1,981,366
Origination and reversal of temporary differences associated with discontinued operations		-		2,030,044
		1,656,051		4,011,410
Provision for income taxes	**$**	**1,640,781**	$	4,170,068

22. INCOME TAXES (continued)

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

		2021		2020
Income before provision for income taxes	$	**12,459,503**	$	6,877,398
Combined federal and provincial tax rate		**27%**		27%
Income tax expense at statutory rate	$	**3,364,066**	$	1,856,897
Adjusted for effect of:				
Non-deductible expenses		**10,018**		8,512
Non-taxable dividends		**(137,480)**		-
Deferred income tax expense resulting from rate changes		**-**		1,932
Prior year true-up adjustments		**(1,253,648)**		754,323
Other		**(342,175)**		(2,028,557)
	$	**1,640,781**	$	593,107
Effective tax rate		**15.33%**		20.72%

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

		2021		2020
Deferred income tax assets are comprised of the following:				
Loans and leases	$	**2,410,295**	$	1,916,010
Other		**159,014**		-
Premises and equipment		**11,999,842**		14,181,667
Loss carryforwards		**-**		160,464
	$	**14,569,151**	$	16,258,141
Deferred income tax liabilities are comprised of the following:				
Other	$	**-**	$	9,482
Property and equipment		**256,320**		279,778
	$	**256,320**	$	289,260

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The group recognized deferred income tax assets of $Nil (2020 - $160,464) in respect of losses amounting to $Nil (2020 - $594,315) that can be carried forward against future taxable income.

23. SALE OF INSURANCE SUBSIDIARIES

On September 30, 2020 the Credit Union sold 100% of its interest in North Battleford Agencies (1980) Ltd., Meadow North Agencies Ltd. and Dickson Agencies (1975) Ltd. to a third party through a share purchase agreement. This transaction resulted in a gain of $13,261,012 net of taxes of $2,030,044. Profit earned from the three subsidiaries prior to September 30, 2020 was $1,786,161, net of taxes of $634,027. Both have been recorded in the consolidated statement of comprehensive income.

STATEMENT OF CASH FLOWS

	2021	2020
Net Increase (decrease) in Cash	**$** -	$ (14,096,652)
Cash, Beginning of the year	-	14,740,325
Cash, End of the year	-	643,673

24. SUBSEQUENT EVENTS

Subsidiaries

On January 1, 2022 the Credit Union incorporated a new wholly-owned subsidiary, Innovation Wealth Limited, and transferred all of its wealth management employees and assets to the new subsidiary.

Federal Continuance

On December 12, 2017 the membership of the Credit Union approved by special resolution, an application to the Minister of Finance for continuance as a federal credit union pursuant to section 312(1) of *The Credit Union Act, 1998 (Saskatchewan)* and section 33(2) of *The Bank Act (Canada)*. Continuance is a corporate procedure which allows the existence of an entity under a given law to continue under the provisions of a different law without interruption. Under the proposed continuance, the Credit Union would cease operations as a provincial credit union under *The Credit Union Act, 1998 (Saskatchewan)* and continue operations as a federal credit union under *The Bank Act (Canada)*.

The application is subject to final approval of the Minister of Finance and other regulatory authorities with a targeted continuance date of May 2022.