2024 VIRTUAL AGM

Meeting Package

Cornerstone CREDIT UNION

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Cornerstone Credit Union
Annual General Meeting (AGM)

Tuesday, April 16th, 2024 at 5:15pm | Hosted virtually via Teams

AGENDA

5:15pm **CALL TO ORDER**

Opening remarks by Chairperson

Land Acknowledgment

Meeting Protocol

Proof of Quorum

Adoption of Agenda

Approval of Chair & Recording Secretary

Approval of 2023 Annual Meeting Minutes

2023 Operational Highlights

Acceptance of Reports & Financial Statements

Appointment of External Auditors

Results & Approval of Director Elections

Approval of Bylaws

Questions & Other and New Business

Adjournment

Annual General Meeting (AGM)
Tuesday, April 18th, 2023 at 5:15pm
Zoom
Official Minutes

Opening Remarks by Chairperson
President Schofer introduced herself and provided a land acknowledgement. She announced that Corvyn Neufeld, Chief People & Governance Officer, will be our moderator for this meeting. She explained the meeting protocol and motions.

Proof of Quorum
We have 113 members in attendance and 12 non-members. This constitutes quorum for the annual meeting.

Call to Order
The Annual General Meeting of Cornerstone Credit Union Financial Group Limited was held on Tuesday, April 18, 2023 via Zoom. The meeting was called to order at 5:15pm by President Schofer.

Adoption of Agenda
Schofer asked for any changes or additions to the agenda.

It was moved by **Shelby LaRose** and seconded by **Helen Achtymichuk** that the agenda be approved as presented. **CARRIED.**

Appoint AGM Chair & Recording Secretary
Schofer asked for a motion to appoint herself, Heidi Schofer, as the chair for the AGM and to appoint, Carissa Arvay, as the Recording Secretary.

It was moved by **Casey Schroth** & seconded by **Leanne Huvenaars**. **CARRIED.**

Introductions
Schofer introduced the 2022 Board of Directors and Executive Management. She expressed condolences to the family of Jack Powell who had to step down from our board in September of 2022 and passed away in November.

Minutes
The minutes from the 2022 AGM were posted on the website for review prior to this meeting.

A motion to approve the April 12, 2022 AGM meeting minutes, was moved by **Sue Kearns** and seconded by **Kevin Lukey**. **CARRIED.**

2022 Highlights & Corporate Video
CEO, Doug Jones, introduced the 2022 Year in Review corporate video that provided highlights of Cornerstone's 2022 operations and financial results. Jones then presented further highlights from 2022.

Schofer shared some of the board's learnings from the cyber incident.

Schofer asked for any questions.

Adoption of Reports & Financial Statement

The 2022 Annual Report, the Management Discussion & Analysis and the Consolidated Financial Statements were made available to the membership in attendance and have been posted on our website for the past twenty-one days.

It was moved by **Larry Malinowski** and seconded by **Nicole Campbell** that the 2022 Annual Report and the 2022 Financial Statements be approved as presented. **CARRIED.**

Appointment of External Auditor for 2023

Blair Van Caeseele, Chairperson of the Finance & Audit Committee, expressed the Finance & Audit Committee's responsibilities and satisfaction with the 2022 audit process completed by MNP LLP.

It was moved by **Blair Van Caeseele** and seconded by **Edie Tarasoff** that Cornerstone Credit Union appoint MNP LLP as the external auditor for the 2023 year. **CARRIED.**

A question was raised - 'Expenses were reduced due to downsizing in 2022. What are the budgeted operating expenses for 2023? Jones responded that due to inflationary pressures, the 2023 operating expenses are budgeted to be up about 8%. Personnel, security, and technology are key areas impacted by inflation and needing investment.

Results of Director Elections

Schofer called upon the chair of the People & Governance Committee, James Knudson, to speak to the Director Election process.

Schofer presented the following motion:

It be confirmed that the election of Leanne Huvenaars and Ty Kehrig to the office of director of Cornerstone Credit Union for District 1 for a three-year term.

It be confirmed that the election of Shelby LaRose to the office of director of Cornerstone Credit Union for District 2 for a three-year term, by acclamation;

It be confirmed that the election of Tim Taylor to the office of director of Cornerstone Credit Union for District 3 for a three-year term, by acclamation;

It was moved by **James Knudson** and seconded by **Rodney Edgar.** **CARRIED.**

Schofer welcomed Ty Kehrig as a new director to our board. She also thanked Cheryl Denesowych for her contribution to our board for the past 17 years.

Other & New Business

Schofer & Jones both thanked the board of directors, employees, and our members for supporting Cornerstone

Credit Union. Schofer advised that members can contact the board or executive at any time. The following questions were brought forward:

‘Why was Concentra sold and who bought it?’. Jones responded that the primary reason Concentra was sold was because that business had grown significantly. With SaskCentral owning a majority share of Concentra, it was deemed to carry too much concentration risk for SaskCentral. Equitable Bank (EQ Bank) purchased Concentra. They currently provide Cornerstone the same services provided through Concentra.

‘How long was the cyber attack known before Cornerstone was alerted?’ Jones responded that we were advised, as soon as the supplier was aware it may have affected us and this was when we took immediate action.

‘What are the metrics used to determine top employer status?’ Neufeld advised it is an application process that looks at all the different HR systems and benefits that are made available to our employees. There is analysis done on this and is reviewed by a panel who then determines the top employers.

The following comment was provided:
‘Congratulations on your successful 2022 year. Thanks for the invitation to attend your AGM’.

Adjournment

It was moved by **Cassidy Saskowski** that the Annual Meeting be adjourned at 6:01pm.

Chair

Recording Secretary

Proposed Changes/Amendments to Cornerstone Credit Union Bylaws

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A summary of the recommended changes and a clean copy of the proposed bylaws have been included in this package. In addition to the summary outlined below, the recommendation also includes various numbering and formatting changes to align more closely with the format of other credit union bylaws.

The entirety of the proposed changes are outlined in the redlined version of the current bylaws, which is available for review on our website: [Current Bylaws - Redlined](cornerstonecu.com) (cornerstonecu.com).

Summary of Proposed Changes/Amendments to Cornerstone Credit Union Bylaws

Cornerstone's Board of Directors & Management are recommending adoption of an At Large Representation model for the election of directors. In this model, members of the board of directors are elected by the whole membership. All members would elect all members of the board of directors. There are no restrictions or limitations on where those directors come from or who they represent and no restrictions on who members can vote for. Currently, directors are elected as representatives of one of three geographic regions (i.e. District 1 – Ituna, Kelliher, Rose Valley, Tisdale, Wynyard and Yorkton; District 2 – Arcola, Emerald Park, Indian Head, Kipling, Montmartre and Vibank; and District 3 – Grenfell, Melville and Wolseley) and only those members residing in those communities are eligible to vote for their representative(s).

The importance of strong corporate governance has grown as credit unions become increasingly complex. Our regulators are expecting credit unions to place greater emphasis on ensuring directors have the collective skills, background, and experience to oversee credit union operations in an increasingly complex and changing landscape. As Cornerstone Credit Union continues to grow, so does the need for a diverse board with skills, background, and experience to oversee the evolution of Cornerstone Credit Union. The board of directors and management believe an "at large" model of director representation, best positions the organization to achieve this objective. The At Large model provides the ability to elect candidates from a wider pool of diverse experiences, competencies and skills, without the limitations of a geographic or district model. It is simple and easy to understand. While an at large model does not guarantee regional representation, it provides the greatest opportunity to attract directors with the diverse skills, experience and expertise needed to provide effective corporate governance.

A 3 year transition period to fully implement the at large model, will be used to ensure board continuity and prevent significant board turnover. As director's terms expire, new candidates will be elected using the at large approach. In 2025, 4 directors will be elected at large, with the remaining 8 directors continuing to represent their respective regions. In 2026, 4 more directors will be elected at large and in 2027 the remaining 4 will be elected at large.

Other specific changes include:

5.2 Election of Directors

Directors shall represent and be elected At Large. Members will elect 12 directors. All District wording has been removed.

5.5 Conduct of Elections
Polling stations were addressed in the first sentence.

6.4 Meetings at More than One Location
The move to At Large eliminates the need for members to attend and vote at meetings within their District. Members may attend and vote at any one location of their choice.

6.11 Voting on a Fundamental Change
Removal of reference to a polling station.

Cornerstone
CREDIT UNION

CORNERSTONE CREDIT UNION
ANNUAL REPORT 2023

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions. The Corporation is also the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral). Together, these entities are considered Provincially Regulated Financial Institutions or "PRFIs". The Corporation is mandated through provincial legislation, The Credit Union Act, 1998 and The Credit Union Central of Saskatchewan Act, 2016 in performing its duties. Provincial legislation also assigns responsibility for oversight of the Corporation to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan.

The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By promoting responsible governance and prudent management of capital, liquidity and guaranteeing deposits, the Corporation contributes to confidence in Saskatchewan PRFIs.

For more information about the Corporation's responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult the Corporation's web site at **www.cudgc.sk.ca.**

CREDIT UNION MARKET CODE

Cornerstone Credit Union and its employees have always been committed to delivering a high quality of service to members and customers. The Credit Union Market Code, jointly developed by Saskatchewan credit unions, SaskCentral and Credit Union Deposit Guarantee Corporation, builds on this commitment. The Market Code identifies the market practice standards and how the credit union subscribes to the standards.

LEARN MORE

ABOUT CORNERSTONE

We are a full-service financial institution, located in Saskatchewan, that's owned and led by you, our members. The advice and solutions we offer are driven by your goals and needs because you're our most important stakeholder. It's the reason our doors opened over 80 years ago, and why more than 36,000 people continue to choose us today.

Our members always come first. This member-first philosophy is at the core of all we do. Whether it's in our branches, over the phone, on our website, at community events or from your mobile phones, whatever you need, we'll meet you there.

OUR PURPOSE

To empower you to succeed in life and business.

OUR VISION

We strive to use our profits to improve the financial well-being of the members, employees and communities we serve.

OUR VALUES

MemberFirst: We are about people; we listen to understand each person's story.

Integrity: We can be trusted to do the right thing.

Accountability: We take ownership of our actions and responsbilities.

Leadership: We encourage continuous learning and simplifying what we do.

Co-operation: We live the co-operative principles; we genuinely care about you and our communities.

You're our Cornerstone. As your goals and needs evolve, so do our services – because you're the reason we're here.

We're in tune with your needs. That means we don't simply listen. We go out of our way to develop plans that set you up for success.

You'll never have to worry whether you're on the right track, because our employees are members too – motivated and equipped to empower you with sound advice.

You can have total confidence—that your voice is being heard, your future is secure, and every cent of our profits goes toward serving you. Because as a member-owner, you're the cornerstone we keep coming back to.

CO-OPERATIVE PRINCIPLES

As a true co-operative financial institution, we put our values into practice by following the **7 co-operative principles.** This sets credit unions' apart from all other financial institutions, strengthens the community and benefits you too!

Voluntary and Open Membership

What it means to you: No matter what your financial situation looks like, the door is open, without gender, social, racial, political or religious discrimination.

Democratic Member Control

What it means to you: You help call the shots by electing a board of directors. One member equals one vote. This is local democracy in action.

Member Economic Participation

What it means to you: Better rates, lower fees, and services that benefit the entire credit union. The more that members participate, the more there is to go around.

Autonomy and Independence

What it means to you: As a financial co-operative, your credit union is controlled by real members like you, instead of outside shareholders.

Education, Training and Information

What it means to you: Access to financial literacy tools and resources. Credit unions believe that education contributes to personal growth.

Co-operation Among Co-operatives

What it means to you: Your credit union strengthens the co-operative movement by partnering with organizations that share the same important values.

Concern for Community

What it means to you: Knowing that your day-to-day banking translates into benefits for charities, local businesses, and the entire community.

The International Co-operative Alliance is the caretaker of the internationally accepted co-operative principles.

Scan the code to read the full principles.

LEARN MORE

MESSAGE FROM THE PRESIDENT

On behalf of the Board of Directors, I would like to thank everyone at Cornerstone for the success of 2023. To our members, you can be confident knowing that your Board of Directors is responsible for acting in your best interest because you are the reason we are here. Our top priorities as a Board remain the same for our organization – to continue to evolve, change and adapt to what our members need. Most importantly, our role is to protect the members' interests in Cornerstone Credit Union.

As member-owners ourselves, our Board has the same vision as you – to have a strong, community-minded financial institution that cares about its members and the communities that we live in. In June, Cornerstone hosted community barbecues in each of our communities. Board members were volunteering along with our employees, the CCU Crew. This gave directors a chance to connect with our members. We thank you for coming out and showing your support for these events. Over $18,000 was raised for local causes and initiatives that matter to you.

2023 was a very successful year for Cornerstone, as it was another strong year in terms of financial performance. Balancing our financial performance with the changes we see happening outside our Credit Union is a challenge. On behalf of the Board, I am pleased with the accomplishments and leadership provided by Cornerstone this past year. We have a strong group of leaders that have a united and vested interest in a successful credit union because Directors are our members and members are our Directors.

On behalf of the Board of Directors, I would like to thank the employees and management of our Credit Union for their dedication and success in 2023. The devotion and commitment of the Cornerstone Crew to the members does not go unnoticed. Thank you to our members for your continued loyalty and support. Finally, I would personally like to convey my appreciation to my fellow Board of Directors for the guidance and vision you have provided to place Cornerstone in a position to be successful in the future.

Heidi Schofer
Board Chair and President

Contact our Board at contactheboard@cornerstonecu.com

MESSAGE FROM THE CEO

We are once again proud to provide you, our member-owners, this annual report highlighting results from the past year at your Credit Union. 2023 was another very busy, but productive year for Cornerstone. Coming out of the past few years that included a pandemic and merger, 2023 provided more stability that allowed us to focus on investments and activities necessary to meet member expectations for advice and service how, when, and where you want. We understand that proactive, needs-based advice is more important now than ever to our members, given the ongoing economic challenges with increased interest rates and cost of living driven from inflation. Aligned to our member experience goals, we increased our volume of proactive member contact in 2023 and implemented a new financial advice process we call the "MemberFirst Review". MemberFirst is part of our values – We are about people; we listen to understand each person's story. This MemberFirst Review allows our members to tell their story so we can provide holistic advice on their financial journey. We continually work to improve our ability to meet or exceed member expectations and are proud to see positive trends within our member satisfaction survey results in 2023.

Inflation and rising costs from needed investments continue to impact our Credit Union. While there was some improvement to our digital banking platform in 2023, that investment will be ongoing, and we will continue to work with our supplier to improve your experience. We continue to partner with prairie credit unions on payments modernization investments aligned to industry requirements from Payments Canada. This industry wide initiative will ultimately provide consumers with "real-time" payment or movement of money capabilities. These requirements come at a significant increased cost to your Credit Union.

Despite rising costs of additional investments in new skill sets and technology, our efforts from merger and branch restructuring over these past few years have allowed Cornerstone to enjoy another successful year financially and position us well for the future. Our 2023 results include strong growth in assets under management of 7.08% and profitability above budget at 0.52%. Along with effective cost control resulted in keeping our expense ratio below budget as well, finishing at 2.13% as a percentage of total assets.

The world continues to experience significant events impacting society and the economy, including ongoing conflicts in Ukraine and Gaza. Closer to home, we know increased cost of living, including borrowing costs from rising rates, bring added stress to many people in our communities. The well-being of our members, particularly your financial well-being, is at the heart of everything we do at Cornerstone. The advice and solutions we offer are driven by your goals and needs because you are our most important stakeholder. Let's set you up for financial success. Please contact your advisor or call us to book an appointment.

We are proud of our support for communities. We have the largest branch presence of any financial institution throughout rural eastern Saskatchewan, and we employ over 280 people throughout that same region, more than any other financial institution. We are proud of our employees we call our Cornerstone Crew, who invest thousands of volunteer hours to their communities. We put people before profits by contributing significantly through donations and sponsorships. We are particularly proud of the initiative known as "Project Cornerstone". This initiative helps communities finish capital projects, and we are proud to announce a commitment of $100,000 to Project Cornerstone again for 2024.

I want to thank our Board of Directors for your continued leadership and guidance. To our employees, the "Cornerstone Crew", thank you for your incredible efforts over this past year and for your continued dedication to our members and your community. I am extremely proud of the teamwork we have at Cornerstone.

To our members, thank you for supporting your Credit Union. Again, you are at the heart of everything we do. YOU are the reason we come to work every day. We recognize that rising interest rates and inflation have contributed to more uncertainty for many of you. We are committed to fulfill our purpose to support you through these times and to help you achieve success in life and business!

I am excited to work with all our stakeholders towards continued success at Cornerstone.

Doug Jones
CEO

WORKING AT CORNERSTONE

We are among the five largest credit unions in Saskatchewan with 282 employees and 15 branches throughout eastern Saskatchewan. We serve members on the traditional lands referred to as Treaty 4 and Treaty 6 Territories – the original lands of many First Nations and the traditional homeland of the Metis Nation.

Working at Cornerstone is more than just a job – it's an opportunity to be part of a family. We work together to solve problems and every one of us plays a role in making this a great place to work. By being a great place to work, we can do better work for our members.

We're so much more than the friendly faces you see in our branches plus, all of our decisions are made locally!

WHAT OUR EMPLOYEES SAY ABOUT WORKING AT CORNERSTONE

"I'm not afraid to fail because I'm encouraged to grow." - Anna S

"We are a supportive work community; always cheering each other on. I love working in a positive and encouraging environment." - Rhonda L

"My work family inspires me to be the best version of my professional self." - Dorothy S

6,984 HOURS OF LEARNING AND DEVELOPMENT IN 2023

We focus on the skills and capabilities of our employees to reach their highest potential in their current roles.

SK TOP EMPLOYER FOR 7TH CONSECUTIVE YEAR

We strive to be an employer of choice and were once again recognized as one of Saskatchewan's Top Employers, which is a special designation that recognizes Saskatchewan employers that lead their industries in offering exceptional places to work. 2023 is the seventh consecutive year, and eighth time Cornerstone has received this designation. While we are very proud to be named one of Saskatchewan's Top Employers - we're most proud of our people.

11 EMPLOYEES CERTIFIED IN MENTAL HEALTH FIRST AID

We encourage and support our employee's personal well-being and quality of life, including mental health. We're here for one another because we're not just co-workers – we're family.

Our employees are our greatest assets and inspire us to greater heights.

COMMUNITY INVESTMENT HIGHLIGHTS

2023 HIGHLIGHTS

ONE OF THE
5
LARGEST CREDIT UNIONS IN SASKATCHEWAN

OVER
$2.4 BILLION
IN MANAGED ASSETS

OVER
36,000
MEMBERS

282
EMPLOYEES
HELPING YOU ACHIEVE FINANCIAL SUCCESS

82 YEARS
SERVING MEMBERS SINCE 1941

15 BRANCHES
ACROSS SASKATCHEWAN - OPEN 5 DAYS A WEEK

#1
FASTEST GROWING CU IN COMPARISON WITH OUR PEERS

OVER
$280,000
INVESTED BACK INTO THE COMMUNITIES WE SERVE

OVER **$20,000**
DONATED TO CHARITABLE CAUSES

OVER **$18,000**
RAISED FOR LOCAL CAUSES THROUGH OUR COMMUNITY BBQs

$100,000
PROJECT CORNERSTONE

OVER **$5,000**
AWARDED IN SCHOLARSHIPS

7,122
VOLUNTEER HOURS ***FROM OUR EMPLOYEES***

17 FINANCIAL SERVICES ADVISORS IN OUR CONTACT CENTRE

WE ARE LOCAL & IN OUR COMMUNITIES SERVING YOU OVER THE PHONE

85,000 CALLS
TO OUR CONTACT CENTRE

30 SECONDS
AVERAGE WAIT TIME FOR CALLERS

OVER 20,000
DIGITAL BANKING USERS

2023 SASKATCHEWAN'S TOP EMPLOYERS
7th CONSECUTIVE YEAR

INVESTMENT IN **RURAL AGRIFOODTECH**

Here for you through every milestone. From your first bank account, to saving for school, to your mortgage, and into retirement – our products and services carry you through your entire financial journey.

Wealth management for everyday life. Our financial partner, Thrive Wealth Management shares the same values as us and are experts in wealth management offering best-in-class wealth management products and services.

Appointment booking made easy. Members can now book an appointment online in minutes!

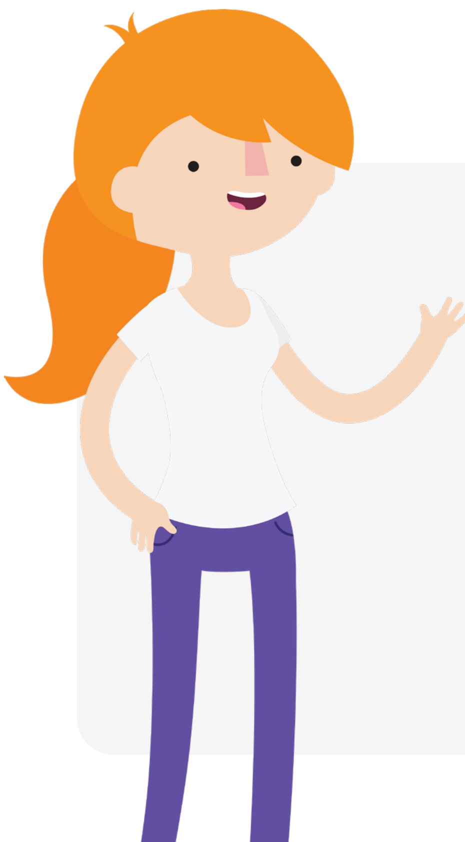
LEARN MORE

Investing in AgriFoodTech Industry. Eastern Saskatchewan has the potential to be a leader in agricultural innovation. That's why we are investing in the development of a rural ag-tech ecosystem focused on agriculture, food, and technology (AgriFoodTech).

We believe in long-term relationships.
Quotes from members on their experience at CCU:

- *"Stacey and Kaely are very helpful and friendly and easy to talk to. They help me and walk me through everything I need. I love dealing with them. Thank you for good service that they provide."*
- *"Always a great experience! We received help with investments and even got me set up with a credit card! Love coming here!"*
- *"Brenda is fantastic to deal with! Knowledgeable and thorough."*
- *"Justin's awesome! His service was quick and efficient. And he was clear and straightforward in his explanations."*

From dreaming to doing. We'll help you get there.



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FINANCIAL LITERACY

Explaining money is our thing! We've started a Financial Literacy Program that is designed to empower students with essential life skills for something we all have to deal with — money.

We aim to make financial literacy informative – and most importantly – FUN! We bring interactive activities, real-life scenarios, and a passion for presentation to our community's classrooms.

CORPORATE STRUCTURE & GOVERNANCE

The governance of Cornerstone Credit Union is anchored in the co-operative principle of democratic member control. Our philosophy on corporate governance is to practice transparency in operations and maintain a professional approach and accountability in dealing with our members. We are focused on maintaining the highest standards by conducting our affairs ethically and lawfully and by sustaining a culture of integrity and professionalism.

GOVERNANCE PRACTICES

Promoting a successful, healthy credit union is accomplished through processes of good governance. Corporate governance involves a set of relationships between a credit union's board, executive management, members, and other stakeholders. Effective corporate governance practices are essential to achieving and maintaining the trust and confidence of credit union members, the public and other stakeholders. Cornerstone Credit Union's governance practices are assessed periodically by internal and external auditors and the credit union system regulator - Credit Union Deposit Guarantee Corporation (CUDGC).

BOARD OF DIRECTORS

The Board of Directors of Cornerstone are responsible for the strategic oversight, business direction and supervision of management of the Credit Union. In acting in the best interests of the Credit Union and its members, the Board's actions adhere to the standards set out in The Credit Union Act 1998; the Credit Union Regulations, 1999; Standards of Sound Business Practices; Cornerstone Credit Union bylaws and policy, and other applicable legislation.

The Board directs the affairs of the Credit Union and maintains policies which are responsive to the Board's needs and the needs of the Credit Union for sound operations.

The key roles of the Board include formulation of strategic plans; setting goals, evaluating the performance of the CEO; approving corporate vision, purpose, and values; monitoring corporate performance against strategic plans; oversight of operations; ensuring compliance with laws and regulations; keeping members informed regarding plans, strategies, and performance of the Credit Union; and other important matters. The Board met five times in 2023.

The Board for Cornerstone Credit Union is comprised of twelve members, with regional representation through three districts.

District 1 – encompasses Ituna, Kelliher, Rose Valley, Tisdale, Wynyard, Yorkton
District 2 – encompasses Arcola, Emerald Park, Indian Head, Kipling, Montmartre, Vibank
District 3 – encompasses Grenfell, Melville, Wolseley

OUR BOARD OF DIRECTORS

HEIDI SCHOFER **Board Chair & President**

Director Since: 2004
Term Expiry: 2024
Representative of District 3

LYLE WEICHEL Vice Chair

CHAIR OF RISK COMMITTEE
Director Since: 2016
Term Expiry: 2024
Representative of District 2

NICOLE CAMPBELL

Director Since: 2014
Term Expiry: 2025
Representative of District 1

SUE KEARNS

Director Since: 2019
Term Expiry: 2025
Representative of District 2

TY KEHRIG

Director Since: 2023
Term Expiry: 2026
Representative of District 1

JAMES KNUDSON

CHAIR OF PEOPLE & GOVERNANCE COMMITTEE
Director Since: 2001
Term Expiry: 2024
Representative of District 1

SHELBY LAROSE

Director Since: 2019
Term Expiry: 2026
Representative of District 2

ROBERT ROSS

Director Since: 2019
Term Expiry: 2024
Representative of District 1

EDIE TARASOFF

CHAIR OF CONDUCT REVIEW COMMITTEE
Director Since: 2018
Term Expiry: 2025
Representative of District 1

TIM TAYLOR

Director Since: 1996
Term Expiry: 2026
Representative of District 3

BLAIR VAN CAESEELE

CHAIR OF FINANCE & AUDIT COMMITTEE
Director Since: 2019
Term Expiry: 2025
Representative of District 3

BYLAWS

Cornerstone's Board of Directors & Management is recommending adoption of revised bylaws to move to an At Large representation model. In this model, members of the board of directors are elected by the whole membership. There are no restrictions or limitations on where those directors come from or who they represent. The revised bylaws will be posted in advance of the 2024 Annual General Meeting for member voting.

As Cornerstone Credit Union continues to grow, so does the need for a diverse board with skills, background, and experience to oversee the evolution of Cornerstone and the credit union system in general. Board independence and accountability is more important now than ever with the competitive environment and pace of change. The At Large model will provide the opportunity to elect qualified candidates with diverse experiences, competencies, and skills, from a wide pool without geographic restrictions.

Upon member approval, we will transition to the At Large model over a 3-year period, as director's terms expire to ensure board continuity and prevent significant board turnover.

EVALUATION

The Board of Directors conducts evaluations annually to assess the effectiveness of board operations. A formal evaluation was conducted in 2023, by Andres Consulting.

DIRECTOR TRAINING

Cornerstone Credit Union has a director development policy in place that pertains to the training, education, and development of directors. This may be obtained by attending meetings, conferences and educational sessions that provide training and understanding of both broad and technical issues. Formal personal development plans are put in place for each director to provide guidance on training and development opportunities that will enhance their ability to fulfill their role as a director.

BOARD COMMITTEES

Finance & Audit Committee

The Finance & Audit Committee ensures an independent review of the Credit Union's operation on areas deemed necessary to maintain the integrity of financial data, adequacy of internal controls and adherence to regulatory requirements. The committee seeks assurance that management has implemented appropriate internal control procedures, and procedures are maintained, reviewed, evaluated, and approved. The Finance & Audit Committee met four times in 2023.

Risk Committee

The Risk Committee is responsible to ensure that the Credit Union's enterprise risk management framework and risk appetite is appropriate to optimize liquidity, market, credit, legal and regulatory, operational, and strategic risk for the protection and creation of shareholder value.

The committee reviews management's assessment of material risks associated with the Credit Union's businesses and operations and reviews the implementation by management of systems to manage these risks. The Risk Committee met four times in 2023.

People & Governance Committee

The People & Governance Committee is established to support the Board of Directors in providing effective oversight of critical people management practices and strategies, ensuring an appropriate governance system is in place and that governance practices evolve with the needs of the Credit Union. The People & Governance Committee met four times in 2023.

Conduct Review Committee

The Conduct Review Committee is established to ensure that all proposed related party transactions with the Credit Union are fair to the Credit Union and that the related party relationship has not affected the exercise of best judgment of the Credit Union. The Conduct Review Committee met four times in 2023.

2023 MEETING ATTENDANCE

	Board Meetings	Committee Meetings
Nicole Campbell	4 of 5 (80%)	4 of 4 (100%)
Cheryl Denesowych *(term expired April 2023)*	1 of 1 (100%)	1 of 1 (100%)
Leanne Huvenaars *(resigned September 2023)*	4 of 4 (100%)	3 of 3 (100%)
Sue Kearns	5 of 5 (100%)	8 of 8 (100%)
Ty Kehrig *(elected April 2023)*	4 of 4 (100%)	4 of 4 (100%)
James Knudson	5 of 5 (100%)	8 of 8 (100%)
Shelby LaRose	5 of 5 (100%)	4 of 4 (100%)
Robert Ross	5 of 5 (100%)	6 of 8 (75%)
Heidi Schofer	5 of 5 (100%)	16 of 16 (100%)
Edie Tarasoff	5 of 5 (100%)	8 of 8 (100%)
Tim Taylor	5 of 5 (100%)	4 of 4 (100%)
Blair Van Caeseele	5 of 5 (100%)	4 of 4 (100%)
Lyle Weichel	4 of 5 (80%)	4 of 4 (100%)

EXECUTIVE MANAGEMENT

Cornerstone Credit Union has an experienced executive management team that is responsible to oversee the operations of the Credit Union within the context of strategies and policies approved by the Board, and for developing processes that identify, measure, monitor and control risks. This team reports performance in key areas to the Board of Directors on a regular basis.

Cornerstone Credit Union has two standing management oversight committees, to assist in management of risks and operations of the Credit Union.

The Asset & Liability Management Committee (ALCO) is comprised of executive management and senior management of Cornerstone. The ALCO is responsible for actualization of the balance sheet with the goal of optimizing the use of capital to ensure both the short and long-term health of the Credit Union. In managing these responsibilities, ALCO will consider the risk environment in which the Credit Union operates and recommend strategies to ensure Cornerstone effectively manages within its risk tolerances, especially in the areas of balance sheet mix, interest rate risk (IRR), liquidity risk and capital adequacy.

The Enterprise Risk Management Committee (ERMCO) is comprised of executive management, and senior management of Cornerstone. ERMCO assesses and reviews risk appetite in context to the desired risk culture and implements appropriate changes to operational policies and procedures consistent with the intent of the Board of Directors. This process ensures that risks encountered are properly identified, measured, monitored, and reported to the Board of Directors. ERMCO is responsible for monitoring the internal and external environments to ensure that the Credit Union's exposure to risk is understood and minimized if required. Cornerstone is not only exposed to risks it knowingly accepts, it must also be prepared to respond to unforeseen risks as they emerge, while focusing on optimizing returns within acceptable risk levels.

Doug Jones

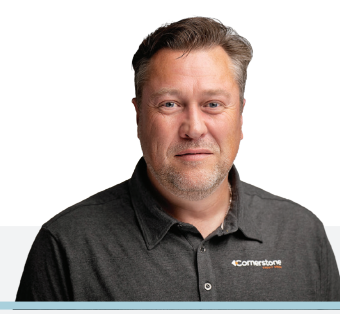
Chief Executive Officer

Jodi Chambers
Chief Strategy
& Innovation Officer

Leigh Dunn
Chief Risk Officer

Bryan Furber
Chief Financial Officer

Corvyn Neufeld
Chief People &
Governance Officer



Murray Yeadon
Chief Operations &
Member Experience Officer

MANAGEMENT DISCUSSION AND ANALYSIS FOR 2023

This Management Discussion & Analysis (MD&A) is presented to enable readers to assess material changes in the financial condition and operating results of Cornerstone Credit Union (the Credit Union) for the year ended December 31, 2023, compared with prior years. This MD&A is prepared in conjunction with the Consolidated Financial Statements and related notes for the year ended December 31, 2023 and should be read together. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from the Credit Union's annual Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS). In some cases, 2020 and 2019 prior year comparatives have been derived by management's internal consolidation of the three individual entities' results in order to provide more relevant information. When this is the case, it will be clearly indicated throughout the document. Management is responsible for the underlying reliability of the information included in this MD&A and for the controls systems and procedures that help to ensure that reliability.

This MD&A may contain future-looking statements concerning Cornerstone Credit Union's future strategies. These statements involve uncertainties in relation to prevailing economic, legislative, and regulatory conditions at the time of writing. Therefore, actual results may differ from the future-looking statements contained in this discussion.

OUR BUSINESS ENVIRONMENT

Although Cornerstone Credit Union is focused on serving the needs of its members in Saskatchewan, the economic and business conditions in Canada and abroad can impact the trading area of the Credit Union and its financial position. Globally, there continues to be geopolitical unrest. National and international economic conditions can impact currency rates, interest rates, and monetary policy of the Bank of Canada. These factors, combined with fluctuations in capital markets and competition, can impact the market share and price for the Credit Union's products and services and, in turn, affect its performance.

Global GDP growth has slowed, and this is expected to continue in 2024. This has likely been impacted by higher interest rates and inflation influencing consumer buying power. Housing markets have softened but may pick up as interest rates fall. It is estimated that Canadians require 15% of their after-tax earnings to service debt and grocery costs are increasing by 7% year over year. The latest information available on stats Canada reports that the Canadian household savings rate has declined from 14% in 2021 Q1 to 2.9% in 2023 Q1. Some experts are predicting that this could lead to a mild to moderate recession throughout 2024. Canada's saving grace appears to be our population growth which should fuel demand; however, this is likely also distorting key performance indicators like unemployment rates.

The Bank of Canada continued to increase rates in 2023 with the overnight rate reaching its high point of 5.0% in July. Since then, interest rates have stabilized, and all indications are that it will begin to decline mid-2024.
Canada's inflation rate is expected to decline in 2024 but is likely to remain above the target range of 2% until at least 2025. The December 2023 inflation rate came in at 3.4% and the Canadian GDP rate was pretty much flat. After strong growth in 2022, Saskatchewan fell to being one of the lowest growth provinces in 2023 as we were greatly impacted by drought and the downturn in the potash industry. However, 2024 is looking more promising with BHP announcing their stage 2 expansion in the Jansen potash project.

With unprecedented revenues recorded in 2022, Cornerstone began 2023 extremely well capitalized. We were successful in improving our balance sheet leverage throughout 2023 resulting in higher risk assets being held, and consequently the utilization of surplus capital happened at a slightly more accelerated rate than was anticipated. As always, we are actively monitoring and managing our interest rate risk, liquidity risk, and controlling operating costs in these times of great uncertainty. We feel that we are still well positioned to weather a short-term downturn in the economy and are in a position to handle the increased costs (due to inflationary pressures) and investments that are necessary to continue to build a stronger, member focused organization.

2023 OPERATIONAL REVIEW

As a member-owned institution, your needs, your goals, and your voice are what matters most to us. You are our foundation. With this at the forefront of our decision-making, the following took place in 2023.

Updated branch hours. With some of our branches being in close proximity to each other, we wanted to bring consistency to our branch hours for an improved member experience. Most of our branches now have hours of operation opening either at 9:00am or 9:30am and closing at 4:30pm, with closing extended to 5:00pm on Fridays.

For those that can't make it to the branch during these hours, we have our Cornerstone Contact Centre – serving our members in the evenings and on Saturdays. Advisors in our Contact Centre are all local – and can provide you with the same level of service you've come to expect at your local branch. We know your time is precious, and we're proud to say that the average wait time was under 30 seconds in 2023!

Investing in Rural AgriFoodTech. Eastern Saskatchewan has the potential to be a leader in agricultural innovation. That's why we are investing in the development of a rural startup ecosystem focused on agriculture, food, and technology (AgriFoodTech).

Currently, resources and activity for new AgriFoodTech businesses are largely concentrated in Saskatoon and Regina. Cornerstone plans to develop a rural innovation hub in Eastern Saskatchewan after consulting with ag producers and agribusiness throughout the region.

The initial step in our plan was the hiring of a Director, Rural Tech Activation. We were successful in hiring for this position in late 2023, and this initiative will officially kick off in 2024.

Improving member experience through enhanced digital functionality. In 2023, the Debit Card Management feature was added to mobile apps and online banking. This feature allows members the ability to lock and unlock their debit card at their convenience. There were eight mobile app updates, most of these being bug fixes and to improve the performance and enhance stability of iOS and/or the Android app.

Cutting edge and easy to use technology when and where you need it are important to you. We know there have been challenges with digital banking performance and we are committed to improve the overall experience with our digital banking platform. We thank you for your feedback and suggestions on how we can improve in this area. We take your feedback to heart and will continue to strive to offer the best digital solutions to help you bank with ease.

Improving member experience through proactive needs-based advice and solutions. Aligned to our member experience goals, we increased our volume of proactive member contact in 2023 and implemented a new financial advice process we call the "MemberFirst Review". MemberFirst is part of our values – We are about people; we listen to understand each person's story. This MemberFirst Review allows our members to tell their story so we can provide holistic advice to assist on their financial journey. We will continually work to improve our ability to meet or exceed member expectations and are proud to see positive trends within our member satisfaction survey results in 2023.

We also introduced online booking to our members in the last quarter of 2023. Members can now book an appointment online with their advisor, making it more convenient with booking and scheduling it when it works for you. You'll also get reminders of your appointments, and have the ability to reschedule or cancel an appointment.

We also continue to work on improving and/or simplifying our processes to enhance the member experience.

Member-owned and community driven.
By choosing to bank with Cornerstone, you're also choosing to give back and support the community and causes that matter to you. We show that we care by supporting events, not-for-profits, charities, groups and projects, and by being actively involved in our communities through volunteer work.

In 2023, we invested over $280,000 back into our communities through sponsorships and donations. This total includes our funding to our major community investment program – Project Cornerstone. 2023 was a milestone year for Project Cornerstone, making an even bigger impact in our communities. With an abundance of deserving projects needing support in our region, we increased the total funding amount to $100,000 - a new single-year high. Our 2023 recipients were:

- Theodore & District Recreation Board – awarded $45,000 for upgrades to the Rec Complex.
- Town of Arcola – awarded $25,000 to renovate and upgrade the kitchens in the Prairie Place Complex.
- Rose Valley & District Complex – awarded $12,000 to install LED lighting, repair the boards around the ice surface and for safety upgrades.
- Melville Curling Club – awarded $10,000 for upgrades to the curling club lobby and to install LED lighting.
- Yorkton Minor Hockey – awarded $8,000 to contribute to the expansion of a dressing room at the Kinsmen Arena.

Member-owned and community driven (cont'd).
The number and quality of applications received for Project Cornerstone continue to amaze our selection committee, and it is always a difficult decision in the selection. We encourage our community groups and organizations to continue to apply if still needing funding to complete your project, as well as new project applications!

Community involvement is rooted in our organization and culture. Our employees showed this commitment with over 7,100 hours of volunteer time to local community groups, organizations, and events. In addition, employees volunteered countless hours of corporate time locally as well.

Profitable Growth. Financially, Cornerstone had another successful year, positioning us well for the future.

As we prepare for 2024, we know there are challenges ahead. The financial performance of our Credit Union is directly impacted by what is going on around us; the economic and business climate in Saskatchewan and abroad, heightened competition, new market entrants and a potential recession are issues we continue to face. We will continue to focus on controlling operating costs and finding efficiencies – so we can reinvest in other areas of our organization for the benefit of our members. Cornerstone has a strategic focus to continue to evolve our business model to remain competitive. We feel that we are well positioned to weather a short-term downturn in the economy and will continue to invest in technology, expertise, along with competitive solutions to provide additional value to our members. Our goal is to position ourselves to be a stronger, member focused organization in the future.

2023
PERFORMANCE MEASUREMENT

Cornerstone Credit Union uses a balanced scorecard framework to measure and monitor our progress towards achieving our strategic objectives. The scorecard utilizes both financial and non-financial measures based on our 2023 strategic imperatives which includes a focus on Building our Culture, Simplification, Improved Member Experience and Profitable Growth

2023 BALANCED SCORECARD

Strategic Imperatives	Performance Measures	Goal	Results
Build our Culture	• Cornerstone Culture - Employee survey to assess Cornerstone's culture (Average response to 6 questions)	3.75	3.59
	• Employee Experience - Employee survey to assess how satisfied employees are with their experience (Average response to 8 questions)	3.75	4.11
Simplification	• Process Improvement - Reduce process time and improve employee satisfaction with simplified and streamlined processes	Subjective	Stretch
	• Data & Analytics - Unify our data and deliver data-driven insights across the enterprise	Subjective	Between Achieve & Stretch
Improved Member Experience	• Member Satisfaction - Member survey to assess their satisfaction with Cornerstone (average response to one question)	7.5	7.91
	• Branch of the Future - Reimagine our branch design to align with the future of banking and to fit our brand and culture	Subjective	Minimum
	• Member Self-Serve Appointment Booking - Empower members to easily book appointments through the Coconut Calendar professional self-serve online booking application	Subjective	Stretch
	• Member Experience - Consistently deliver on our MemberFirst commitment to empower members to succeed in life and business through MemberFirst Reviews	Subjective	Between Achieve & Stretch
	• Member Outreach - Consistently deliver on our MemberFirst commitment to provide proactive-needs based advice; activity-based goals	75% + of member outreach completed	97.57%
	• Wallet Share - % of Members with a Wealth Management Relationship	10.0%	9.95%
Profitable Growth	• Productivity - Revenue per FTE	$200,000	$208,286
	• Productivity – Loans + Deposits per Employee	$12.0 million	$12.3 million
	• Profitability - Return on Average Assets	0.39%	0.52%
	• Expenses - Non-interest (operating) Expenses	2.32%	2.13%
	• Asset Growth - % Growth in Assets Under Management	3.20%	7.08%
	• Delinquency – Over 90 days	2.00%	0.79%

2023
FINANCIAL PERFORMANCE REVIEW

GROWTH

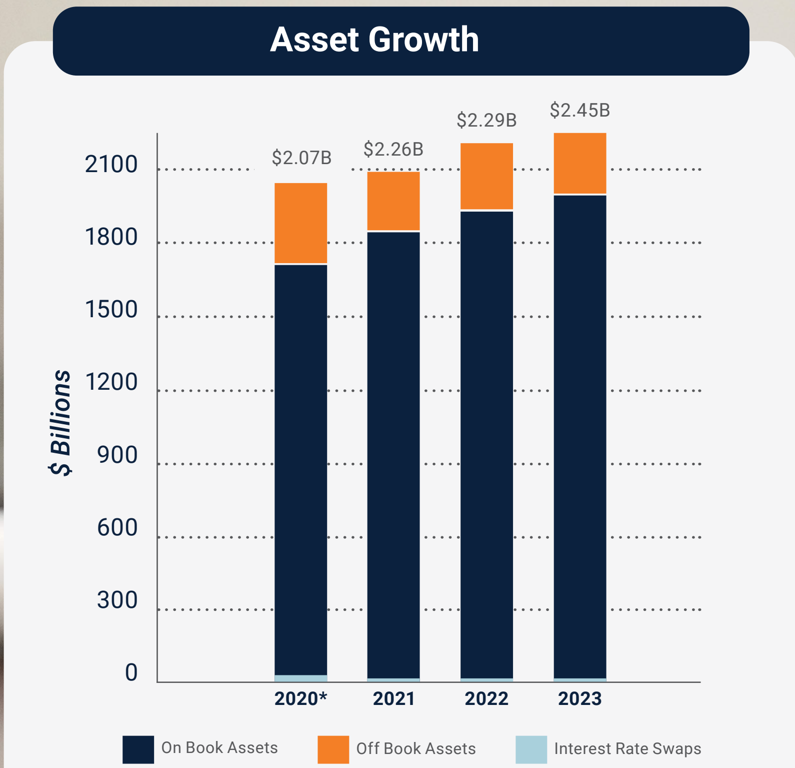
Cornerstone Credit Union ended December 31, 2023 with on book assets of $2.01 billion compared to $1.91 billion in 2022, representing growth of 5.24%.

Total assets under administration by the Credit Union at December 31, 2023 were approximately $2.45 billion, up from the prior year total of $2.29 billion. This includes on book assets, wealth management assets (including QTrade assets for Cornerstone members) and interest rate swaps. Off book wealth management assets totaled approximately $422.74 million, up from a prior year balance of $371.23 million. The notional value of interest rate swaps remained at $15 million in 2023 as no swaps matured or were purchased during the year. As part of its interest rate risk management processes, Cornerstone routinely considers when and if additional swaps should be added.

DEPOSIT GROWTH

The Credit Union's liabilities consist primarily of member deposits. Deposits totaled $1.81 billion at December 31, 2023, an increase of approximately $106.18 million from prior year. Deposit growth was strong again in 2023 coming in at 6.22% when compared to prior year growth of 1.46%. Throughout 2023 members continued to shift deposits from low costing demand deposits to higher costing investments which significantly offset the potential for even more margin improvement from repricing and growing loans and investments.

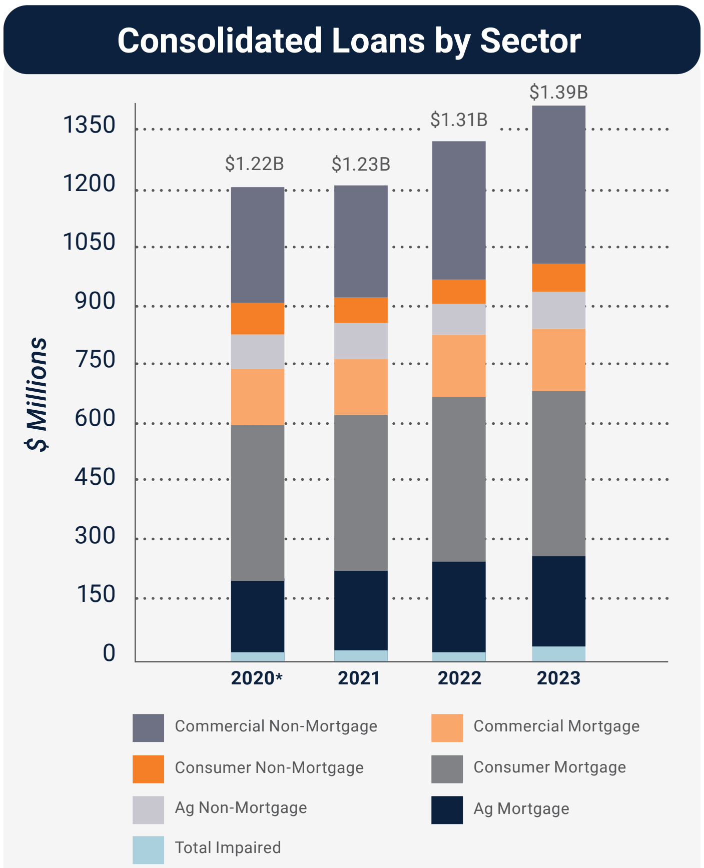
The Credit Union's on book deposits are 100% guaranteed by the regulator of credit unions in Saskatchewan, Credit Union Deposit Guarantee Corporation (CUDGC).



** Historical results are based on consolidated numbers by management for all three legacy credit unions.*

LOAN GROWTH

Accounting for close to 69% of total on book assets, loans amounted to $1.39 billion at December 31, 2023, an increase of $82.35 million or approximately 6.29% over 2022. The following illustrations show the breakdown of our internally consolidated total performing and non-performing loan portfolio by sector.



** Historical results are based on consolidated numbers by management for all three legacy credit unions.*

INVESTMENTS

Investments totaled $491.30 million at December 31, 2023, an increase of $4.16 million or 0.85% from 2022. The majority of the Credit Union's investments are held with SaskCentral or Concentra Bank (now a wholly owned subsidiary of EQ Bank). However, we have been diversifying our investment portfolio by placing more investments into other highly rated financial institutions through deposit brokers in order to increase margin and manage our concentration limits. Credit unions are required by CUDGC to maintain an amount equal to 8.65% of their member deposit liabilities on deposit with SaskCentral for the Provincial Liquidity program. In addition to these Statutory Liquidity Investments, the Credit Union maintains a high quality, liquid pool of investments to satisfy payment obligations and protect against unforeseen liquidity events.

CREDIT QUALITY

As a credit granting organization, credit quality is a key risk management area of Cornerstone Credit Union. The Credit Union's standard credit quality measures continue to remain strong. Delinquency greater than 90 days was 0.79% of loans at December 31, 2023, a 0.13% increase when compared to the prior year. This level is very comparable to the average level experienced by credit granting organizations and our peer credit union group in Saskatchewan.

The Credit Union monitors its exposure to potential credit losses and maintains both 12-month and lifetime expected credit losses as required by IFRS 9. IFRS 9 replaced IAS 39 with a forward-looking expected credit loss model which requires more timely recognition of losses expected to occur over the contractual life of any loan. In measuring the 12-month and lifetime expected credit losses (specific and collective allowances), management makes assumptions about security valuations, prepayments, the timing and extent of missed payments, or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses. 12-month expected credit losses are reviewed regularly by examining the individual loans and estimating the likelihood of realizing the full carrying value. Lifetime expected credit losses are calculated from data in the loan portfolio such as credit quality, delinquency, historical performance, and industry economic outlook. The quality of the credit portfolio was also confirmed by both internal and external audit processes conducted in 2023.

RESIDENTIAL MORTGAGES & HOME EQUITY LINES OF CREDIT (HELOC)

Residential mortgages and home equity lines of credit are secured by residential properties. The following table presents a breakdown by category:

As at December 31, 2023

	RESIDENTIAL MORTGAGES					HOME EQUITY LINES OF CREDIT**
YEAR	INSURED***		UNINSURED		TOTAL	TOTAL
2023	$146,601	31.8%	$314,324	68.2%	$460,925	$35,123
2022*	$142,827	31.5%	$311,298	68.5%	$454,125	$27,067

Thousands of Canadian Dollars, except percentage amounts

** Some estimates were required for HELOC numbers due to a change in process.*

*** Home equity lines of credit are uninsured and are reported within the Personal Lines of Credit category.*

****Insured residential mortgages are mortgages whereby our exposure to default is mitigated by insurance through the Canada Mortgage and Housing Corporation (CMHC) or other private mortgage default insurers.*

Residential Mortgage Portfolio by Amortization Period

The following table provides a summary of the percentage of residential mortgages that fall within the remaining amortization periods, based upon current customer payment amounts:

As at December 31, 2023	2023		2022	
AMORTIZATION PERIOD	$000 CDN	%	$000 CDN	%
<= 15 yrs	34,062	7.4%	33,749	7.4%
> 15 yrs, <= 25 yrs	269,214	58.4%	265,663	58.5%
> 25 yrs	157,649	34.2%	154,713	34.1%
	460,925		**454,125**	

Newly Originated Uninsured Residential Mortgages and Home Equity Lines of Credit

The following table provides a summary of the percentage of residential mortgages that fall within the remaining amortization periods, based upon current customer payment amounts:

	2023		2022*	
	$000 CDN	LTV%	$000 CDN	LTV%
Uninsured residential mortgages	43,909	53.8%	55,448	57.2%
Home equity lines of credit	9,641	75.1%	5,718	76.9%

** Some estimates were required for HELOC numbers due to a change in process during 2022*

As the residential mortgage portfolio is secured by residential properties, which are subject to a decrease in market value in an economic downturn, the Credit Union ensures prudent practices surrounding security, including maximum LTV ratios consistent with regulatory guidelines for residential mortgages (80%) and HELOC's (65%). Individual maximum LTV ratios are determined based on a risk assessment of the mortgage or HELOC.

LIQUIDITY

One of Cornerstone Credit Union's primary objectives is to prudently manage liquidity to ensure that the Credit Union is able to generate or obtain sufficient cash or cash equivalents in a timely manner and at a reasonable price to meet commitments as they come due, even under stressed conditions.

The Credit Union maintains a liquidity plan in support of its liquidity policy and regulatory guidance. The liquidity plan undergoes regular reviews and is approved by the Board of Directors. As per the plan, the Credit Union maintains a stock of high-quality liquid assets while regularly measuring and monitoring its available liquidity and performs stress tests to identify sources of potential liquidity strain. The Credit Union also maintains external borrowing facilities to complement its liquidity management process.

The Credit Union's liquidity is measured by an operating liquidity ratio which considers projected cash inflows as a percentage of projected cash outflows. At December 31, 2023, the ratio was 72.11%. The Credit Union targets a range of 50% to 110% for this measure. Throughout 2023, loan demand was easily funded by deposits from Credit Union members or investment maturities. However, the Credit Union does maintain a line of credit with SaskCentral to help manage clearing and settlement fluctuations and/or unforeseen funding needs. At December 31, 2023 the credit facility was not in use.

CUDGC also sets liquidity standards which require all Saskatchewan credit unions to meet liquidity coverage ratios calculated in approximately the same format as is required by the Office of the Superintendent of Financial Institutions for Canada (OSFI).

The Liquidity Coverage Ratio (LCR), which is an indicator of our level of high-quality liquid assets sufficient to cover at least 100% of our stressed cash requirements over the next 30 days, was 216.69% at December 31, 2023. This continues to exceed our regulatory minimum.

Since the introduction of an LCR as a regulatory liquidity measure, we have gained experience and comfort in measuring and managing our LCR. This measure is primarily a 30-calendar day stress scenario and therefore is managed on a monthly basis. In this unprecedented time of extremely high liquidity throughout the entire financial system, we have been working hard to keep our LCR within optimal levels so that we are balancing the liquidity risk associated with the high level of member demand deposits with the need to earn a better return on surplus funds and achieve the best net interest margin possible.

With the strong desire to increase our loan to asset ratio, we continue to monitor our LCR, operating liquidity ratio and our investment portfolio to ensure we remain able to meet member loan demand opportunities and regulatory requirements.

CAPITAL MANAGEMENT

One of the primary measures of financial strength of any financial institution is its capital position. Credit unions measure capital adequacy using both risk-weighted and leverage tests.

Credit unions operate in a highly regulated environment where CUDGC sets regulatory guidelines to which credit unions must adhere. The standard segregates between two types of capital – tier 1 and tier 2, with tier 1 capital being primary capital and having the highest quality. The standards require that each credit union hold a minimum common equity tier 1 capital ratio of 7.00% of risk weighted assets, a total tier 1 capital ratio of 8.50% of risk weighted assets and a total eligible capital ratio of 10.50% of risk weighted assets. In addition, credit unions are currently required to maintain a minimum ratio of 5.00% for total eligible capital (eligible capital divided by total assets), with total assets adjusted for deductions from capital and the addition of certain off-balance sheet items.

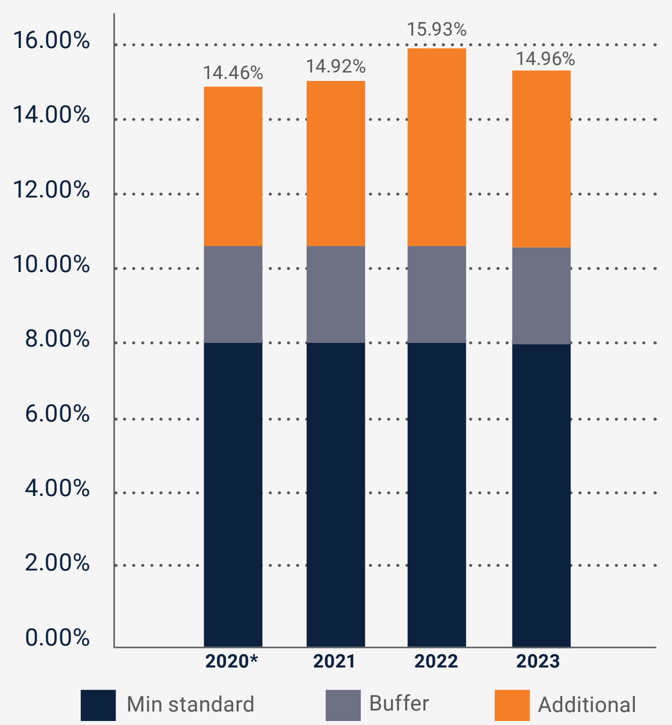
Cornerstone exceeded the statutory requirements with both a common equity tier 1 capital ratio and total tier 1 capital ratio of 14.71% for 2023, compared with 15.56% for 2022, and a total eligible capital ratio of 14.96% in 2023 compared with 15.93% in 2022. The erosion of capital from 2022 is a result of a shift in our balance sheet to higher risk weighted assets in an attempt to increase our LTA and diversify our investment portfolio which will positively impact profitability in the long term. As a result, our capital leverage ratio also decreased to 8.98% in 2023 from 9.45% in 2022. In addition to the standards prescribed by CUDGC, the Credit Union also undertakes an internal capital adequacy assessment process (ICAAP) quarterly. The ICAAP helps credit unions determine the amount of capital they should hold for their specific risk profiles. Cornerstone's December 2023 ICAAP suggests that it would be prudent to hold an additional 3.68% of capital above the regulatory minimum including buffer, for a total eligible capital ratio of 14.18% (vs. our 14.96%). Cornerstone currently holds 0.78% more capital than our ICAAP would suggest is appropriate based on our current risks. The additional capital suggested by ICAAP will continue to change as Cornerstone's book of business changes or as new risks emerge.

Cornerstone Credit Union manages capital in accordance with its capital management plan and board approved capital policies, both of which are reviewed on a regular basis. The capital plan is developed in accordance with the regulatory capital framework and is regularly reviewed and approved by the Board of Directors. Capital is managed within the guidelines of the capital plan with a goal to achieve and exceed regulatory minimums, maintain an optimal level of capital, meet operational requirements, absorb unexpected losses, implement long term strategic plans and signal financial strength.

The Credit Union relies on profitability to grow its capital position and holds the majority of its total capital in retained earnings. Both balance sheet growth and profitability affect the Credit Union's capital ratios. The Credit Union retains its annual earnings in order to meet its capital objectives as outlined in its capital plan.

With the large, unexpected influx of Capital in 2022, the management team has carefully analyzed our position in relation to our future forecast and has determined that many factors such as inflationary pressures, strategic objectives (such as growth and risk management), focus on member service (including competitive service offerings), and changes to the standards of sound business practice will erode our capital in the short term in order to position our balance sheet for long term profitability and signal the strength of our organization. Therefore, management believes it to be prudent to retain surplus capital at this time and will not be looking for large one-time investments of surplus capital in the near future.

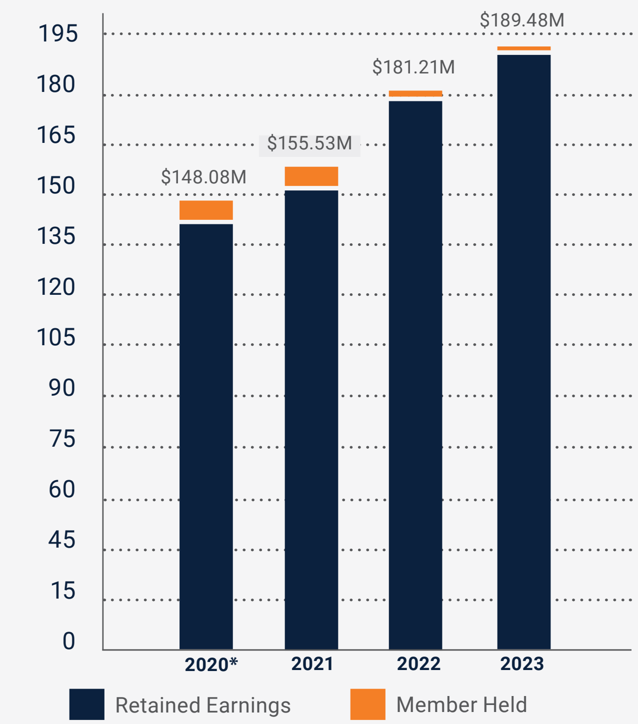
2023 Capital Measures %



** Historical results are based on consolidated numbers by management for all three legacy credit unions.*

Retained Earnings

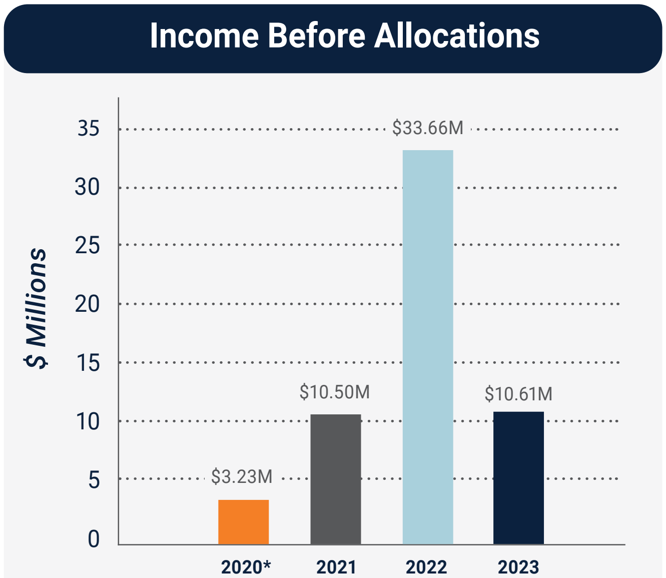
(Including Contributed Surplus & Member Held Equity)



** Historical results are based on consolidated numbers by management for all three legacy credit unions.*

PROFITABILITY

Profitability in 2023 was better than anticipated as a result of further unexpected rate hikes, improved net interest margin and lower operating costs. Income before tax allocations for the year was $10.61 million compared to $33.66 million in 2022. 2022 profitability was greatly impacted by the sale of Concentra Financial to EQ bank and the corresponding SaskCentral dividend. For 2023 our return on assets (ROA) before provision for income tax was 0.53%, compared to1.77% in 2022.



** Historical results are based on consolidated numbers by management for all three legacy credit unions.*

GROSS FINANCIAL MARGIN

Includes total interest revenue less total interest expense. For 2023, financial margin was 2.35% compared to 3.49% in 2022.

The Credit Union's profitability is highly dependent on interest margin. 2022 did have significant one-time windfalls that contributed to above average margin. The Credit Union is now asset-sensitive, which ultimately means that profitability will improve as interest rates rise. Even though interest rates are expected to decline in 2024, many of our assets are still coming off significantly lower rates than what the market is currently bearing, so we do expect to see steady margin improvement over the next few years. However, it will remain to be seen whether competition will drive margin down and if our forecast is too optimistic.

OTHER INCOME

Includes fixed asset revenue, commissions, service charges and other revenue. Non-interest revenue ended 2023 at $9.94 million compared to $13.61 million in 2022. As a percentage of assets, non-interest revenue decreased to 0.49% in 2023 from 0.71% in 2022 mostly as a result of asset growth. With no current strategies in place to significantly impact this ratio, the Credit Union anticipates that 2024 non-interest revenue will remain relatively flat throughout the forecast period.

OPERATING EXPENSES

Includes various operating expenses such as personnel, occupancy, security, governance, community development and general business and the prior year comparisons consider the combined individual entity results. Operating expenses ended 2023 at $43.14 million compared to $41.47 million in 2022. As a percentage of assets, 2023 came in at 2.14% versus 2.18% in 2022. Our growth had a positive impact on this ratio as in terms of dollars, year over year expenses increased by $1.67 million with personnel costs contributing to $1.07 million of this increase. Personnel expenses are expected to continue to increase in the future as part of strategic initiatives to attract and retain talent as well as to invest in our people through business transformation initiatives. In addition, general business costs are also expected to increase significantly year over year due to inflationary pressures. Cornerstone will continue to focus on reducing operating expenses to bring us more in line with our peers and to offset continued pressure on interest margins related to competition and our desire to maintain competitive rates and fees for our members.

INCOME TAX EXPENSE

The tax rate for 2022 was abnormally low at approximately 10% of earnings due to favorable tax treatment of the SaskCentral dividend revenue from the sale of Concentra to EQ Bank. 2023 tax allocations came in at approximately 22% which is back up to historical averages.

ENTERPRISE RISK MANAGEMENT

Cornerstone is committed to creating a supported environment that encourages risk-informed decision-making that is balanced with innovation as we explore and develop opportunities, resolve issues, and improve the way we work to achieve business objectives. The purpose of enterprise risk management (ERM) is to provide intelligence for decisions towards the benefit of the organization with risk / reward optimization to support success and the achievement of:

- Strategic & business objectives
- Financial goals; and
- Managing risks to provide efficiency results

For Enterprise Risk Management to be successful the following principles, structure and accountabilities are implemented.

Guiding Principles

1. Risk management creates value.
2. Risk management is an integral part of all organization processes.
3. Risk management is part of decision making.
4. Risk management explicitly addresses uncertainty.
5. Risk management is systematic, structured, and timely.
6. Risk management is based on the best available information.
7. Risk management is tailored.
8. Risk management takes human and cultural factors into account.
9. Risk management is transparent and inclusive.
10. Risk management is dynamic, iterative, and responsive to change.
11. Risk management facilitates continual improvement in the organization.
12. Risk management will be supported by and the responsibility of everyone in the organization, beginning with the Board and Senior Management.

ROLES AND ACCOUNTABILITIES

Board of Directors

The Board of Directors have the responsibility for the oversight of risk management within the Credit Union. They are responsible for setting risk levels and policies, including risk appetite, framework, and strategies to ensure that risk exposures remain appropriate and prudent.

Board Risk Committee

The Board Risk Committee will assist in giving the Board the information and feedback that they require to effectively fulfill their oversight responsibilities. This includes:

- Reviewing management's identification of the significant risks of the Credit Union in accordance with the risk policy;
- Overseeing the application of ERM practices; and
- On-going identification of emerging risks

This committee reports ERM effectiveness to the Board quarterly.

Management

While management of risks is owned by operational leaders, oversight and assurance of risk management is the responsibility of Chief Risk Officer (CRO) and the ERM committee (ERMCO). The ERMCO is responsible for:

- Overseeing the use of the Credit Union's integrated risk management framework in all key decisions and business processes;
- Ensuring that key risks/opportunities assigned are monitored and reported; and
- Supporting an overall risk-intelligent culture in the Credit Union.

Reporting is done quarterly by the CRO to the Board Risk Committee.

Employees

It is the responsibility of all employees to proactively engage internal stakeholders in identifying, documenting, and escalating risks and opportunities using the delegated authority structure of the Credit Union.

Employees are also tasked with being aware of the significant corporate, branch and business unit risks/ opportunities and applying resources to support a risk intelligent culture within the Credit Union.

The following key risk categories form part of the Credit Union's overall ERM approach:

CREDIT RISK

Cornerstone Credit Union is exposed to credit risk, which is the risk of financial loss resulting from a borrower's or counterparty's inability to meet its obligations. Due to the relative size of our internal loan portfolio, much of this risk derives from our direct lending activities. We are also exposed to credit risk through our holdings of investment securities, derivatives and purchased loans (credit product purchased, but not administered by the Credit Union).

Lending and credit risk management is performed in accordance with approved policies, procedures, standards, and controls. ERMCO oversees credit risk exposure and management. Risk concentration limits have been designed to reflect our risk tolerance. Credit risk is further mitigated through in-depth and ongoing training of loans personnel and independent adjudication of larger, potentially higher risk loan applications and regular monitoring and reporting.

The Credit Union's credit portfolio and lending practices undergo regular and ongoing independent assessment through external audit, internal audit, and regulatory reviews. Reports are provided to ERMO and the Board of Directors through the Board Risk Committee.

LIQUIDITY RISK

Liquidity risk is the risk of having insufficient cash resources or equivalents to meet demand for loans or depletion of deposits. Liquidity risk arises from general funding activities and through managing assets and liabilities. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid resources to continually fund our balance sheet commitments and to ensure we can meet the day-to-day cash needs and growing loan demands of our members.

Liquidity risk requirements are defined by policies and regulatory standards and limits. ERMCO maintains oversight of liquidity risk and reviews quarterly with reporting to the Board of Directors through the Board Risk Committee.

Actual management of Liquidity risk is completed by the Asset Liability Committee (ALCO) and the Finance Team. Cornerstone's liquidity risk management framework operates under approved policies and processes. We monitor actual and anticipated inflows and outflows of funds daily. We assess the adequacy of liquidity using potential outflow modeling and stress testing and report results quarterly to ALCO as well as to the Board of Directors through the Finance and Audit Committee. We hold a portfolio of liquid assets and have established borrowing facilities with SaskCentral. We also research, make recommendations, and acquire alternative sources of funding when appropriate.

MARKET RISK

Market risk is the risk that financial position or earnings will be adversely affected by changes in market conditions such as interest and foreign exchange rates. Cornerstone's market risk arises primarily from movements in interest rates.

Similar to liquidity risk, oversight of market risk is conducted by ERMCO and the Board of Directors through the Board Risk Committee while management of the risk is completed by ALCO. Regular reporting of market risk management is provided to the Board of Directors through the Finance and Audit Committee. The Credit Union employs comprehensive management processes around our market exposures and risk-taking activities. We have defined policy around numerous risk measures which we actively monitor. We employ dynamic modeling and income simulation for scenario and stress testing based on changes in interest rates. We implement mitigation strategies, including the use of interest rate swaps, where and when deemed necessary to strategically manage interest rate risk.

STRATEGIC RISK

Strategic risk is the risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, customer preferences, product obsolescence or resource allocation will impede the ability of the Credit Union to meet its business objectives. The Credit Union has formal planning processes which result in a strategic business plan and a balanced scorecard that focus on strategic objectives. The Credit Union also uses a comprehensive reporting process to monitor performance relative to plans. Reporting is completed quarterly to ERMCO as well as the Board Risk Committee and Board of Directors.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Exposure to this risk arises from deficiencies in internal controls, employee integrity, technology failures, human error, or natural disasters.
Operational risk is managed using policies and procedures, controls, and monitoring. The Credit Union mitigates operational risk through internal audit programs, business continuity planning, appropriate insurance coverage and secure technology solutions. Reporting is completed quarterly to ERMCO as well as the Board of Directors through the Board Risk Committee.

REGULATORY RISK

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

Cornerstone Credit Union operates in a heavily regulated environment. Our structure, policies, and procedures aid us in complying with laws and regulations. A compliance team is in place to continuously assess and manage regulatory risk. We also undergo regular reviews by internal and external audit and numerous regulatory bodies. Reporting is completed quarterly to ERMCO as well as the Board of Directors through the Board Risk Committee.

CYBERSECURITY RISK

Cybersecurity risk encompasses the loss of confidentiality, integrity, or availability of information, data and other systems and reflects the potential adverse impacts to organizational operations.
Cornerstone Credit Union has policies, procedures, and reviews to prepare us for a cybersecurity incident and to comply with laws and regulations.

SUMMARIZED FINANCIAL STATEMENTS

Report of the Independent Auditor on the Summary Consolidated Financial Statements

To the Members of Cornerstone Credit Union Financial Group Limited:

Opinion
The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2023, and the summary consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, are derived from the audited consolidated financial statements of Cornerstone Credit Union Financial Group Limited (the "Credit Union") for the year ended December 31, 2023.

In our opinion, the accompanying summary consolidated financial statements are a fair summary of the audited consolidated financial statements, in accordance with the basis described in the Note.

Summary Consolidated Financial Statements
The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon
We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated February 28, 2024.

Management's Responsibility for the Summary Consolidated Financial Statements
Management is responsible for the preparation of the summary consolidated financial statements in accordance with the basis described in the Note.

Auditor's Responsibility
Our responsibility is to express an opinion on whether the summary consolidated financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standards (CAS) 810, Engagements to Report on Summary Financial Statements.

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

- 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 summary consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Saskatoon, Saskatchewan

February 28, 2024

MNP LLP

Chartered Professional Accountants

Full financial statements can be obtained upon request from any branch of Cornerstone Credit Union or by visiting cornerstonecu.com

Summary consolidated statement of financial position

Cornerstone Credit Union Financial Group Limited
Summary consolidated statement of financial position

As at December 31 ($ thousands)	2023	2022
Assets		
Cash and cash equivalents	**105,134**	64,052
Investments	**491,300**	487,142
Member loans receivable	**1,391,502**	1,309,149
Other assets	**5,422**	25,696
Property, plant and equipment	**17,755**	18,507
Intangible assets	**652**	711
	2,011,765	1,905,257
Liabilities		
Member deposits	**1,813,537**	1,707,357
Other liabilities	**8,747**	16,691
Membership shares	**145**	150
	1,822,429	1,724,198
Members' equity		
Retained earnings	**140,847**	132,570
Contributed surplus	**48,489**	48,489
	189,336	181,059
	2,011,765	1,905,257

A full set of audited consolidated financial statements is available from the Credit Union

Summary consolidated statement of comprehensive income

Cornerstone Credit Union Financial Group Limited
Summary consolidated statement of comprehensive income

Year Ended December 31 ($ thousands)	2023	2022
Interest income	**89,314**	82,667
Interest expense	**42,072**	16,226
Gross financial margin	**47,242**	66,441
Provision for impaired loans	**3,435**	4,926
Net financial margin	**43,807**	61,515
Other income	**9,940**	13,614
Net interest and other income	**53,747**	75,129
Operating expenses	**43,140**	41,471
Income before provision for income taxes	**10,607**	33,658
Provision for income taxes	**2,330**	3,404
Total comprehensive income	**8,277**	30,254

A full set of audited consolidated financial statements is available from the Credit Union

Summary consolidated statement of changes in members’ equity

Cornerstone Credit Union Financial Group Limited
Summary consolidated statement of changes in members’ equity

Year Ended December 31 ($ thousands)

	Retained Earnings	Contributed Surplus	Total
Balance December 31, 2021	102,316	48,489	150,805
Comprehensive income for the year	30,254	-	30,254
Balance December 31, 2022	132,570	48,489	181,059
Comprehensive income for the year	**8,277**	**-**	**8,277**
Balance December 31, 2023	**140,847**	**48,489**	**189,336**

A full set of audited consolidated financial statements is available from the Credit Union

Summary consolidated statement of cash flows

Cornerstone Credit Union Financial Group Limited
Summary consolidated statement of cash flows

Year Ended December 31 ($ thousands)	2023	2022
Cash flows provided by (used for) the following activities:		
Operating activities	**42,138**	(39,777)
Financing activities	**(5)**	(4,573)
Investing activities	**(1,051)**	33,419
Increase (decrease) in cash resources	**41,082**	(10,931)
Cash resources, beginning of year	**64,052**	74,983
Cash resources, end of year	**105,134**	64,052

A full set of audited consolidated financial statements is available from the Credit Union

Note to the summary consolidated financial statements

Cornerstone Credit Union Financial Group Limited
Note to the summary consolidated financial statements
For the Year Ended December 31, 2023

Basis of the summary consolidated financial statements:

Management has prepared the summary consolidated financial statements from the December 31, 2023 audited consolidated financial statements, which are prepared in conformity with International Financial Reporting Standards (IFRS). The audited consolidated financial statements can be obtained at the Cornerstone Credit Union Financial Group Limited branches or online at www.cornerstonecu.com. The detailed notes included in the audited consolidated financial statements are not included in these summary consolidated financial statements.

The criteria developed by management for the preparation of the summary consolidated financial statements is as follows: that the information included in the summary consolidated financial statements is in agreement with the related information in the complete consolidated financial statements, and that the summary consolidated financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related complete consolidated financial statements, including the notes thereto, in all material respects.

WHAT MATTERS TO YOU MATTERS HERE.

CORNERSTONE CREDIT UNION

FINANCIAL STATEMENTS 2023

Cornerstone Credit Union Financial Group Limited
Consolidated Financial Statements
December 31, 2023

Contents

For the year ended December 31, 2023

Management's Responsibility

To the Members of Cornerstone Credit Union Financial Group Limited:

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Finance and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Finance and Audit Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

February 28, 2024

Chief Executive Officer

Chief Financial Officer

To the Members of Cornerstone Credit Union Financial Group Limited:

Opinion

We have audited the consolidated financial statements of Cornerstone Credit Union Financial Group Limited and its subsidiary (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

In preparing the consolidated 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 Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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.

Saskatoon, Saskatchewan

MNP LLP

February 28, 2024

Chartered Professional Accountants

MNP

Cornerstone Credit Union Financial Group Limited
Consolidated Statement of Financial Position
As at December 31, 2023

	2023 **(In thousands)**	2022 (In thousands)
Assets		
Cash and cash equivalents *(Note 5)*	**105,134**	64,052
Investments *(Note 6)*	**491,300**	487,142
Member loans receivable *(Note 7)*	**1,391,502**	1,309,149
Other assets *(Note 9)*	**5,422**	25,696
Property, plant and equipment *(Note 10)*	**17,755**	18,507
Intangible assets *(Note 11)*	**652**	711
	2,011,765	1,905,257
Liabilities		
Member deposits *(Note 13)*	**1,813,537**	1,707,357
Other liabilities *(Note 15)*	**8,747**	16,691
Membership shares *(Note 16)*	**145**	150
	1,822,429	1,724,198
Commitments *(Note 19), (Note 21)*		
Members' equity		
Retained earnings	**140,847**	132,570
Contributed surplus	**48,489**	48,489
	189,336	181,059
	2,011,765	1,905,257

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

Cornerstone Credit Union Financial Group Limited
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2023

	2023 (In thousands)	2022 (In thousands)
Interest income		
Member loans	**67,071**	50,192
Investments	**22,243**	32,475
	89,314	82,667
Interest expense		
Member deposits	**42,040**	16,208
Borrowed money	**32**	18
	42,072	16,226
Gross financial margin	**47,242**	66,441
Other income	**9,940**	13,614
	57,182	80,055
Operating expenses		
Personnel	**25,636**	24,564
Security	**1,530**	1,490
Organizational	**395**	296
Occupancy	**2,817**	2,924
General business	**12,762**	12,197
	43,140	41,471
Income before provision for impaired loans and provision for (recovery of) income taxes	**14,042**	38,584
Provision for impaired loans *(Note 7)*	**3,435**	4,926
Income before provision for (recovery of) income taxes	**10,607**	33,658
Provision for (recovery of) income taxes *(Note 14)*		
Current	**1,841**	3,472
Deferred	**489**	(68)
	2,330	3,404
Comprehensive income	**8,277**	30,254

The accompanying notes are an integral part of these financial statements

Cornerstone Credit Union Financial Group Limited
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2023

	Contributed surplus	*Retained earnings*	*Total equity (In thousands)*
Balance December 31, 2021	**48,489**	**102,316**	**150,805**
Comprehensive income	**-**	**30,254**	**30,254**
Balance December 31, 2022	**48,489**	**132,570**	**181,059**
Comprehensive income	**-**	**8,277**	**8,277**
Balance December 31, 2023	**48,489**	**140,847**	**189,336**

Cornerstone Credit Union Financial Group Limited
Consolidated Statement of Cash Flows
For the year ended December 31, 2023

	2023 ***(In thousands)***	*2022* *(In thousands)*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**66,910**	48,785
Interest received from investments	**37,904**	9,155
Other income	**9,940**	13,614
Cash paid to suppliers and employees	**(46,291)**	(39,437)
Interest paid on deposits	**(30,856)**	(14,148)
Net change in member deposits	**94,996**	24,427
Net change in member loans receivable	**(85,627)**	(80,631)
Interest paid on borrowings	**(32)**	(18)
Income taxes paid	**(4,806)**	(1,524)
	42,138	(39,777)
Financing activities		
Net change in membership shares	**(5)**	(4,573)
Investing activities		
Net change in investments	**(263)**	29,067
Purchases of property, plant and equipment	**(731)**	(771)
Proceeds from disposal of property, plant and equipment	**51**	158
Proceeds from disposal of foreclosed assets	**82**	5,000
Purchases of intangible assets	**(190)**	(35)
	(1,051)	33,419
Increase (decrease) in cash resources	**41,082**	(10,931)
Cash resources, beginning of year	**64,052**	74,983
Cash resources, end of year	**105,134**	64,052

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Cornerstone Credit Union Financial Group Limited (the “Credit Union”) was formed pursuant to the *Credit Union Act 1998* of Saskatchewan (“the Act”) and operates 15 Credit Union branches.

The Credit Union serves members and non-members in Arcola, Emerald Park, Grenfell, Indian Head, Ituna, Kelliher, Kipling, Melville, Montmartre, Rose Valley, Tisdale, Vibank, Wolseley, Wynyard, and Yorkton, Saskatchewan and the surrounding communities. The address of the Credit Union’s registered office is 64 Broadway Street East, Yorkton, Saskatchewan.

The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2023 comprise the Credit Union and its wholly owned subsidiary CGT Cornerstone Holdings Limited. Together, these entities are referred to as Cornerstone Credit Union Financial Group Limited.

The Credit Union operates as one segment principally in personal and commercial banking in East Central Saskatchewan. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of members and the nature of the regulatory environment.

The Credit Union conducts its principal operations through various branches, offering products and services including deposit business, individual lending, and independent business and commercial lending. The deposit business provides a wide range of deposit and investment products and sundry financial services to all members. The lending business provides a variety of credit products and services designed specifically for each particular group of borrowers. Other business comprises business of a corporate nature such as investment, risk management, asset liability management, treasury operations and revenue and expenses not expressly attributed to the business units.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved by the Finance and Audit Committee on behalf of the Board of Directors and authorized for issue on February 28, 2024.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2023. Adoption of these amendments resulted in the Credit Union disclosing material accounting policy information instead of significant accounting policy information.

- IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

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

Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

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

By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to members do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

Key assumptions in determining the allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates and interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

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

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

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options and demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money
- Effects of the economic changes, such as inflation and rising interest rates, on specific sectors to which the Credit Union has credit exposures

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

Key assumptions in determining the allowance for expected credit losses *(Continued from previous page)*

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios
- Housing price indices

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

Fair value of unquoted equity instruments

The Credit Union has assessed that the fair values of its unquoted equity instruments, SaskCentral shares and Concentra Bank (a subsidiary of Equitable Bank) shares approximates its cost based on the terms that the equity investments can not be transferred, the shares can not be sold and new shares are issued at par value of all currently held shares.

Hedge accounting

In applying hedge accounting, the Credit Union uses the following key judgments:

1. *An economic relationship exists between the hedged item and the hedging instrument based on a hedge ratio*

The Credit Union uses the same hedge ratio for the hedging relationship as the one that results from the actual quantity of the portfolio of loans (hedged item) and the interest rate swap (hedging instrument). Interest rate swaps (hedging instruments) are specifically transacted to economically hedge the portfolio of loans (hedged items). The fair values of the hedging instruments and the hedged items move in the opposite direction because of the interest rate risk. Therefore, there is an economic relationship between the portfolios of loans (or a portion thereof) and the swaps.

2. *Critical terms of the hedged item and hedging instrument*

The Credit Union assesses at inception and in subsequent periods whether the following critical terms of the hedged item and the hedging instrument have changed.

- Notional amount
- Maturity
- Correlation between 3 month Canadian Dealer Offered Rate ("CDOR") and Prime rate
- Weighted average interest rate

3. *Effect of credit risk*

The Credit Union enters into interest rate swaps as hedging instruments with a rated counterparty (Concentra) (e.g. BBB rated). Therefore, Credit Valuation Adjustment ("CVA") on the hedging instrument is expected to not be material or volatile in a manner to dominate the value changes resulting from the economic relationship.

Further, the Credit Union considers its own credit risk as low. At December 31, 2023 the Credit Union was above policy and target for all capital measures, Internal Capital Adequacy Assessment Process ("ICAAP") indicated that there was surplus capital based on internal risk assessment and as a consequence, Debit Valuation Adjustment ("DVA") on the hedged item is not expected to dominate the hedge effectiveness assessment.

As interest rate swaps are specifically transacted to economically hedge existing loans, application of hedge accounting will align with the risk management strategy of the Credit Union and therefore, the Credit Union’s hedging relationship and risk management objective contributes to executing the overall risk management strategy. For more information, refer to Note 8.

4. Summary of material accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Regulations to the Act specify that certain items are required to be disclosed in the consolidated financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these consolidated financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiary.

A subsidiary is an entity controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, are considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from intra-company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union’s interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the consolidated statement of financial position date. Exchange gains and losses on translation or settlement are recognized in comprehensive income for the current period.

Revenue recognition

The following describes the Credit Union’s principal activities from which it generates revenue.

Service charge fees, commission and other revenue

The Credit Union generates revenue from the Credit Union providing financial services to its members. Revenue is recognized as services are rendered.

The Credit Union does not have an enforceable right to payment until services are rendered and commission revenue earned when the products are sold.

The amount of revenue recognized on these transactions is based on the price specified in the contract.

The Credit Union applies the practical expedient, whereby the Credit Union does not adjust the promised amount of consideration for the effects of a significant financing component if the Credit Union expects, at contract inception, that the period between when the Credit Union transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Revenue recognition for items outside the scope of IFRS 15 is included in the financial instruments section of Note 4.

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

Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, SaskCentral and Concentra Bank liquidity deposits, Concentra Bank term deposits, portfolio term deposits, portfolio bonds, member loans receivable and accrued interest thereon, and accounts receivable balances.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss include cash.

The Credit Union measures all equity investments and derivatives at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of other equity investments and shares in SaskCentral and Concentra Bank. Derivatives measured at fair value through profit or loss are comprised of interest rate swap derivatives and index linked derivatives.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

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

Financial instruments *(Continued from previous page)*

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments, as well as lease receivables, contract assets, and any financial guarantee contracts and loan commitments not measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For member loans receivable the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for accounts receivable that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision; and
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 19 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

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

Financial instruments *(Continued from previous page)*

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset; or
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss. Such transactions include syndications of member loans.

Where the Credit Union neither transfers nor retains substantially all risks and rewards of ownership and retains control of the transferred financial asset, it continues to recognize the financial asset to the extent of its continuing involvement and also recognizes an associated liability. Both the continuing financial asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained. Income and expenses related to the extent of the Credit Union's continuing involvement in the transferred asset and the associated liability are subsequently recognized. The Credit Union considers member loan securitization to be transfers of assets resulting in continuing involvement.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

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

Financial instruments *(Continued from previous page)*

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivatives not designated as a hedging instrument are recognized in profit or loss.

The Credit Union designates certain derivative financial instruments as the hedging instrument in qualifying hedging relationships in order to better reflect the effect of its risk management activities in the consolidated financial statements.

Qualifying hedging relationships are those where there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes that result from that economic relationship, and the hedge ratio of the hedging relationship is the same as that resulting from the actual quantities of the hedging instrument and the hedged item that the Credit Union uses for hedging purposes.

At inception of the hedging relationship, the Credit Union documents the economic relationship between the hedging instrument(s) and the hedged item(s), along with its risk management objective and strategy.

Fair value hedges

The Credit Union uses fair value hedges to hedge its exposure to changes in the fair value of member loans receivable.

Changes in the fair value of the hedging instrument are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the risks being hedged.

Where the Credit Union has designated a group of assets and/or liabilities in a fair value hedge, gains and losses are presented in the consolidated statement of financial position as an adjustment to the carrying amount of the respective individual items comprising the group.

When the hedged item is a financial instrument measured at amortized cost, adjustments to the hedged item are amortized to profit or loss. Amortization may begin as soon as a hedging adjustment exists but no later than when the hedged item ceases to be adjusted for hedging gains and losses. Amortization is based on a recalculated effective interest rate calculated at the date that amortization begins.

Rebalancing and discontinuation of hedging relationships

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedging relationship continues to qualify for hedge accounting, the hedging ratio is rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item to realign the hedge ratio with the ratio used for risk management purposes. Hedge ineffectiveness is recognized in profit or loss at the time of rebalancing.

Hedge accounting is discontinued prospectively when the hedging relationship ceases to meet the qualifying criteria, including instances where the hedging instrument expires or is sold, terminated or exercised.

Dividend income

Dividend income is recorded in profit or loss when the Credit Union’s right to receive payments is established, it is probable that the economic benefits associated with the dividend will flow to the Credit Union, and the amount of the dividend can be measured reliably.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

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

Financial instruments *(Continued from previous page)*

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Collateral

The Credit Union recognizes the proceeds from the sale of any non-cash collateral that has been pledged to it and a liability measured at fair value for its obligation to return the collateral.

If a debtor defaults under the terms of its contract and is no longer entitled to the return of any collateral, the Credit Union recognizes the collateral as an asset initially measured at fair value or, if it has already sold the collateral, derecognizes its obligation to return the collateral.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Credit Union’s cash management system.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

SaskCentral and Concentra Bank deposits and shares

SaskCentral and Concentra Bank deposits are measured at amortized cost. Shares are measured at fair value, with adjustments to fair value recognized in profit or loss.

Portfolio investments

Portfolio term deposits are measured at amortized cost.

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

Impairment of non-financial assets

At the end of each reporting period, 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 the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

Impairment of non-financial assets *(Continued from previous page)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in comprehensive income.

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

Syndication

The Credit Union syndicates individual assets with various other financial institutions primarily to manage credit risk, create liquidity and manage regulatory capital for the Credit Union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union's consolidated statement of financial position. All loans syndicated by the Credit Union are on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets.

Property, plant and equipment

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

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is available for use.

The depreciation rates applicable for each class of asset during the current and comparative period are as follows:

	Years
Buildings and improvements	10-40 years
Automotive	5 years
Furniture and equipment	3-10 years

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

Gains or losses on the disposal of property, plant and equipment will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in comprehensive income as other operating income or other operating costs, respectively.

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

Intangible assets

Computer software

The Credit Union's only intangible asset is computer software which is amortized to comprehensive income on a straight-line basis over its estimated useful life of 3 - 10 years. The useful life of computer software will be reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

Gains or losses on the disposal of intangible assets will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognised in comprehensive income as other operating income or other operating costs, respectively.

Income taxes

The Credit Union accounts for income taxes using the asset and liability method. Current and deferred taxes are recognized in comprehensive income except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination. Under this method, the provision for income taxes is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Membership shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

5. Cash and cash equivalents

	2023	*2022*
Cash	**61,493**	15,065
Cash equivalents	**43,641**	48,987
	105,134	64,052

6. Investments

	2023	2022
Measured at fair value through profit or loss		
SaskCentral and Concentra Bank shares	**8,597**	14,353
Other equity investments	**14,677**	14,534
	23,274	28,887
Measured at amortized cost		
SaskCentral and Concentra Bank liquidity deposits	**131,002**	157,086
Concentra Bank term deposits	**198,160**	192,106
Portfolio term deposits	**116,121**	105,148
Portfolio bonds	**15,279**	-
	460,562	454,340
Accrued interest	**7,464**	3,915
	491,300	487,142

The table below shows the credit risk exposure on investments. Ratings are as provided by Dominion Bond Rating Services ("DBRS") unless otherwise indicated.

	2023	2022
Investment portfolio rating		
AA+	**10,000**	-
AA	**138,140**	184,857
A	**35,000**	5,000
A-	**25,000**	45,038
BBB	**260,858**	233,692
Unrated	**14,838**	14,640
	483,836	483,227

Statutory liquidity

Effective January 1, 2024, the Standards of Sound Business Practices ("SSBP") requires that the Credit Union maintain 8.65% of its total liabilities in specified liquidity deposits, with early adoption permitted. The Credit Union has adopted this change during the 2023 year, therefore maintains 8.65% (2022 - 10%) of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Credit Union Deposit Guarantee Corporation ("CUDGC"), requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2023 the Credit Union met the requirement.

Liquidity coverage ratio

The Credit Union has implemented a Liquidity Coverage Ratio (“LCR”) which is a regulatory requirement of CUDGC. The objective of the LCR is to ensure that the Credit Union has an adequate stock of unencumbered high-quality liquid assets (“HQLA”) that:

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

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

6. Investments *(Continued from previous page)*

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

As at December 31, 2023, the Credit Union is in compliance with regulatory requirements.

7. Member loans receivable

Principal and allowance by loan type:

					2023
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance for expected credit losses**	**Net carrying value**
Agriculture loans	143,210	-	-	112	**143,098**
Commercial loans	40,582	1,310	1,195	384	**40,313**
Consumer loans	100,446	65	43	714	**99,754**
Lines of credit	72,907	-	-	246	**72,661**
Mortgages	1,013,461	21,972	4,585	1,618	**1,029,230**
	1,370,606	23,347	5,823	3,074	**1,385,056**
Accrued interest	6,321	140	15	-	**6,446**
Total	1,376,927	23,487	5,838	3,074	**1,391,502**

					2022
	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value
Agriculture loans	122,418	123	1	202	122,338
Commercial loans	45,565	9,839	1,985	444	52,975
Consumer loans	98,549	16	16	622	97,927
Lines of credit	78,633	-	-	319	78,314
Mortgages	954,632	6,907	6,588	2,680	952,271
	1,299,797	16,885	8,590	4,267	1,303,825
Foreclosed assets	101	-	-	-	101
Accrued interest	4,997	1,303	1,077	-	5,223
Total	1,304,895	18,188	9,667	4,267	1,309,149

The allowance for loan impairment changed as follows:

	2023	*2022*
Balance, beginning of year	**13,934**	9,958
Provision for impaired loans	**3,435**	4,926
	17,369	14,884
Less: accounts written off, net of recoveries	**8,457**	950
Balance, end of year	**8,912**	13,934

8. Derivatives and hedge accounting

The following disclosures summarize the Credit Union's risk management practices and use of hedge accounting as required by IFRS 7 *Financial Instruments: Disclosures*.

Fair value hedges

Fair value hedges of interest rate risk

Risk management strategy

The Credit Union uses interest rate swaps to hedge its exposure to interest rate risk arising from the changes in the fair value of fixed-rate member loans receivable due to fluctuations in the benchmark interest rate (prime).

The Credit Union uses interest rate swaps to hedge its risk exposure by purchasing swaps on an ad hoc basis to match the specific amount of issuances of member loans receivable that they wish to hedge. The Credit Union uses this strategy to manage interest rate risk and monitors their static gap and interest rate risk measures on a quarterly basis to determine if an interest rate swap purchase would be necessary.

The economic relationship between interest rate swaps and fixed-rate member loans receivable is established by assessing the difference between the hedging instrument interest rate and the rate used by the market to determine pricing of the hedged item and how that difference changes over time. The hedge ratio is determined using the actual amount of fixed-rate loans and advances hedged and the nominal amounts of interest-rate swaps.

Hedge ineffectiveness is expected to arise from deviations between the interest rate reset date of fixed-rate member loans receivable and interest rate swaps.

Amount, timing and uncertainty of cash flows

At year-end, the Credit Union held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk.

	2023 Maturity
	Less than 3 months
Hedge of member loans receivable	
Nominal amount in thousands of dollars	15,000
Average fixed interest-rate	2.2

	2022 Maturity
	Greater than 12 months
Hedge of member loans receivable	
Nominal amount in thousands of dollars	15,000
Average fixed interest-rate	2.2

Effects of fair value hedge accounting on financial position and performance

There were no adjustments required for ineffectiveness of the hedges in 2023 or 2022.

Derivative financial instruments not designated as hedging instruments

The Credit Union has index linked derivatives that either do not qualify or are not designated for hedge accounting. Accordingly, these derivative financial instruments have been measured at fair value, with the related gain recognized in profit or loss.

9. Other assets

	2023	*2022*
Accounts receivable	**475**	20,214
Corporate income tax recoverable	**1,243**	-
Prepaid expenses and deposits	**1,214**	1,260
Deferred tax asset	**1,153**	1,642
Interest rate swap derivative	**88**	450
Index linked derivatives	**1,249**	2,130
	5,422	25,696

10. Property, plant and equipment

	Land	*Buildings and improvements*	*Automotive*	*Furniture and equipment*	*Total*
Cost					
Balance at December 31, 2021	**1,732**	**27,360**	**129**	**4,791**	**34,012**
Additions	**-**	**120**	**91**	**560**	**771**
Disposals	**-**	**(88)**	**(82)**	**(1,265)**	**(1,435)**
Balance at December 31, 2022	**1,732**	**27,392**	**138**	**4,086**	**33,348**
Additions	**31**	**481**	**48**	**171**	**731**
Disposals	**(10)**	**(32)**	**(32)**	**(77)**	**(151)**
Balance at December 31, 2023	**1,753**	**27,841**	**154**	**4,180**	**33,928**
Accumulated depreciation					
Balance at December 31, 2021	**-**	**10,706**	**116**	**3,883**	**14,705**
Depreciation	**-**	**1,079**	**25**	**415**	**1,519**
Disposals	**-**	**(49)**	**(81)**	**(1,253)**	**(1,383)**
Balance at December 31, 2022	**-**	**11,736**	**60**	**3,045**	**14,841**
Depreciation	**-**	**1,061**	**29**	**378**	**1,468**
Disposals	**-**	**(27)**	**(32)**	**(77)**	**(136)**
Balance at December 31, 2023	**-**	**12,770**	**57**	**3,346**	**16,173**
Net book value					
At December 31, 2022	1,732	15,656	78	1,041	18,507
At December 31, 2023	**1,753**	**15,071**	**97**	**834**	**17,755**

11. Intangible assets

	2023	2022
Cost	**3,171**	2,981
Accumulated amortization	**(2,519)**	(2,270)
	652	711

	Computer software
Cost	
Balance at December 31, 2021	**3,846**
Additions	**35**
Disposals	**(900)**
Balance at December 31, 2022	**2,981**
Additions	**190**
Balance at December 31, 2023	**3,171**
Accumulated amortization	
Balance at December 31, 2021	**2,933**
Amortization	**236**
Disposals	**(899)**
Balance at December 31, 2022	**2,270**
Amortization	**249**
Balance at December 31, 2023	**2,519**

12. Line of credit

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at CDN prime minus 0.5% (6.70% at December 31, 2023) and US prime plus 0.5% (9.00% at December 31, 2023) in the amount of $37,000 CDN (2022 - $33,500) and $1,000 US (2022 - $1,000) from SaskCentral. As at December 31, 2023, the Credit Union has utilized $nil of its line of credit (2022 - $nil was advanced).

Borrowings are secured by a general securities agreement, financial services agreement, and an operating account agreement.

13. Member deposits

	2023	2022
Chequing, savings, investor savings	**969,962**	1,030,556
Registered savings plans	**142,230**	136,473
Term deposits	**683,338**	533,505
Accrued interest	**18,007**	6,823
	1,813,537	1,707,357

Total deposits include $8,227 (2022 - $6,775) denominated in foreign currencies.

Member deposits are subject to the following terms:

- Chequing, savings and investor savings products are due on demand and bear interest at rates up to 5.70% (2022 - 4.95%).
- Registered savings plans are subject to fixed and variable rates of interest up to 5.75% (2022 - 5.25%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 5.75% (2022 - 5.50%), with interest payments due monthly, annually or on maturity.

14. Income tax

Income tax expense recognized in comprehensive income

The applicable tax rate is the aggregate of the federal income tax rate of 15% (2022 - 15%) and the provincial tax rate of 12% (2022 - 12%). Subsidiary income is taxed at a combined rate of 27% (2022 - 27%).

Reconciliation between average effective tax rate and the applicable tax rate

	2023	2022
Applicable tax rate	**27.00 %**	27.00 %
Saskatchewan Technology Startup Incentive tax credit	**(0.64)%**	- %
Change in estimates	**(2.96)%**	(0.25)%
Non-taxable dividends and other items	**(1.43)%**	(16.64)%
Average effective tax rate (tax expense divided by profit before tax)	**21.97 %**	10.11 %

15. Other liabilities

	2023	2022
Accounts payable	**7,498**	12,839
Corporate income tax payable	**-**	1,722
Index linked derivatives	**1,249**	2,130
	8,747	16,691

16. Membership shares

Authorized:

Unlimited number of Common shares, at an issue price of $5.
Unlimited number of Surplus shares, at an issue price of $1.

Issued (in thousands):	***2023***	*2022*
29 Common shares (2022 - 30)	**145**	150

All common and surplus shares are classified as liabilities.

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

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The Articles of Incorporation for the Credit Union disclose the conditions concerning surplus shares.

During the year, the Credit Union issued 1 (2022 - 2) and redeemed 2 (2022 - 2) common shares, and also issued nil (2022 - nil) and redeemed nil (2022 - 4,575) surplus shares.

17. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") of the Credit Union are the Chief Executive Officer, Chief Strategy & Innovation Officer, Chief Financial Officer, Chief Risk Officer, Chief People & Governance Officer, Chief Operations & Member Experience Officer, and members of the Board of Directors. KMP remuneration includes the following expenses:

	2023	*2022*
Salaries and short-term benefits	**2,283**	1,903

Transactions with key management personnel

The Credit Union, in accordance with its policy, may grant credit to its directors, management and staff at concessional rates of interest on their loans and facilities.

Loans made to KMP are approved under the same lending criteria applicable to members and are included in member loans on the consolidated statement of financial position. There are no loans to KMP that are impaired.

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in deposit accounts on the consolidated statement of financial position.

There are no benefits or concessional terms and conditions applicable to the family members of KMP.

In the ordinary course of business, the Credit Union provided normal financial services to its wholly-owned subsidiary CGT Cornerstone Holdings Limited on terms similar to those offered to non-related parties.

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

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

	2023	*2022*
Aggregate loans to KMP	**4,412**	6,996
Aggregate revolving credit facilities to KMP	**1,478**	2,253
Less: approved and undrawn lines of credit	**(1,354)**	(1,263)
	4,536	7,986

	2023	*2022*
During the year the aggregate value of loans approved to KMP amounted to:		
Revolving credit	**10**	1,128
Mortgages	**1,005**	1,863
Loans	**243**	162
	1,258	3,153

	2023	*2022*
Income and expense transactions with KMP consisted of:		
Interest earned on loans to KMP	**210**	262
Total interest paid on deposits to KMP	**75**	30

	2023	*2022*
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**4,366**	4,905
Term deposits	**570**	203
Registered plans	**353**	315
Total value of member deposits due to KMP	**5,289**	5,423

Directors' fees and expenses

	2023	*2022*
Directors' expenses	**44**	33
Meeting, training and conference costs	**31**	24

Amounts paid to directors range from $12 (2022 – $3) to $39 (2022 – $27) with an average of $20 (2022 – $11).

SaskCentral

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

Interest earned on investments during the year ended December 31, 2023 amounted to $13,987 (2022 - $6,426).

Dividends received during the year ended December 31, 2023 amounted to $nil (2022 - $85).

Interest and stand-by fees paid on borrowings during the year ended December 31, 2023 amounted to $32 (2022 - $18).

Payments made for affiliation dues for the year ended December 31, 2023 amounted to $86 (2022 - $95).

18. Capital management

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

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

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

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

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

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

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

The 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 2023:

	Regulatory standards	***Board limits***
Total eligible capital to risk-weighted assets	**10.50 %**	**12.50 %**
Total tier 1 capital to risk-weighted assets	**8.50 %**	**11.50 %**
Common equity tier 1 capital to risk-weighted assets	**7.00 %**	**11.50 %**
Leverage ratio	**5.00 %**	**7.00 %**

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

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

The following table summarizes key capital information:

	2023	2022
Eligible capital		
Common equity tier 1 capital	**188,684**	180,348
Additional tier 1 capital	**-**	-
Total tier 1 capital	**188,684**	180,348
Total tier 2 capital	**3,219**	4,267
Total eligible capital	**191,903**	184,615
Risk-weighted assets		
Total eligible capital to risk-weighted assets	**14.96 %**	15.93 %
Total tier 1 capital to risk-weighted assets	**14.71 %**	15.56 %
Common equity tier 1 capital to risk-weighted assets	**14.71 %**	15.56 %
Leverage ratio	**8.98 %**	9.45 %

19. Financial instruments

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk, and liquidity risk.

Accordingly, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union
- Balance risk and return
- Manage credit, market and liquidity risk through preventative and detective controls
- Ensure credit quality is maintained
- Ensure credit, market, and liquidity risk is maintained at acceptable levels
- Diversify risk in transactions, member relationships and loan portfolios
- Price according to risk taken, and
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Finance and Audit Committee, Risk Committee and Conduct Review Committee.

There have been no significant changes from the previous year in the Credit Union’s risks to which it is exposed or its general policies and procedures for managing risk.

Credit risk

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

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

Risk management process

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

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

The Credit Union’s credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments. The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party; and
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

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

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

	2023	2022
Unadvanced lines of credit	**208,783**	180,615
Guarantees and standby letters of credit	**2,867**	3,072
Commitments to extend credit	**121,846**	45,241
	333,496	228,928

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

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

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

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

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

Measurement of expected credit losses

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

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

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

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

The Credit Union has run a number of simulations on its collective allowance, incorporating assumptions about the resulting macroeconomic impacts of inflation and interest rate changes, based on information and facts available at December 31, 2023. The macroeconomic factors that affect the Credit Union's expected credit loss calculations are: Saskatchewan unemployment rates, Saskatchewan Housing Price Index, changes in real gross domestic product, and three-month Bank of Canada bond/Bankers' Acceptance rates. Each factor is forecasted in a base case, a best case and a worst case scenario. Key factors influencing assumptions of the simulations are economic uncertainties tied to interest rate changes, continued inflationary pressures, the quality of credit, and the borrower's future ability to service debt. In addition, our modelling assumes lower than historical recovery on defaulted loans, higher exposure on utilized lines of credit, and increased volatility in mortgage security values and recoveries.

The typical weighting used in the model is 80% base, 10% best and 10% worst case, as the base case is historically the most likely scenario. The December 31, 2023 modelling is based on these weightings.

Management had to use judgment in several areas to assess if the estimate the model calculated was reasonable or if an overlay was needed to increase or decrease the allowance. Commercial sectors expected to be impacted most heavily, and expected to sustain higher long term risks, were analyzed and expected losses adjusted accordingly. At December 31, 2023, management booked overlays of $nil (2022 - $97) to increase the allowance.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

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

Exposure to credit risk

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

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

		2023		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Agricultural loans				
Low risk	**25,415**	**-**	**-**	**25,415**
Low-average risk	**24,813**	**16**	**-**	**24,829**
Average risk	**3,550**	**5**	**-**	**3,555**
Average-high risk	**12,009**	**737**	**-**	**12,746**
High risk	**160**	**262**	**-**	**422**
Total gross carrying amount	**65,947**	**1,020**	**-**	**66,967**
Less: loss allowance	**90**	**22**	**-**	**112**
Total carrying amount	**65,857**	**998**	**-**	**66,855**
Commercial loans				
Low risk	**20,184**	**-**	**-**	**20,184**
Low-average risk	**6,541**	**4**	**-**	**6,545**
Average risk	**1,922**	**-**	**-**	**1,922**
Average-high risk	**4,220**	**1,464**	**-**	**5,684**
High risk	**1,668**	**952**	**1,196**	**3,816**
Total gross carrying amount	**34,535**	**2,420**	**1,196**	**38,151**
Less: loss allowance	**260**	**124**	**1,136**	**1,520**
Total carrying amount	**34,275**	**2,296**	**60**	**36,631**
Consumer loans				
Low risk	**54,588**	**211**	**8**	**54,807**
Low-average risk	**25,601**	**444**	**1**	**26,046**
Average risk	**4,895**	**562**	**-**	**5,457**
Average-high risk	**1,766**	**1,333**	**-**	**3,099**
High risk	**738**	**4,831**	**110**	**5,679**
Total gross carrying amount	**87,588**	**7,381**	**119**	**95,088**
Less: loss allowance	**277**	**437**	**39**	**753**
Total carrying amount	**87,311**	**6,944**	**80**	**94,335**
Lines of credit				
Low risk	**31,065**	**15**	**-**	**31,080**
Low-average risk	**17,264**	**2,090**	**-**	**19,354**
Average risk	**12,686**	**496**	**219**	**13,401**
Average-high risk	**16,002**	**2,807**	**-**	**18,809**
High risk	**235**	**912**	**-**	**1,147**
Total gross carrying amount	**77,252**	**6,320**	**219**	**83,791**
Less: loss allowance	**129**	**117**	**-**	**246**
Total carrying amount	**77,123**	**6,203**	**219**	**83,545**

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

Mortgages				
Low risk	**353,308**	**1,095**	**-**	**354,403**
Low-average risk	**230,211**	**2,513**	**154**	**232,878**
Average risk	**232,711**	**1,790**	**1,213**	**235,714**
Average-high risk	**106,534**	**22,412**	**1,641**	**130,587**
High risk	**5,279**	**25,687**	**24,244**	**55,210**
Total gross carrying amount	**928,043**	**53,497**	**27,252**	**1,008,792**
Less: loss allowance	**672**	**946**	**4,663**	**6,281**
Total carrying amount	**927,371**	**52,551**	**22,589**	**1,002,511**
TOTAL				
Low risk	**484,560**	**1,321**	**8**	**485,889**
Low-average risk	**304,430**	**5,067**	**155**	**309,652**
Average risk	**255,764**	**2,853**	**1,432**	**260,049**
Average-high risk	**140,531**	**28,753**	**1,641**	**170,925**
High risk	**8,080**	**32,644**	**25,550**	**66,274**
Total gross carrying amount	**1,193,365**	**70,638**	**28,786**	**1,292,789**
Less: loss allowance	**1,428**	**1,646**	**5,838**	**8,912**
Total carrying amount	**1,191,937**	**68,992**	**22,948**	**1,283,877**

	2022			
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Agricultural loans				
Low risk	25,265	-	-	25,265
Low-average risk	15,991	50	16	16,057
Average risk	9,485	-	75	9,560
Average-high risk	11,918	738	85	12,741
High risk	269	504	180	953
Total gross carrying amount	62,928	1,292	356	64,576
Less: loss allowance	140	62	-	202
Total carrying amount	62,788	1,230	356	64,374
Commercial loans				
Low risk	19,769	-	10	19,779
Low-average risk	4,496	-	-	4,496
Average risk	7,248	-	-	7,248
Average-high risk	5,963	756	-	6,719
High risk	151	994	8,767	9,912
Total gross carrying amount	37,627	1,750	8,777	48,154
Less: loss allowance	144	300	1,395	1,839
Total carrying amount	37,483	1,450	7,382	46,315

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

Consumer loans				
Low risk	48,404	9	3	48,416
Low-average risk	32,270	548	-	32,818
Average risk	3,583	695	-	4,278
Average-high risk	1,509	1,704	1	3,214
High risk	1,611	2,950	22	4,583
Total gross carrying amount	87,377	5,906	26	93,309
Less: loss allowance	312	310	7	629
Total carrying amount	87,065	5,596	19	92,680
Lines of credit				
Low risk	35,688	55	-	35,743
Low-average risk	24,597	1,668	-	26,265
Average risk	18,087	34	222	18,343
Average-high risk	12,280	1,987	-	14,267
High risk	401	844	-	1,245
Total gross carrying amount	91,053	4,588	222	95,863
Less: loss allowance	175	146	-	321
Total carrying amount	90,878	4,442	222	95,542
Mortgages				
Low risk	329,307	2,824	-	332,131
Low-average risk	219,224	4,939	-	224,163
Average risk	190,111	4,898	1,174	196,183
Average-high risk	99,821	12,147	-	111,968
High risk	11,843	46,416	9,190	67,449
Total gross carrying amount	850,306	71,224	10,364	931,894
Less: loss allowance	866	1,812	8,264	10,942
Total carrying amount	849,440	69,412	2,100	920,952
TOTAL				
Low risk	458,433	2,888	13	461,334
Low-average risk	296,578	7,205	16	303,799
Average risk	228,514	5,627	1,471	235,612
Average-high risk	131,491	17,332	86	148,909
High risk	14,275	51,708	18,159	84,142
Total gross carrying amount	1,129,291	84,760	19,745	1,233,796
Less: loss allowance	1,637	2,630	9,667	13,934
Total carrying amount	1,127,654	82,130	10,078	1,219,862

The gross carrying amount of individual financial assets for which 12-month or lifetime expected credit losses were recognized and for which the Credit Union was unable to allocate to credit risk rating grades as at December 31, 2023 was $206,669 (2022 – $126,296) relating to leases, participation loan pools and loan commitments.

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

Concentrations of credit risk

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

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Agricultural loans				
Balance at January 1, 2022	119	490	74	683
Transfer to 12-month ECL	10	(10)	-	-
Transfer to lifetime ECL (not credit impaired)	(13)	43	(30)	-
Transfer to lifetime ECL (credit impaired)	-	-	-	-
Net remeasurement of loss allowance	(9)	(443)	-	(452)
New financial assets originated or purchased	42	-	(44)	(2)
Derecognized financial assets	(9)	(18)	-	(27)
Write-offs	-	-	-	-
Balance at December 31, 2022	140	62	-	202
Transfer to 12-month ECL	12	(12)	-	-
Transfer to lifetime ECL (not credit impaired)	(1)	1	-	-
Transfer to lifetime ECL (credit impaired)	-	-	-	-
Net remeasurement of loss allowance	(69)	(27)	256	160
New financial assets originated or purchased	28	-	-	28
Derecognized financial assets	(20)	(2)	-	(22)
Write-offs	-	-	(256)	(256)
Balance at December 31, 2023	90	22	-	112
Commercial loans				
Balance at January 1, 2022	221	188	1,325	1,734
Transfer to 12-month ECL	3	(3)	-	-
Transfer to lifetime ECL (not credit impaired)	(88)	88	-	-
Transfer to lifetime ECL (credit impaired)	-	-	-	-
Net remeasurement of loss allowance	(69)	34	70	35
New financial assets originated or purchased	88	-	-	88
Derecognized financial assets	(11)	(7)	-	(18)
Write-offs	-	-	-	-
Balance at December 31, 2022	144	300	1,395	1,839
Transfer to 12-month ECL	5	-	(5)	-
Transfer to lifetime ECL (not credit impaired)	(1)	1	-	-
Transfer to lifetime ECL (credit impaired)	-	-	-	-
Net remeasurement of loss allowance	12	(177)	(254)	(419)
New financial assets originated or purchased	116	-	-	116
Derecognized financial assets	(16)	-	-	(16)
Write-offs	-	-	-	-
Balance at December 31, 2023	260	124	1,136	1,520

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans				
Balance at January 1, 2022	**220**	**181**	**80**	**481**
Transfer to 12-month ECL	**49**	**(49)**	**-**	**-**
Transfer to lifetime ECL (not credit impaired)	**(19)**	**19**	**-**	**-**
Transfer to lifetime ECL (credit impaired)	**-**	**(3)**	**3**	**-**
Net remeasurement of loss allowance	**(78)**	**100**	**39**	**61**
New financial assets originated or purchased	**176**	**90**	**-**	**266**
Derecognized financial assets	**(36)**	**(28)**	**-**	**(64)**
Write-offs	**-**	**-**	**(115)**	**(115)**
Balance at December 31, 2022	**312**	**310**	**7**	**629**
Transfer to 12-month ECL	**125**	**(125)**	**-**	**-**
Transfer to lifetime ECL (not credit impaired)	**(52)**	**52**	**-**	**-**
Transfer to lifetime ECL (credit impaired)	**-**	**(1)**	**1**	**-**
Net remeasurement of loss allowance	**(191)**	**137**	**201**	**147**
New financial assets originated or purchased	**122**	**82**	**9**	**213**
Derecognized financial assets	**(39)**	**(18)**	**-**	**(57)**
Write-offs	**-**	**-**	**(179)**	**(179)**
Balance at December 31, 2023	**277**	**437**	**39**	**753**
Line of credit				
Balance at January 1, 2022	**209**	**168**	**185**	**562**
Transfer to 12-month ECL	**58**	**(58)**	**-**	**-**
Transfer to lifetime ECL (not credit impaired)	**(3)**	**3**	**-**	**-**
Transfer to lifetime ECL (credit impaired)	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**(92)**	**61**	**29**	**(2)**
New financial assets originated or purchased	**12**	**-**	**-**	**12**
Derecognized financial assets	**(9)**	**(28)**	**-**	**(37)**
Write-offs	**-**	**-**	**(214)**	**(214)**
Balance at December 31, 2022	**175**	**146**	**-**	**321**
Transfer to 12-month ECL	**23**	**(23)**	**-**	**-**
Transfer to lifetime ECL (not credit impaired)	**(6)**	**6**	**-**	**-**
Transfer to lifetime ECL (credit impaired)	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**(53)**	**27**	**47**	**21**
New financial assets originated or purchased	**7**	**6**	**-**	**13**
Derecognized financial assets	**(17)**	**(45)**	**-**	**(62)**
Write-offs	**-**	**-**	**(47)**	**(47)**
Balance at December 31, 2023	**129**	**117**	**-**	**246**

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Mortgages				
Balance at January 1, 2022	669	810	5,019	6,498
Transfer to 12-month ECL	119	(119)	-	-
Transfer to lifetime ECL (not credit impaired)	(47)	47	-	-
Transfer to lifetime ECL (credit impaired)	-	-	-	-
Net remeasurement of loss allowance	(51)	1,229	4,218	5,396
New financial assets originated or purchased	218	66	-	284
Derecognized financial assets	(42)	(221)	-	(263)
Write-offs	-	-	(973)	(973)
Balance at December 31, 2022	866	1,812	8,264	10,942
Transfer to 12-month ECL	155	(155)	-	-
Transfer to lifetime ECL (not credit impaired)	(38)	38	-	-
Transfer to lifetime ECL (credit impaired)	(1)	(918)	919	-
Net remeasurement of loss allowance	(377)	215	3,797	3,635
New financial assets originated or purchased	157	14	-	171
Derecognized financial assets	(90)	(60)	-	(150)
Write-offs	-	-	(8,317)	(8,317)
Balance at December 31, 2023	672	946	4,663	6,281

Changes in the gross carrying amount of financial instruments

The following tables explain how significant changes in the gross carrying amount of financial instruments during the year contributed to changes in the loss allowance.

		2023	
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*
Agricultural loans			
New financial assets originated or purchased	28	-	-
Derecognized financial assets	(20)	(2)	-
Write-offs	-	-	(256)
Commercial loans			
New financial assets originated or purchased	116	-	-
Derecognized financial assets	(16)	-	-
Write-offs	-	-	-
Consumer loans			
New financial assets originated or purchased	122	82	9
Derecognized financial assets	(39)	(18)	-
Write-offs	-	-	(179)
Line of credit			
New financial assets originated or purchased	7	6	-
Derecognized financial assets	(17)	(45)	-
Write-offs	-	-	(47)
Mortgages			
New financial assets originated or purchased	157	14	-
Derecognized financial assets	(90)	(60)	-
Write-offs	-	-	(8,317)

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

	2022 12-month ECL	2022 Lifetime ECL (not credit impaired)	2022 Lifetime ECL (credit impaired)
Agricultural loans			
New financial assets originated or purchased	42	-	(44)
Derecognized financial assets	(9)	(18)	-
Write-offs	-	-	-
Commercial loans			
New financial assets originated or purchased	88	-	-
Derecognized financial assets	(11)	(7)	-
Write-offs	-	-	-
Consumer loans			
New financial assets originated or purchased	176	90	-
Derecognized financial assets	(36)	(28)	-
Write-offs	-	-	(115)
Line of credit			
New financial assets originated or purchased	12	-	-
Derecognized financial assets	(9)	(28)	-
Write-offs	-	-	(214)
Mortgages			
New financial assets originated or purchased	218	66	-
Derecognized financial assets	(42)	(221)	-
Write-offs	-	-	(973)

Financial instruments for which the impairment requirements of IFRS 9 do not apply

The carrying amount of SaskCentral and Concentra Bank shares, as disclosed in Note 6, best represents the Credit Union's maximum exposure to credit risk for those items. The Credit Union holds no collateral or other credit enhancements on these balances.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member needs.

Risk measurement

The Credit Union's risk position is measured and monitored each quarter to ensure compliance with policy. Management provides quarterly reports on these matters to the Credit Union's Board of Directors.

Objectives, policies and processes

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

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

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

Interest rate risk

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

In managing interest rate risk, the Credit Union relies primarily upon use of asset - liability and interest rate sensitivity simulation models, which is monitored by the Credit Union’s finance department and reported to the Asset and Liability Committee ("ALCO") which is responsible for managing interest rate risk. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union’s financial instruments.

Sensitivity analysis is used to assess the change in value of the Credit Union’s financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a quarterly basis and are reported to the ALCO.

Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase (2022 - decrease) net interest margin by $1,385 (2022 - $15) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease (2022 - increase) net interest margin by $2,188 (2022 - $13) over the next 12 months.

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to the ALCO.

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match repricing or maturity dates of loans and investments and member deposits within policy limits. These limits are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between loans and investments and member deposits for those particular maturity dates. Certain items on the consolidated statement of financial position, such as non-interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive in the table below.

Amounts with variable interest rates, or due on demand, are classified as on demand.

A significant amount of member loans receivable and member deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

Interest rate sensitivity

In the table below, the carrying amounts of financial instruments are presented in the periods in which they next reprice to market rates or mature and are summed to show the net interest rate sensitivity gap.

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual repricing date or maturity date. The schedule below does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

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

Interest rate risk *(Continued from previous page)*

	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest Sensitive	2023 Total	2022 Total
Assets								
Cash and cash equivalents	87,623	-	-	-	-	17,511	**105,134**	64,052
Average yield %	*5.05*	-	-	-	-	-	*4.21*	*3.57*
Investments	-	86,000	174,346	202,716	20,774	7,464	**491,300**	487,142
Average yield %	-	*3.37*	*3.80*	*3.02*	*3.45*	-	*3.33*	*1.96*
Member loans receivable	263,746	115,505	238,183	748,812	18,795	6,461	**1,391,502**	1,309,149
Average yield %	*8.60*	*4.09*	*4.82*	*4.66*	*5.55*	-	*5.38*	*4.61*
Accounts receivable	-	-	-	-	-	475	**475**	20,214
Interest rate swap derivative	-	-	-	-	-	88	**88**	450
Index linked derivatives	-	-	-	-	-	1,249	**1,249**	2,130
	351,369	**201,505**	**412,529**	**951,528**	**39,569**	**33,248**	**1,989,748**	1,883,137
Liabilities								
Member deposits	597,431	210,344	343,796	261,514	-	400,452	**1,813,537**	1,707,357
Average yield %	*2.17*	*4.05*	*4.36*	*4.20*	-	-	*2.62*	*1.77*
Membership shares	-	-	-	-	-	145	**145**	150
Accounts payable	-	-	-	-	-	7,498	**7,498**	12,839
Index linked derivatives	-	-	-	-	-	1,249	**1,249**	2,130
	597,431	**210,344**	**343,796**	**261,514**	**-**	**409,344**	**1,822,429**	1,722,476
Interest rate swap derivative	15,000	(15,000)	-	-	-	-	-	-
Net sensitivity	**(231,062)**	**(23,839)**	**68,733**	**690,014**	**39,569**	**(376,096)**	**167,319**	160,661

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

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes. Refer to Note 18 for further information about the Credit Union's regulatory requirements.

Liquidity risk is managed through a three tiered structure consisting of the local Credit Union level, the provincial Credit Union level and the national Credit Union level.

Locally, the Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows; and
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union’s responses thereto.

The primary liquidity risk policies and procedures include the following:

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

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

The following table details contractual maturities of financial liabilities:

As at December 31, 2023:

	< 1 year	1-2 years	> 2 years	Total
Member deposits	1,561,941	139,516	139,881	1,841,338
Issued financial guarantee contracts	42,380	1,322	90	43,792
Accounts payable	7,498	-	-	7,498
Index linked derivatives	249	556	444	1,249
Membership shares	-	-	145	145
Total	**1,612,068**	**141,394**	**140,560**	**1,894,022**

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

Liquidity risk *(Continued from previous page)*

As at December 31, 2022:

	< 1 year	1-2 years	> 2 years	Total
Member deposits	1,540,823	93,046	92,698	1,726,567
Issued financial guarantee contracts	17,491	1,343	1,181	20,015
Accounts payable	12,839	-	-	12,839
Index linked derivatives	682	220	1,228	2,130
Membership shares	-	-	150	150
Total	1,571,835	94,609	95,257	1,761,701

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

As at December 31, 2023:

	< 1 year	1-2 years	> 2 years	Total
Cash and cash equivalents	**105,134**	**-**	**-**	**105,134**
Investments	**279,025**	**114,823**	**115,755**	**509,603**
Member loans receivable	**666,589**	**251,841**	**586,992**	**1,505,422**
Issued financial guarantee contracts	**2,123**	**2,123**	**44,844**	**49,090**
Accounts receivable	**475**	**-**	**-**	**475**
Interest rate swap derivative	**85**	**-**	**-**	**85**
Index linked derivatives	**249**	**556**	**444**	**1,249**
Total	**1,053,680**	**369,343**	**748,035**	**2,171,058**

As at December 31, 2022:

	< 1 year	1-2 years	> 2 years	Total
Cash and cash equivalents	64,052	-	-	64,052
Investments	213,736	128,335	158,048	500,119
Member loans receivable	652,632	243,485	496,364	1,392,481
Issued financial guarantee contracts	694	694	16,822	18,210
Accounts receivable	20,214	-	-	20,214
Interest rate swap derivative	387	68	-	455
Index linked derivatives	682	220	1,228	2,130
Total	952,397	372,802	672,462	1,997,661

The above tables were prepared using undiscounted contractual maturities of financial assets including interest that will be earned on these amounts.

20. Fair value measurements

The Credit Union classifies fair value measurements recognized in the consolidated statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require the Credit Union to develop its own assumptions.

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

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the beginning of the reporting period, the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses the net present value valuation techniques and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

Financial assets and financial liabilities measured at fair value

The Credit Union's financial assets and financial liabilities measured at fair value in the consolidated statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

				2023
	Fair value	***Level 1***	***Level 2***	***Level 3***
Financial assets				
Cash	**61,493**	**61,493**	**-**	**-**
Other equity investments	**14,677**	**-**	**14,677**	**-**
SaskCentral and Concentra Bank shares	**8,597**	**-**	**-**	**8,597**
Index linked derivatives	**1,249**	**-**	**1,249**	**-**
Interest rate swap derivative	**88**	**-**	**88**	**-**
Total financial assets	**86,104**	**61,493**	**16,014**	**8,597**
Financial liabilities				
Index linked derivatives	**1,249**	**-**	**1,249**	**-**
Total financial liabilities	**1,249**	**-**	**1,249**	**-**

				2022
	Fair value	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	15,065	15,065	-	-
Other equity investments	14,534	-	14,534	-
SaskCentral and Concentra Bank shares	14,353	-	-	14,353
Index linked derivatives	2,130	-	2,130	-
Interest rate swap derivative	450	-	450	-
Total financial assets	46,532	15,065	17,114	14,353
Financial liabilities				
Index linked derivatives	2,130	-	2,130	-
Total financial liabilities	2,130	-	2,130	-

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

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

For fair value measurements of Level 3 SaskCentral and Concentra Bank shares, the Credit Union has assumed that the fair value of the amounts is comparable to their amortized cost, which equals the par value of the shares. The shares are not quoted or traded, however when new shares are offered the price remains the same as the par value of all currently available shares. There was no impact of the measurement on profit or loss for the year.

Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the consolidated statement of financial position are as follows:

					2023
	Carrying amount	***Fair value***	***Level 1***	***Level 2***	***Level 3***
Financial assets measured at amortized cost					
Cash equivalents	**43,641**	**43,641**	**43,641**	**-**	**-**
Investments	**468,026**	**463,963**	**-**	**463,963**	**-**
Member loans receivable	**1,391,502**	**1,353,280**	**-**	**1,353,280**	**-**
Accounts receivable	**475**	**475**	**-**	**475**	**-**
Total financial assets	**1,903,644**	**1,861,359**	**43,641**	**1,817,718**	**-**
Financial liabilities measured at amortized cost					
Member deposits	**1,813,537**	**1,816,506**	**-**	**1,816,506**	**-**
Accounts payable	**7,498**	**7,498**	**-**	**7,498**	**-**
Membership shares	**145**	**145**	**-**	**-**	**145**
Total financial liabilities	**1,821,180**	**1,824,149**	**-**	**1,824,004**	**145**

					2022
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
Financial assets measured at amortized cost					
Cash equivalents	48,987	48,987	48,987	-	-
Investments	458,254	445,437	-	445,437	-
Member loans receivable	1,309,149	1,268,461	-	1,268,461	-
Accounts receivable	20,214	20,214	-	20,214	-
Total financial assets	1,836,604	1,783,099	48,987	1,734,112	-
Financial liabilities measured at amortized cost					
Member deposits	1,707,357	1,707,391	-	1,707,391	-
Accounts payable	12,839	12,839	-	12,839	-
Membership shares	150	150	-	-	150
Total financial liabilities	1,720,346	1,720,380	-	1,720,230	150

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

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

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

- All Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.
- As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to their amortized cost.

21. Commitments

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. As at December 31, 2023, the Credit Union had the following other commitments subject to credit risk:

	2023	*2022*
Venture Capital cash calls		
APEX III Investment Fund	**224**	279
APEX IV Investment Fund	**890**	1,000
Conexus Venture Capital Fund	**47**	147
Emmertech Fund	**225**	325
	1,386	1,751

Other commitments

In 2016, the Credit Union entered into a seven year commitment with Celero for the provision of retail banking services. The annual operating fee is calculated based on the average number of outstanding accounts throughout the year. The annual operating fees to December 31, 2023 were $907 (2022 - $872) and recorded as an expense. The annual estimated fee to December 31, 2024 is $886 (2023 - $907).

22. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation. Reclassifications done had no impact to comprehensive income.