

# ANNUAL REPORT

2022



**PRAIRIE PRIDE**  
CREDIT UNION



Saskatchewan  
Credit Unions

[saskcu.com](http://saskcu.com)



# Management Discussion and Analysis

## Our Vision, Mission and Values

### VISION

Locally Invested, Exceptionally Driven

### MISSION

Devoted to People and Communities

### Values

#### **Community**

We value our visible role in contributing to the positive economic and social development of our community.

#### **Excellence**

We are recognized for our excellence. “Good enough” is not acceptable. We add value to our members’ experience by treating people with honesty and respect. We add value to our employees’ experience by ensuring both work and fun activities are built into our team process.

#### **Integrity**

We have high standards, ethics, and personal accountability. We do what we say we will. We are reliable and recognize the worth of all individuals.

#### **Leadership**

We value individual and collective leadership. We demonstrate and inspire leadership in our people. We are empowered to make decisions and are responsible and accountable for our actions.

## **Credit Union Market Code**

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

- Complaint handling, which outlines the process for dealing with all complaints regarding the service, products, fees or charges of Prairie Pride Credit Union.
- Fair sales by outlining the roles and relationship of staff to all members/clients and in accordance with the financial services agreement.
- Financial planning process to advise member/clients on the risks and benefits associated with financial planning services.
- Privacy to protect the interests of those who do business with Prairie Pride Credit Union. Privacy is the practice to ensure all member/client information is kept confidential and used only for the purpose for which it was gathered.
- Professional standards to preserve a positive image of Prairie Pride Credit Union among our members, clients and communities.
- Capital management to ensure our capital structure aligns with our risk philosophy.
- Financial reporting to adhere to business and industry standards.
- Governance practices to adhere to the intent and stipulation of our corporate bylaws, which are approved by the membership of Prairie Pride Credit Union.
- Risk management to ensure all risks are measured and managed in an acceptable fashion.

## **Introduction**

Prairie Pride Credit Union is an independent regional credit union owned by our members. Under the current credit union legislation, Prairie Pride Credit Union is able to provide financial services to members and non-members. At December 31, 2022 Prairie Pride Credit Union had 2,245 members (2,229 - 2021) and 572 non-members (585 - 2021). Non-members do not participate in the democratic processes of the credit union.

Our credit union serves the communities of Alameda, Alida and Gainsborough through three branches. In these communities we provide a range of financial services including agricultural, commercial, personal loans and lines of credit, deposit accounts, term deposits, registered products such as RRSP, RRIF, RESP, TFSA and a referral Wealth Management Program.

## **Strategy**

The vision of Prairie Pride Credit Union is to be locally invested and exceptionally driven. To monitor specific objectives throughout the year that support this vision, we have developed a Strategic Plan Document that outlines the four quadrants that build into our vision statement. The four quadrants, people, products and services, internal process and financial strength have objectives in each of them. These objectives are formed into tactical plans for the year. These tactical plans are placed in every staff's performance and variable plans. The board of directors is kept current with progress to date by the monthly manager's report as well as the semi-annual and annual review of the manager's performance documents.

Every two years, the board of directors and management, with the aid of a consultant completes a Strategic Planning Session. Most recently done in October of 2021 to prepare for 2022 and 2023. Key strategies were identified from the 2021 planning session. These strategies have been prioritized for the next planning horizon, and while these strategies will all require some new and enhanced operating activities, they are all inter-related. Technology and social media was the forefront of our sessions. The decision to increase our social media presence and functionality had been top priority. Board and management anticipate that partnerships or new strategic relationships will be required to deal with both new product and service development and also as a method to help contain costs. The member continues to be the main focus for Prairie Pride, and the second strategic priority highlights this focus with a desire to remain independent and autonomous however acknowledging a possibility of potential merger with another credit union. The third priority is reflective of changes in our environment and an effort to

reduce our carbon footprint by reducing paper statements for our membership. This strategy is linked to changing member expectations and the continuing availability of new technology.

Development of the Strategic Plan and subsequent Business Plan is only the first step. The board and management will focus on ‘working the plan’ over the coming year. Business Plan targets provide the focal point in determining how effective management has been in executing PCCU’s strategies. The board demonstrates its corporate agility by carefully considering how changes in the environment (economic, external, internal, etc.) and member expectations impact these strategies and targets.

**Key Performance Drivers**

Each year, we set tactical targets that are derived from the strategic objectives in the four quadrants. These targets are regularly measured and monitored in achieving our goals. The following outlines some of our key strategic goals, targets and results.

<b>PRODUCTS AND SERVICES</b>	We have the core products and services that our members and general public are wanting.	
<b>2022 Targets</b>	<b>2022 Results</b>	
Successfully implement new Digital Banking platform. Increase social media presence	Online banking and mobile app platform upgrade delayed to mid-2023. PPCU now located on Instagram as well as Facebook.	
Evaluate/update technology and member communication tools in addition to a smaller carbon footprint.	System upgrade to Office 365 completed, as well as almost 60% of our consumer members having less than monthly paper statements.	

<b>PEOPLE</b>	We have highly trained and effective people (with the skill and competencies required) in the proper roles to support our future needs.	
<b>2022 Targets</b>	<b>2022 Results</b>	
Establish a hard number on member contacts for member facing staff. Ensure training focused on assisting our staff to have the member conversations	Increased member contacts to a minimum of 50 per FTE in our no call center organization.	
Our people clearly understand and embrace our member centric culture.	Continue member survey completed in Q3 2022 with extremely positive results affirming our high service standards.	
Maintain multi-directional coaching and communication into our culture.	Demonstrate multi-directional coaching (monitor through performance plans). Management actively support program.	

<b>COMMUNITY</b>	We will increase our visibility for the contribution made by our staff, our financial support, and our commitment to our communities.	
<b>2022 Targets</b>	<b>2022 Results</b>	
Increase recognition for our community commitments that we support through volunteerism and financially.	Collectively volunteered over 1026 on a target of 500 hours to our local communities.	

<b>FINANCIAL STRENGTH</b>	We will achieve sufficient financial strength to achieve our strategies and support our members and communities.	
<b>2022 Targets</b>	<b>2022 Results</b>	
Ensure sufficient financial strength to ensure the long-term viability of PPCU.	Net income for 2022 hit a record level of \$1,844,170 resulting from the sale of a share of a business.	
Continue to maintain and build capital and liquidity.	Capital levels ended 2022 at 13.85% which shows PPCU remains in a strong position.	

## Results

### Balance Sheet

2022 proved to be a bounce back year for Prairie Pride Credit Union. The level of economic conditions brought on by COVID-19, including a significant increase in interest rates as well as inflation strains brought on by federal initiatives have put additional strain to members financial well-being. The assets of Prairie Pride Credit Union ended 2022 at \$130,517,575. Assets remained relatively flat, decreasing by \$155,112 from 2021. The assets in 2021 were \$130,672,687.

There was a decrease in member deposits of \$2,847,856 or 2.48% to end at just over \$117 million. In 2021, the deposit portfolio was \$119.9 million. Management will continue to monitor and manage deposit growth to ensure that the liquidity requirements of the credit union are met. The regulator of credit unions in Saskatchewan, Credit Union Deposit Guarantee Corporation (CUDGC), guarantees full repayment of deposits held in the credit union.

Accounting for 76.2% of total assets, our loan balance amounted to \$100.04 million representing an increase of \$8.5 million from 2021. Loan stability is achieved locally, as well as loan syndications with other credit unions and leases. It is the credit union's goal to effectively manage and maintain loan growth to approximately 75-80% of total assets. In 2022, the credit union approved 289 loans totaling almost \$40 million. The credit union has a balance of \$18.8 million purchased loans, leases and a balance of just over \$8.9 million sold loans as of December 31, 2022. Loan delinquency greater than 90 days was .51% for 2022. In 2021 loan delinquency was .20 %. This ratio is well below the credit union's target of 2% for delinquency. In 2022, the Saskatchewan Credit Union system experienced a delinquency rate greater than 90 days of .59%.

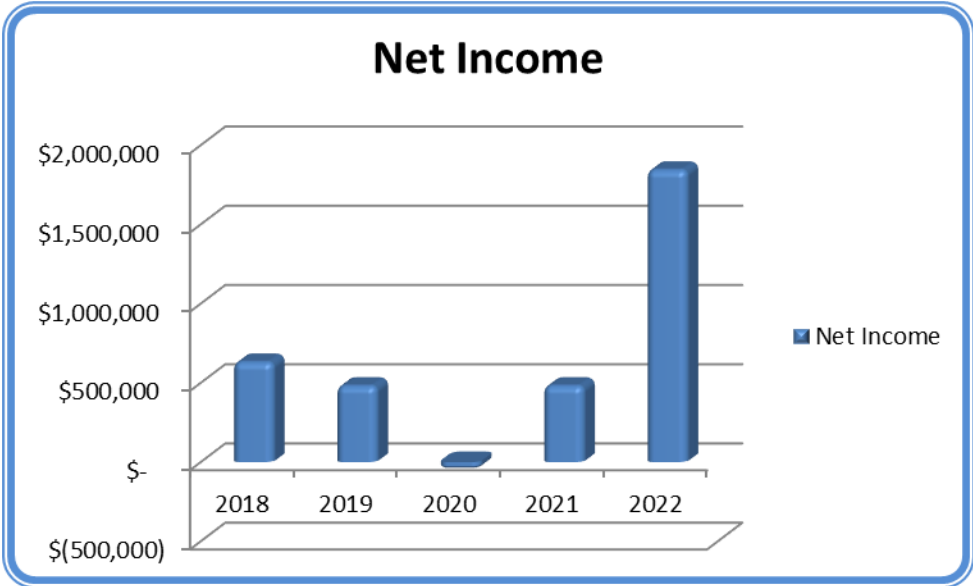
### Operating Statement

Net income for the year was \$1,844,170, up from \$481,371 in the prior year. This increase shows a significant bounce back to pre-pandemic levels and is reflective of the PPCU share of proceeds from the sale of Concentra Bank. Total interest income was \$4.4 million, which was an increase from \$3.66 million in 2021. Interest expense in 2022 on deposits has also increased to \$1,188,269 from \$898,604 in 2021.

Non-interest revenue includes insurance commissions, loan fees, foreign exchange, and account service fees. In 2022 non-interest revenue decreased by approximately \$25,000.



Non-interest expenses include general business, occupancy, organizational, personnel and security. The total non-interest expense was \$2.98 million as compared to \$2.84 million in 2021. As a percentage of total assets non-interest expenses decreased to 2.29% from 2.17% in 2021.



**Capital (Equity)**

Total capital as a percentage of risk-weighted assets and total capital as a percentage of total assets are our primary measures of capital adequacy. Prairie Pride’s capital management framework is designed to maintain a strong level of capital. Our capital policies are designed to ensure the credit union meets its regulatory capital requirements.

Capital adequacy for Saskatchewan credit unions is set and monitored in accordance with guidelines issued by the regulator, Credit Union Deposit Guarantee Corporation (CUDGC). The guideline requires that a credit union maintain a minimum of 8% of total capital as a percentage of risk-weighted assets. Our organization has set a target of 12.5%-15.5% for the risk-weighted ratio. As of December 31, 2022, our risk-weighted capital increased to 13.85% and in 2021 it was 12.80%. This increase is driven primarily from proceeds from the sale of Concentra Bank.

Total capital as a percentage of total assets for the period ending December 31, 2022, was 9.0%, while in 2021 it was 7.77%. Total capital for the credit union is made up of retained earnings. The organization’s target is 6.5-9%.

Credit unions should have a process in place for assessing their overall capital adequacy in relation to their risk profile and a strategy for building and maintaining their capital levels. This process is part of the Internal Capital Adequacy Assessment Process or ICAAP that credit unions must implement. As a component of ICAAP, Prairie Pride Credit Union in 2013 started this process and the process will continue into the future, and it will require performing rigorous, forward-looking stress testing to complement and validate risk management approaches and identify possible events or changes in market conditions and their effect on the financial condition of the organization.

### **Risk Management Framework**

Significant changes happened in 2012 and 2013 in the financial world. Basel III was introduced which set new capital standards. Our regulator, Credit Union Deposit Guarantee Corporation, has adopted these new capital standards and requires credit unions in Saskatchewan to implement them. Credit unions including Prairie Pride Credit Union have requirements in meeting these capital standards. Our organization has started this process by adopting Internal Capital Adequacy Assessment Process (ICAAP), Risk Appetite Statement, Enterprise Risk Management (ERM), Capital and Liquidity Plans, and new Standards of Sound Business Practice (SSBP). This whole process is linked back from our Strategic Plan. The board of directors approved this process for Prairie Pride Credit Union in 2017. Below will be the explanation of each of these steps and the results of how our credit union is affected by these new capital standards. We will start the explanation by defining “what is risk”.

Risk is inherent in all aspects of a credit union’s operations. Effective management of risk is fundamental to sound and prudent operations. Risk management encompasses the process of:

- identifying risks to which the credit union is exposed;
- measuring exposures to identified risks;
- ensuring that an effective risk-monitoring program is in place;
- monitoring risk exposures on an ongoing basis;
- controlling and mitigating exposures;
- reporting to the board and management on the credit union’s risk exposures.

Risks include, but are not limited to:

- credit risk;
- market risk;
- liquidity risk;
- strategic risk;
- operational risk (human resources management risk, system risk, outsourcing risk, fiduciary risk, management information risk, technology risk and internal controls);
- legal and regulatory risk.

### **Risk Appetite Statement**

The risk appetite statement is the amount and type of risk the credit union is willing to accept in pursuit of its business objectives. The fundamental strength of a credit union is the level of capital it holds to protect against normal, anticipated and unexpected business events. Prairie Pride Credit Union has a moderate level of capital and therefore must take a conservative approach to risk. Our main objective is to preserve and build capital, protect profitability and provide our members with the best service. Prairie Pride Credit Union's qualitative portion of the appetite risk statement is as follows:

- Business interests;
  - the traditional financial services of deposit taking, loans and financial advice will remain our fundamental business interests.
- Enterprise risks;
  - when employing our risk management Framework consistent with our appetite for risk, we will ensure that at least 75% of our risks fall within or below the "Modest" range.
- Outsourcing risks;
  - outsourcing a business function will be considered providing:
    - it is in our economic interest
    - preference will be given to agreements with SaskCentral, Concentra and other credit unions
    - we will consult with SaskCentral

Prairie Pride Credit Union will also establish quantitative limits on its appetite risk statement to allow sufficient flexibility for Board and Management to manage our risks and optimize the value to the organization of its business objectives as follows:

- Capital Management;  
Tier 1
  - we will not allow our Tier 1 capital ratio to fall below 10.00%
  - we will continue to build Tier 1 capital to a ratio of 13.00%
  
- Eligible Capital;
  - we will not allow our Eligible Capital ratio to fall below 10.00%
  - we will strive to maintain our Risk-weighted capital ratio in a range between 12.5%- 15.5%
  
- Profitability;
  - we will not allow our operating Return on Assets ratio to drop below .20%
  - we will strive to maintain a Return on Assets ratio at greater than .50%
  
- Liquidity Risk Management;  
Regulatory Liquidity
  - we will maintain our Regulatory Statutory Liquidity ratio at 10%
  
- Operating Liquidity;
  - we will not allow our Operating Liquidity ratio to drop below 100%
  - we will strive to maintain a loan-to-asset ratio of 75-80%
  - we will maintain a line of credit at SaskCentral to a maximum of 2% of assets to accommodate unexpected draws on liquidity
  
- Market Risk Management;  
Interest Rate Risk
  - we will not allow our Accumulated Gap Year 1 to exceed +/- 10%
  - derivatives may be used to manage interest rate risk

- Foreign Currency Exchange Risk;
  - we will not allow our exposure to Foreign Currency exchange to exceed 5% of capital
  
- Credit Risk Management
  - we will strive to maintain our loan to assets ratio in a range of 75-80%
  - we will not allow our Delinquency >90 days to exceed 2%
  
- Investment Portfolio Risk Management
  - credit union investments will be invested primarily through SaskCentral or Wyth Financial
  - other third party sources may be considered
  - investments must qualify within the parameters as outlined in policy
  
- Protection of Fixed Assets
  - we will maintain insurance at levels:
    - sufficient to ensure that the financial stability of the credit union is not compromised when adverse, unexpected outcomes related to insurable risks facing the organization occur
  
- Strategic Risk
  - to ensure we maintain the ability to implement appropriate business plans and strategies, make decisions, allocate resources and adapt to change we will:
    - bi-annually engage in strategic planning with the Board and Senior Management
    - annually develop business plans to achieve our strategic objectives
    - review progress to plan semi-annually

- Operational Risk
  - Human Resource Management Risk
    - we will maintain a succession plan for all staff positions to ensure continuity of business plans and member service
  
- Management Information System Risk
  - we will employ measures to protect that information through passwords, encryption, authority levels and building security systems
  
- Fiduciary Risk
  - all employees and directors will adhere to the Code of Conduct and act within the boundaries of legislation, policy and procedure
  - the credit union will carry insurance to protect against insurable liability
  
- Information Technology Risk
  - we will rely on our service provider and our own resources to manage the risk in our banking system
  - we will ask our outsourcing partners to provide us with periodic reporting on audits assessing their ability to mitigate risk
  
- Internal Controls
  - our policies and procedures will define the internal controls to minimize risk
  - we will employ an organization-wide internal audit process to assess the effectiveness of our controls
  
- Legal and Regulatory Risk
  - we will comply with the Standards of Sound Business practice
  - we will seek legal opinion for every action or situation that is not clearly established by legal precedence or opinion
  - we will ensure that we are in compliance with all regulatory oversight

## Enterprise Risk Management

Enterprise risk management (ERM) is another step in the process of risk management framework. This process that was completed in 2022 and is done every two years. ERM is used as a reporting and monitoring tool to provide management and board with appropriate risk information to help support business and policy decisions in conjunction with the risk appetite statement. It discusses the principal risks currently facing our credit union and related actions undertaken in order to reduce the exposures within acceptable levels. Our credit union then utilizes this information to analyze the risks/opportunities facing our organization. Also, emerging issues are discussed and are used for monitoring purposes. It is important that all risk management process, decisions, and actions of the ERM are aligned with the overall strategic direction (strategic plan) of the credit union. Through this process eight risks were identified. These are listed below:

Risk / Risk Owner / Strategic Focus	
<b>CR01</b> – Risk the credit union incurs significant losses on its credit portfolio. <b>Strategic Focus:</b> Financial	
<b>Inherent Risk Severity</b>	
<b>High</b>	
<b>Risk Appetite (Moderate)</b>	Extending credit to members is inherently risks and yet represents the primary reason for why we exist in our communities. We will strive to ensure our delinquency >90 days does not exceed 3.0%
<b>Action Plans</b>	<b>Retain the risk</b> <ul style="list-style-type: none"> <li>➤ Monitor trends closely / update board through monthly reporting</li> <li>➤ Maintain credit risk at current level and stick to lending in areas we know and are comfortable with</li> </ul>
Risk / Risk Owner / Strategic Focus	
<b>SR01</b> – Risk that outsourcing / collaboration may not be available or our size forces us to collaborate, negatively impacting our profitability <b>Strategic Focus:</b> Financial	
<b>Inherent Risk Severity</b>	
<b>Moderate</b>	
<b>Risk Appetite (Moderate)</b>	Outsourcing a business function will be considered provided: it is in our economic interest, preference will be given to SaskCentral, Conentra, and other credit unions, impact on the Regulator, SaskCentral and other stakeholders will be considered.
<b>Action Plans</b>	<b>Retain the risk</b> <ul style="list-style-type: none"> <li>➤ Monitor trends closely / update board as applicable</li> </ul>

Risk / Risk Owner / Strategic Focus	
<p><b>SR02</b> – Risk the future of our communities is uncertain and subject to unexpected changes which could threaten our long-term autonomy.</p> <p><b>Risk Owner:</b> GM</p> <p><b>Strategic Focus:</b> Financial</p>	
Inherent Risk Severity	
Moderate	
Risk Appetite (Moderate)	We strive to maintain a ROA > 0.50%
Action Plans	<p><b>Reduce the impact</b></p> <ul style="list-style-type: none"> <li>&gt; Continue to evolve and enhance a proactive sales culture in the organization</li> </ul>
Risk / Risk Owner / Strategic Focus	
<p><b>SR03</b> – Risk we are unable to successfully replace retiring directors threatens our long-term autonomy.</p> <p><b>Strategic Focus:</b> People</p>	
Inherent Risk Severity	
High	
Risk Appetite	No specific formal risk appetite statement. Board risk appetite is assumed to be low given strong regulatory emphasis on governance.
Action Plans	<p><b>Reduce the likelihood</b></p> <ul style="list-style-type: none"> <li>&gt; Develop list of qualified candidates in local communities</li> <li>&gt; Approach qualified candidates to determine their interest in being on the board</li> <li>&gt; Consider implications/feasibility of operating with a smaller board</li> <li>&gt; Clearly articulate Board risk appetite for this risk</li> </ul>
Risk / Risk Owner / Strategic Focus	
<p><b>ERR01</b> – Risk we will not generate sufficient profit to maintain regulatory capital targets, ultimately threatening our ability to remain autonomous.</p> <p><b>Strategic Focus:</b> Financial</p>	
Inherent Risk Severity	
Moderate	
Risk Appetite (Moderate)	<p>We strive to maintain optimal capital strength as determined through the ICAAP.</p> <p>We strive to maintain a ROA &gt; 0.50%</p>
Action Plans	<p><b>Reduce the likelihood</b></p> <ul style="list-style-type: none"> <li>&gt; Continue to refresh ICAAP</li> <li>&gt; Manage capital to ICAAP target level</li> <li>&gt; Strength sales culture within PPCU</li> </ul>
<p><b>HRR01</b> – Risk we won't be able to fill vacancies in key positions, negatively impacting member experience.</p> <p><b>Strategic Focus:</b> People</p>	
Inherent Risk Severity	
Moderate	
Risk Appetite (Moderate)	We will maintain a succession plan for all staff positions to ensure continuity of business plans and member service
Action Plans	<p><b>Reduce the likelihood</b></p> <ul style="list-style-type: none"> <li>&gt; Keep succession plans current</li> <li>&gt; Emphasize career development planning (i.e. act the position you want)</li> <li>&gt; Engage HR expertise (where applicable) to recruit for key positions</li> </ul>



Risk / Risk Owner / Strategic Focus	
<b>IT01</b> – Risk we will not be able to keep pace with or afford technology changes.	
<b>Strategic Focus:</b> Financial	
<b>Inherent Risk Severity</b>	
<b>Moderate</b>	
<b>Risk Appetite</b>	No specific formal risk appetite statement. Board risk appetite is assumed to be moderate given cu’s high reliance on technology to support the member experience.
<b>Action Plans</b>	<b>Reduce the impact</b> <ul style="list-style-type: none"> <li>➢ Explore strategies to share the risk</li> <li>➢ Work with SaskCentral’s Collaborative Solutions group (legacy CEAMS) where opportunities arise</li> </ul>
Risk / Risk Owner / Strategic Focus	
<b>IT02</b> – Risks arising from IT and cybersecurity (including the governance thereof).	
<b>Strategic Focus:</b> Members	
<b>Inherent Risk Severity</b>	
<b>High</b>	
<b>Risk Appetite (Low to Modest)</b>	Risk of failure or non-performance of the information technology system or banking system is inherent. We must be willing to accept that risk. Key systems invariably rely on outsourcing or system partners to manage operational risks.
<b>Action Plans</b>	<b>Reduce the impact</b> <ul style="list-style-type: none"> <li>➢ Explore options for IT audit (discuss with cu’s what is working effectively)</li> <li>➢ Continue to educate our people and members on the risks</li> <li>➢ Explore the suitability of implementing IT desktop Assessment, Website Vulnerability Assessment, and Phishing and Awareness tools available through SaskCentral</li> </ul>

### Internal Capital Adequacy Assessment Process

Internal Capital Adequacy Assessment Process (ICAAP) another step in the risk management framework identifies all material risks faced by the credit union and assesses the impact those risks may have on the credit union’s regulatory capital. By setting sufficient capital to absorb the financial impact of these risks, should they occur, Prairie Pride Credit Union helps ensure its long-term viability. The risks assessed in the ICAAP process are identified through the capital adequacy reporting, Enterprise Risk Management and Stress Testing processes. ICAAP incorporates the Basel III capital framework. Basel III sets out revised definitions of regulatory capital and eligible capital; ratios as well outline a new leverage ratio and capital conservation buffer. In addition, the ICAAP framework incorporates stress testing guidance issued in conjunction with Basel III.

Each of the risks identified through the ERM process was evaluated to determine whether capital charge should be allocated to it through the ICAAP. Of the eight risks, none were considered modest, five were moderate, and three considered

high. For ICAAP analysis, only the moderate and high risks are assessed for the potential impact to capital.

The ICAAP template incorporates four stress tests commonly used in credit unions. The four stress tests that were completed by our credit union were;

- 10% increase in loans
- 10% decrease in deposits
- 30% increase in deposits
- 2% interest rate shock

Results of the ICAAP analysis for Prairie Pride Credit Union were taken from the September 30, 2021 financial numbers and completed every two years. Prairie Pride Credit Union is above the level of capital deemed prudent for the organization based on the risk profile of the credit union. As assessed through the ICAAP process, Prairie Pride Credit Union should have an Eligible Capital Ratio of 13.44% whereas the current eligible capital ratio is 13.85%. The leverage ratio for our credit union is at 9.0%, which is ahead of the 5% required by our regulator.

### **Capital and Liquidity Plan (2022-2024)**

The purpose of the Capital Plan is to forecast Prairie Pride Credit Union's capital strength going forward and outline the strategies and actions the Board and Management will employ to ensure Prairie Pride Credit Union's ongoing capital strength over the term of the plan.

The ICAAP process determines the minimum capital level appropriate for Prairie Pride Credit Union given its risk profile. Holding an inadequate amount of capital threatens the ability of our organization to meet its obligations. Holding an abundance of capital will unnecessarily reduce the return on capital.

The purpose of the Liquidity Plan is to ensure sufficient operating liquidity is available to meet Prairie Pride Credit Union's commitments as they come due. In addition, the plan will identify sources of liquidity available in both normal and emergency conditions.

Prairie Pride Credit Union has identified the following strategic initiatives to strengthen capital and liquidity over the term of the plan:

Capital Initiatives;

- achieve and sustain the loans to assets ratio to a long-term range of 75% to 80% to maintain revenues.
- review whether our credit union should take on additional credit risk to generate higher loans revenue. Our organization has negligible loan write-off and may be in a position to take on additional credit risk.
- continue to hold the posted prime rate at a fixed % above Bank of Canada prime. This provides our credit union with flexibility in a rising rate environment.
- continue to strengthen the member relationship by focusing on delivering value at the time of contact.
- continue to maintain a conservative risk profile until capital levels exceed the levels deemed appropriate through ICAAP.

#### Liquidity initiatives;

- continue to maintain a liquidity ratio above 100%, a loan to asset ratio below 80% and strategically ladder investments.

#### Capital indicators that would trigger concerns for Prairie Pride Credit Union are:

- negative profits
- declining long-term forecasting
- declining return on assets ratio
- declining eligible capital position
- earnings not adequate to support growth
- negative asset quality measurements
- regulator attention and/or intervention

Prairie Pride Credit Union is committed to active balance sheet management and recognized the need to proactively react to any negative trending in the financial performance of the organization. In the event that Prairie Pride Credit Union is trending to be below the lower level of the range per credit union policy for any capital ratios the following options are available to correct and reverse the negative trending:

- increase net income
- increase members shares
- sell assets
- restrict asset growth by directing member deposits off-balance sheet through a wealth service sharing relationship
- issue subordinated debt, preferred shares

- change risk profile
- merger with other credit union

Liquidity indicators that would trigger concerns for Prairie Pride Credit Union are:

- operating liquidity ratio below 100%
- statutory liquidity ratio below 10%
- loan to asset ratio above 80%
- use of borrowed funds to meet liquidity needs
- pro-longed negative asset growth

In the event that Prairie Pride Credit Union is trending to be below the lower level of the range per credit union policy for any capital ratios the following options are available to correct and reverse the negative trending:

- increase the Line of Credit with SaskCentral
- discontinue purchase of outside loan or lease syndications
- actively pursue additional deposits from known members and clients
- arrange to acquire external deposits through arrangement with an independent broker
- restrict lending
- adjust interest rates to encourage more deposits and/or discourage lending activity
- sell held-for-trading investments
- sell off a portion of the loans portfolio
- access the liquidity pool through SaskCentral
- seek merger with another credit union

The Capital Plan reflects a strong and stable financial environment with Prairie Pride Credit Union projected to exceed minimum regulatory capital requirements over the term of the Capital Plan. It is recognized that the ICAAP analysis indicates that our credit union has a surplus in capital relative to its risk profile. The continued strategy will be to build capital and conduct more detailed analysis of stress testing to determine a better defined level of capital required. Eligible capital is projected to grow for 2022.

Prairie Pride Credit Union has enjoyed ample operating liquidity because of the moderate loan-to-asset ratio. Management has identified the need to increase this ratio to improve profitability. This will place greater emphasis on the need for careful management of operating liquidity and understand fluctuations in daily liquidity requirements from key members. Prairie Pride Credit Union will continue

to make use of liquidity funding tools available through SaskCentral and Concentra.

In conclusion, risk management is an evolving process. You will never be done. Risk is everyone's responsibility.

Capital and Liquidity Management:

Prairie Pride Credit Union recognizes a need to build the credit union's capital position in order to continue to meet regulatory and sound operational requirements. Adequate capital enables the credit union to sustain its liquidity requirements, to safely fund development initiatives, and provide leverage to effectively manage performance standards.

The Credit Union has developed a Capital & Liquidity Plan for the purpose of identifying optimal capital ranges for the Credit Union. The measures that the Board and Management will employ to work towards those optimal ranges is based on the following statements:

- If we have too little capital, it restricts the credit union's ability to grow and generate good returns. It also increases the risk of having insufficient funds to cushion against unexpected losses or liquidity needs.
- If we have too much capital, it could be considered that the credit union is not generating sufficient return on its capital.

Prairie Pride Credit Union's Capital & Liquidity Plan is directly related to its service delivery strategies and risk philosophy. The credit union holds a low to moderate appetite for risk. We have focused on traditional financial services and have managed a low level of risk in its loan and investment portfolio. Liquidity has been maintained within a very comfortable range. This has proven to be a very valuable strategy through the recent downturn in the economy. Prairie Pride Credit Union has been able to adjust to these changing times by maintaining a reasonable profit margin and by taking a managed approach to its deposit and loan growth.

Regulators have issued more stringent standards for holding and reporting capital in financial institutions. The **Credit Union Deposit Guarantee Corporation (CUDGC)** implemented a new capital framework in 2013, which was a fundamental shift in capital management. The new standard more accurately measures the need for capital based on a credit union's corporate risk profiles. It considers not only the quantity of capital, but also the quality.

Prairie Pride Credit Union's strategy is to continue to grow our capital levels. We plan on managing our growth and our profitability, so that we can achieve this strategy.

CUDGC has also issued new **Liquidity Standards** that came into effect January 1, 2017. The new standards provide a framework which allows the Corporation to assess whether we maintain adequate and appropriate liquidity levels. A key component of the Liquidity Standards is the introduction of the Liquidity Coverage Ratio (LCR). The objective of the LCR is to ensure that we have an adequate stock of unencumbered high quality assets (HQLA) that:

- Consists of cash or assets that can be converted to cash at little or no loss of value
- Meets its liquidity needs for a 30 calendar day liquidity stress scenario, by which time it is assumed corrective actions have been taken by the credit union and/or the Corporation

The Corporation has developed a phased in approach where the minimum LCR requirement starts out at 80% in 2017, then to 90% in 2018 and in 2019 increased to 100%. The credit union completed an assessment of the LCR and on December 31, 2022 our ratio was well above those standards at 185.7%. This ratio being above the standard is mainly due to matured investments held at year end in cash and not yet reinvested. On average Prairie Pride Credit Union strives to maintain our Liquidity Coverage Ratio at approximately 200%-300%.

SaskCentral is the statutory liquidity manager for the Saskatchewan Credit Union system. Credit unions are required to hold 10% of member deposits in statutory liquidity funds and adjust those figures on a quarterly basis. As of year-end Prairie Pride Credit Union was at 10.53%.

### **Loan and Residential Mortgage Portfolio**

Prairie Pride Credit Union's loan portfolio can be influenced by excessive concentration in a number of ways: geographic region, type of product, industry, demographic characteristic and associated groups or individuals. Land values, commodity prices, home values, and personal incomes all have a direct influence on risk in the loan portfolio. In addition, local industries and the agricultural community are subject to market and weather conditions beyond the control of the credit union and can be difficult to anticipate.

Credit Union Deposit Guarantee Corporation introduced Regulatory Guidance relating to Residential Mortgage Underwriting. The guideline reaffirms the need for credit unions to have a stress-testing regime that considers unlikely, but plausible, scenarios and their impact on the residential mortgage portfolio. Results of these stress tests should be considered in the credit union's internal capital adequacy assessment process (ICAAP). Credit unions reflect risk sets with inherently greater risk through risk-sensitive increases in capital identified through their ICAAP.

Prairie Pride Credit Union's loan portfolio is balanced with 33% consumer, 20% commercial, 47% agriculture.

There is however, material exposure by product type, demographic characteristic, or associated groups/individuals. We do have limited geographic exposure given our three branches in Southeastern Saskatchewan and therefore use syndications to diversify our portfolio as well as manage concentration limits. We continue to manage on the assumption that a dramatic downturn in any industry could impact earnings/ capital of the loans portfolio.

At year-end, our \$100 million dollar loan portfolio was comprised of 8.34% insured residential mortgages and 20.93% uninsured residential mortgages. Of the total loan portfolio, approximately .44% are home equity lines of credit. In line with the Draft Residential Mortgage Underwriting Guideline, the Manager of Lending will continue to review its mortgage underwriting practices/documentation to ensure it meets the guideline standards. Prairie Pride Credit Union does not believe it has undue risk in its uninsured mortgage portfolio or underwriting practices and that current risk weighted asset-based concentration provisions in the ICAAP sufficiently address risk in the residential portfolio.

## **Corporate Structure and Governance**

The governance of Prairie Pride Credit Union is anchored in the co-operative principle of democratic member control. The credit union has nine positions on the Board, of which one is currently vacant. Board member, Laura Stanley, is Prairie Pride Credit Union's delegate representative to SaskCentral.

## **Board of Directors**

### ***Mandate and Responsibilities***

The board is responsible for the strategic oversight, business direction and supervision of management of Prairie Pride Credit Union. In acting in the best interests of the credit union and its members, the board's actions adhere to the standards set out in *The Credit Union Act 1998*, the *Standards of Sound Business Practice* and other applicable legislation.

### ***Directors***

<b>Name</b>	<b>Term Expires</b>
Ryan Hull	March 2023
Glenda Nielsen	March 2023
Linda Thauberger-Smith	March 2023
Vacant (Alameda)	March 2024
Peter McClung (President)	March 2024
Laura Stanley (Vice President)	March 2024
Melanie Warner (Appointed 1 yr. until 2023)	March 2025
Kris Potapinski	March 2025
Krystyn Gillies	March 2025

### ***Board Composition***

The board is composed of 9 individuals elected on a branch basis. Three directors from Alameda, three from Alida and three from Gainsborough are represented on the board. Terms are for 3 years. Nominations are made by advertising for nominations which are due two weeks prior to the election week. Election week is the week before the annual general meeting. Voting is by paper ballot and election results are announced at Prairie Pride Credit Union's annual general meeting.

### ***Committees***

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



- Executive Committee is comprised of the President, 1<sup>st</sup> Vice President and 2<sup>nd</sup> Vice President and act as the official representatives of the Board of Directors. Committee members include:  
Peter McClung  
Laura Stanley  
Kris Potapinski
- Conduct Review Committee ensures that Prairie Pride Credit Union acts with the full integrity and objectivity of its directors and employees, by having in place policies, processes and practices that protect people and the organization from claims and from the perception of unfair benefit or conflict of interest. Committee members include;  
Ryan Hull  
Linda Thauberger-Smith  
Vacant as of July 2022 (Alternate member attended during vacancy)
- Audit Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators, and reviews internal control procedures. Committee members include;  
Laura Stanley  
Kris Potapinski  
Krystyn Gillies
- Community Dividend Committee is comprised of three directors and is responsible to recommend projects from community groups to the Board of Directors. Committee members include;  
Ryan Hull  
Krystyn Gillies  
Linda Thauberger-Smith

### ***Compensation***

Board members are volunteers but compensated for expenses and time. Board compensation for 2022 was remuneration- \$22,925 (\$15,275 - 2021), mileage - \$2,190 (\$2,196 - 2021), and meals - \$27.50 (\$0.00 - 2021).

### ***Director Training***

Directors are expected to be continually exposed to training opportunities that will help them gain knowledge and experience. It is each director's

individual responsibility to ensure they provide the oversight to ensure the credit union is effectively managing its risks, and to provide strategic direction to management. Director training expense for 2022 was \$5,951 (4,027 – 2021). To keep current in an ever-changing environment, directors take advantage of several training methods throughout the year:

- **CUDA (Credit Union Director Achievement) Program**  
The CUDA Program provides a series of standard courses designed specifically for areas of interest for directors. Directors are expected to achieve the three levels of designation over their term as Director. Many of the courses are available on-line and some are provided through facilitated group sessions.
- Credit Union Deposit Guarantee Corporation offers Director Workshops that are specific to the regulatory environment.
- Various in-house training is provided relating to subjects of interest such as;
  - financial management
  - capital and liquidity requirements
  - risk management
  - anti-money laundering, and anti-terrorist financing training

## **Corporate Social Responsibility (CSR)**

### ***Project Pride- Community Program***

Prairie Pride Credit Union believes that investing in our communities is an investment in our future. We believe that corporate responsibility and social responsibility go hand in hand – we have a responsibility to be good corporate citizens by giving back to the communities in which we live and do business. Since Project Pride’s inception in 2008 The Board of Directors has approved and funded \$456,600.

Project Pride was created to support community-based project(s). We are inviting applications from community groups in our trading area who are spearheading an effort to build, expand and/or improve facilities and/or programs to support the development of our communities.

Prairie Pride Credit Union continues to support other organizations in our communities as well- cash donations, sponsorships, volunteer activities. In 2022, Prairie Pride donated approximately \$13,700 in cash and gifts-in-kind to organizations in our trading area. Additionally, Prairie Pride Credit Union staff has logged more than 1026 volunteer hours in 2022 for the betterment of the communities in our service area. (846 in 2021)

Additionally, each year Prairie Pride Credit Union presents a \$500 scholarship award to the graduate that will continue their education at a university and a graduate that will attend a technical school. A total of ten scholarship awards are presented annually - three to Carnduff High School, three to Oxbow High School and three to Redvers High School totaling \$5,000. New for 2022 is the Lynette Peet Legacy Fund to be added as well as Arcola High School.

### ***Our Staff***

Our staff provides high quality service to our members in our communities. Staff continues to enroll in training courses to improve their skills. Prairie Pride Credit Union employs over 22 staff, which supports their communities with pride. Our staff commits many hours of their own time to fire departments, service clubs, sports teams, municipal and churches to name a few. Many are in executive positions with these organizations.

Four employees will receive a long-term service award in 2022. Recognition to:

Kirstin Mathison	10 years
Tanisha Salicon	5 years
Chelsea Brock	5 years
Crystal Lupanko	5 years

**PRAIRIE PRIDE CREDIT UNION**

**ALAMEDA, SASKATCHEWAN**

**INDEPENDENT AUDITORS' REPORT AND  
SUMMARY FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

## MANAGEMENT'S RESPONSIBILITY COMMUNICATION

To the Members,

### Prairie Pride Credit Union

Management is responsible for preparing the accompanying summary financial statements and is responsible for their integrity and objectivity. The basis of presentation adopted is not in conformity with International Financial Reporting Standards in that the financial statements do not contain all the required disclosures. The basis of presentation is considered by management to be most appropriate for the broad communication of financial information to members, however, readers are cautioned that these statements may not be appropriate for their specific purposes.

Complete financial statements are available upon request.



Chair, Audit Committee



General Manager

## INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS

**To the Members,  
Prairie Pride Credit Union**

### *Opinion*

The summary financial statements, which comprise the summary statement of financial position as at December 31, 2022, the summary statements of changes in members equity, comprehensive income and cash flows for the year then ended, and related notes, are derived from the audited financial statements of **Prairie Pride Credit Union** for the year ended December 31, 2022.

In our opinion, the accompanying summary financial statements are a fair summary of the audited financial statements, which were prepared in accordance with International Financial Reporting Standards.

### *Summary Financial Statements*

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

### *The Audited Financial Statements and Our Report Thereon*

We expressed an unmodified audit opinion on the audited financial statements in our report dated March 28, 2023.

### *Management's Responsibility for the Summary Financial Statements*

Management is responsible for the preparation of the summary financial statements based on the audited financial statements prepared in accordance with International Financial Reporting Standards.

### *Auditor's Responsibility*

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

March 28, 2023  
Regina, Saskatchewan

*VIRTUS GROUP LLP*  
Chartered Professional Accountants

**PRAIRIE PRIDE CREDIT UNION**  
**SUMMARY STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2022**  
**(with comparative figures for 2021)**

ASSETS		
	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,245,657	\$ 12,706,300
Investments	25,401,641	26,156,597
Loans receivable	100,046,908	91,504,911
Other assets	1,697,976	151,573
Property and equipment	125,393	153,306
	<u>\$ 130,517,575</u>	<u>\$ 130,672,687</u>
LIABILITIES		
Deposits	\$ 117,021,886	\$ 119,869,742
Other liabilities	1,334,535	486,126
Shares	7,380	7,215
	118,363,801	120,363,083
MEMBERS' EQUITY		
Retained earnings	12,153,774	10,309,604
Accumulated other comprehensive income	-	-
	<u>\$ 130,517,575</u>	<u>\$ 130,672,687</u>

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

**APPROVED BY THE BOARD:**

 Director

 Director

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

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	<u>2022</u>	<u>2021</u>
Retained earnings - beginning of year	\$ 10,309,604	\$ 9,828,233
Net income	<u>1,844,170</u>	<u>481,371</u>
Retained earnings - end of year	<u>\$ 12,153,774</u>	<u>\$ 10,309,604</u>
Accumulated other comprehensive income - beginning of year	\$ -	\$ -
Other comprehensive income	<u>-</u>	<u>-</u>
Accumulated other comprehensive income - end of year	<u>\$ -</u>	<u>\$ -</u>
<b>TOTAL EQUITY</b>	<u><u>\$ 12,153,774</u></u>	<u><u>\$ 10,309,604</u></u>

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



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

	<u>2022</u>	<u>2021</u>
<b>Interest revenue</b>		
Loan	\$ 3,830,000	\$ 3,386,705
Investment	576,563	279,981
	<u>4,406,563</u>	<u>3,666,686</u>
<b>Interest expense</b>		
Borrowed money	3,484	332
Member deposits	1,184,785	898,272
	<u>1,188,269</u>	<u>898,604</u>
<b>Net interest</b>	3,218,294	2,768,082
<b>Provision for credit losses</b>	470,973	27,156
<b>Net interest after provision for credit losses</b>	<u>2,747,321</u>	<u>2,740,926</u>
<b>Other income</b>	<u>2,126,812</u>	<u>635,941</u>
<b>Operating expenses</b>		
General business	762,723	773,446
Occupancy	105,028	100,006
Organizational	60,287	49,794
Personnel	1,943,408	1,827,610
Security	119,483	106,844
	<u>2,990,929</u>	<u>2,857,700</u>
<b>Income before income taxes</b>	1,883,204	519,167
<b>Income taxes</b>	39,034	37,796
<b>Net income before other comprehensive income</b>	<u>1,844,170</u>	<u>481,371</u>
<b>Other comprehensive income</b>	<u>-</u>	<u>-</u>
<b>Comprehensive income</b>	<u>\$ 1,844,170</u>	<u>\$ 481,371</u>

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

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

	<u>2022</u>	<u>2021</u>
<b>Cash provided by (used in) operating activities:</b>		
Comprehensive income	\$ 1,844,170	\$ 481,371
Items not involving cash:		
- Amortization	33,833	48,301
- Provision for credit losses	470,973	27,156
Net change in other assets and other liabilities	(697,994)	251,258
	<u>1,650,982</u>	<u>808,086</u>
<b>Cash provided by (used in) investing activities:</b>		
Investments	754,956	(3,986,670)
Loans receivable	(9,012,970)	(6,964,336)
Property and equipment	(5,920)	(23,128)
	<u>(8,263,934)</u>	<u>(10,974,134)</u>
<b>Cash provided by (used in) financing activities:</b>		
Deposits	(2,847,856)	10,577,349
Shares	165	155
	<u>(2,847,691)</u>	<u>10,577,504</u>
<b>Increase (decrease) in cash</b>	(9,460,643)	433,636
<b>Cash position - beginning of year</b>	<u>12,706,300</u>	<u>12,272,664</u>
<b>Cash position - end of year</b>	<u>\$ 3,245,657</u>	<u>\$ 12,706,300</u>

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



## CREDIT UNION DEPOSIT GUARANTEE CORPORATION ANNUAL REPORT MESSAGE 2022

**January 2023**

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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](http://www.cudgc.sk.ca).

## Quick Facts

**(as of December 31, 2022, unless otherwise indicated)**

- As of January 1, 2023, there are 33 credit unions in Saskatchewan serving 197 communities through 224 service outlets.
- Credit unions offer financial products and services to more than 497,000 members.
- Saskatchewan credit union assets reached \$28.6 billion with revenue of more than \$1.43 billion.
- Credit union lending amounts were more than \$21 billion.
- There are 317 board members who are locally elected by members of each credit union to provide strategic direction to their management teams.
- As independent financial institutions owned and controlled by their members, credit unions are shaped by community needs. Saskatchewan credit unions range in asset size from \$40.85 million to more than \$7.2 billion.
- In 2022, Saskatchewan credit unions returned over \$18.86 million to their members in the form of patronage equity contribution and dividends.
- Credit unions are a major contributor to Saskatchewan's economy, employing over 3,400 people.
- Funds held on deposit in Saskatchewan credit unions are fully guaranteed through the Credit Union Deposit Guarantee Corporation. The full guarantee is made possible through a comprehensive deposit protection regime that is focused on prevention. Read more about the **guarantee**.

<https://www.saskcu.com/about-us/quick-facts/>