CONEXUS CREDIT UNION

Consolidated Financial Statements
December 31, 2017

Contents

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Conexus Credit Union were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many accounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with the financial reporting requirements prescribed by *The Credit Union Act, 1998* of the Province of Saskatchewan, Credit Union Deposit Guarantee Corporation and by statute. The accounting policies followed in the preparation of these financial statements conform to International Financial Reporting Standards (IFRS). Financial and operating data elsewhere in the annual report are consistent with the information contained in the consolidated financial statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include: quality standards in hiring and training of employees, policy and procedure manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with the appropriate legislation and conflict of interest rules. It is also supported by internal audit staff, which conducts periodic audits of all aspects of our operations.

The board of directors oversees management's responsibilities for financial reporting through an Audit and Conduct Review Committee, which is composed entirely of independent directors. This Committee reviews our consolidated financial statements and recommends them to the board for approval. Other key responsibilities of the Audit and Conduct Review Committee include reviewing our existing internal control procedures, planned revisions to those procedures and advising the directors on auditing matters and financial reporting issues. Our chief internal auditor has full and unrestricted access to the Audit and Conduct Review Committee.

Further monitoring of financial performance and reporting is carried out by the Credit Union Deposit Guarantee Corporation. It is given its responsibilities and powers by provincial statute through *The Credit Union Act, 1998*. Its purpose is to guarantee members' funds on deposit with Saskatchewan credit unions and provide preventative services, that include ongoing financial monitoring, regular reporting and consultation.

Deloitte LLP Chartered Professional Accountants, appointed by the members of Conexus Credit Union upon the recommendation of the Audit and Conduct Review Committee and board of directors, have performed an independent audit of the consolidated financial statements and their report follows. The auditors have full and unrestricted access to the Audit and Conduct Review Committee to discuss their related findings.

Eric Dillon	**Neil Cooper**
Chief Executive Officer	Chief Financial Officer

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Independent Auditor's Report

To the Members of
Conexus Credit Union 2006

We have audited the accompanying consolidated financial statements of Conexus Credit Union 2006, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in members' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Conexus Credit Union 2006 as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Professional Accountants

March 6, 2018
Regina, Saskatchewan

Consolidated Statement of Financial Position

(In thousands of CDN $)
As at December 31, 2017

	Note	2017	2016
Assets			
Cash and cash equivalents	3	134,624	134,916
Derivative financial instruments	4	11,352	9,566
Investment securities	5	650,669	679,229
Loans and advances	6,7	4,948,361	4,668,855
Property, plant and equipment	9	52,267	54,151
Intangible assets	10	2,427	2,709
Deferred tax assets	19	598	1,163
Other assets	11	17,202	16,363
Goodwill	10	1,234	1,234
Total assets		5,818,734	5,568,186
Liabilities			
Borrowings	12	60,000	-
Derivative financial instruments	4	4,843	5,150
Secured debt	8	893,475	866,045
Deposits	13	4,325,176	4,195,923
Current tax liabilities		2,870	740
Deferred tax liabilities	19	1,291	1,627
Membership shares and member equity accounts	14	20,742	22,543
Other liabilities	15	46,996	44,666
Total liabilities		5,355,393	5,136,694
Members' equity			
Accumulated other comprehensive income		(1,906)	(222)
Retained earnings		465,247	431,714
Total members' equity		463,341	431,492
Total liabilities and members' equity		5,818,734	5,568,186

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD:

Bradyn Parisian, Chair, Board of Directors

John Benson, Chair, Audit and Conduct Review Committee

Consolidated Statement of Comprehensive Income

(In thousands of CDN $)
For the year ended December 31, 2017

	Note	2017	2016
Interest income	17	193,941	185,450
Interest expense	17	54,475	55,257
Net interest income		139,466	130,193
Loan impairment charges	7	9,929	3,449
Net interest income after impairment charges		129,537	126,744
Other income	18	45,323	53,700
Net interest income and other income		174,860	180,444
Operating expenses			
Personnel		73,512	76,447
General business		40,963	37,996
Occupancy		10,985	10,766
Member security		3,744	4,021
Organizational		2,009	1,956
Total operating expenses		131,213	131,186
Profit for the year before income tax		43,647	49,258
Income tax expense	19	10,114	8,828
Profit for the year		33,533	40,430
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Net unrealized gains (losses) on available-for-sale financial assets		(1,989)	(2,013)
Net adjustments for realized net (gains) losses		305	(122)
Other comprehensive income for the year, net of tax		(1,684)	(2,135)
Total comprehensive income for the year		31,849	38,295

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Members' Equity

(In thousands of CDN $)
As at December 31, 2017

	2017	2016
Accumulated other comprehensive income		
Balance at beginning of year	(222)	1,913
Other comprehensive income:		
Net change in fair value of available-for-sale financial assets (net of tax of $460 (2016 - $411))	(1,684)	(2,135)
Balance at end of year	(1,906)	(222)
Retained earnings		
Balance at beginning of year	431,714	391,284
Profit for the year	33,533	40,430
Balance at end of year	465,247	431,714
Total members' equity	463,341	431,492

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

(In thousands of CDN $)
For the year ended December 31, 2017

	Note	2017	2016
Cash flows provided by (used in) operating activities			
Profit for the year		33,533	40,430
Adjustments for non-cash items:			
Loan impairment charges		9,929	3,449
Amortization of property, plant and equipment	9	5,515	5,543
Amortization of intangible assets	10	1,514	1,762
(Gain) on disposal of property, plant and equipment		(4)	3
Net interest income	17	(139,466)	(130,193)
Dividends on investment securities	18	(4,173)	(3,426)
Unrealized and realized (gains) losses on investment securities	18	(2,173)	852
Income from investment in associates	18	(386)	(506)
Income tax expense	19	10,114	8,828
Gain on sale of subsidiary	18	-	(11,672)
Changes in operating assets and liabilities:			
Loans and advances	6	(286,609)	(184,379)
Secured debt	8	27,430	5,591
Subordinated debt		-	(19,953)
Deposits	13	128,042	106,179
Derivative financial assets	4	(1,786)	(1,551)
Derivative financial liabilities	4	(307)	48
Other assets	11	(839)	80
Other liabilities	15	2,330	(713)
Other non-cash operating items		1,737	(488)
Interest received		183,141	176,957
Interest paid		(53,264)	(57,012)
Income tax paid		(7,238)	(9,346)
Cash flows provided by (used in) operating activities		(92,960)	(69,517)
Cash flows provided by (used in) investing activities			
Interest received		8,042	9,491
Dividends received	18	4,173	3,426
Volume bonus and dividend received from investment in associate		517	551
Purchases of investment securities		(513,518)	(560,619)
Proceeds on sale of investment securities		539,772	564,845
Purchase of property, plant and equipment	9	(3,634)	(2,953)
Proceeds from sale of property, plant and equipment		7	47
Purchase of intangible assets	10	(1,232)	(1,022)
Proceeds from sale of subsidiary		-	11,410
Cash flows provided by (used in) investing activities		34,127	25,176
Cash flows provided by (used in) financing activities			
Advance of borrowings: (Beginning 2017- $nil, Net cash flows - $60,000, Ending 2017- $60,000)	12	60,000	-
Membership shares redeemed: (Beginning 2017- $22,543, Net cash flows - ($1,801), Non-cash items - $nil, Ending 2017- $20,742)		(1,801)	(2,017)
Cash flows provided by (used in) financing activities		58,199	(2,017)
Net increase (decrease) in cash and cash equivalents during the year		(634)	(46,358)
Net foreign exchange difference on cash held		342	1,095
Cash and cash equivalents, beginning of year	3	134,916	180,179
Cash and cash equivalents, end of year	3	134,624	134,916

See accompanying notes to the consolidated financial statements

1. INCORPORATION AND GOVERNING LEGISLATION

Conexus Credit Union 2006 (the Credit Union), was established and continued pursuant to *The Credit Union Act, 1998* of the Province of Saskatchewan. The Credit Union serves members and non-members in the Province of Saskatchewan. The address of the Credit Union's registered office is 1960 Albert Street, Regina, Saskatchewan, Canada.

Credit Union Deposit Guarantee Corporation (CUDGC) is the deposit guarantor for Saskatchewan Credit Unions, and the primary regulator for Saskatchewan Credit Unions and SaskCentral. CUDGC is charged through provincial legislation, *The Credit Union Act, 1998*, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan Credit Unions. CUDGC was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, CUDGC contributes to confidence in Saskatchewan Credit Unions. For more information about deposit protection, CUDGC's regulatory responsibilities, and its role in promoting the strength and stability of Saskatchewan Credit Unions, talk to a representative at the Credit Union or visit the CUDGC's website at www.cudgc.sk.ca.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and revised standards in the current year
Changes to IFRS standards which became effective in 2017 include various minor changes and amendments to existing standards. These changes have all been reviewed to determine their effect on the Credit Union. It has been determined that none of these minor changes and amendments resulted in any changes to the consolidated financial statements of the Credit Union.

Basis of preparation
These consolidated financial statements have been prepared in accordance with the applicable governing legislation for each entity, which conform in all material respects to IFRS.

The consolidated financial statements for the year ended December 31, 2017, were authorized for issue by the board of directors on March 6, 2018.

These consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and financial instruments classified as fair value through profit or loss and available-for-sale, which have been measured at fair value. The methods to measure fair value are presented in Note 22.

The consolidated financial statements are presented in Canadian dollars (CDN $), the functional currency, and have been rounded to the nearest thousand, unless stated otherwise.

Use of estimates and key judgments
The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Accordingly, actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

Valuation of financial instruments
The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques explained in Note 22. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include consideration of liquidity, future cash flows, current market yields and other risks affecting the specific instrument.

Determination of allowance for credit losses
The individual allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the cash flows the Credit Union expects to receive. These estimates are based on a number of factors, including the net realizable value of the underlying collateral.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The collective allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective allowance, management considers historical averages for write-offs, greater than 90 day delinquencies and portfolio balances. Current delinquencies greater than 90 days are used as the loss trigger event. See the impairment of loans and advances under the significant accounting policies contained in this note for further discussion of allowance for credit losses.

Consolidation of controlled entities
The determination of control for purposes of consolidation requires management judgment on the definition of control. For further discussion of consolidation refer to the heading basis of consolidation contained in this note.

Assessment of significant influence and joint control
Currently the Credit Union holds $36,490 in membership shares of SaskCentral, or 22.6% (2016 - $36,490; 22.6%) of the total issued and outstanding membership shares. The Credit Union does not have significant influence over the strategic, operating and financial policies of SaskCentral, including decisions about dividends and other distributions. Aside from liquidity deposits required by Credit Union Deposit Guarantee Corporation (CUDGC) and an authorized line of credit, there are no material transactions between the Credit Union and SaskCentral, no exchange of managerial personnel and technical information is not shared. Therefore, management has determined that the Credit Union does not have significant influence over SaskCentral.

The Credit Union holds 20.1% (2016 – 20.1%) of the total issued and outstanding units of Apex Investment Limited Partnership (Apex I). The Credit Union does not have significant influence over strategic, operating and financial policies of Apex I, including decisions about dividends and other distributions. Therefore, management has determined that the Credit Union does not have significant influence over Apex I.

The Credit Union holds a 40% (2016 – 40%) ownership in CU Dealer Finance Corp (CUDF) and a 25% (2016 – 25%) ownership in Apex Investment GP Inc. The Credit Union does have influence over the strategic, operating and financial policies of these entities including decisions regarding dividends and other distributions. Therefore, management has determined that the Credit Union has significant influence but not control over these entities.

The Credit Union holds 50% (2016- 33.3%) ownership in Thrive Wealth Management Ltd 101295805 (Thrive Wealth Management). The Credit Union has joint control over the strategic, operating and financial policies of this entity including decisions regarding dividends and other distributions. The Credit Union shares control of Thrive Wealth Management as decisions about the relevant activities require unanimous consent of the parties sharing control. Furthermore, there is no contractual arrangement or any other facts or circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Therefore, management has determined that the Credit Union has joint control over this entity and will be classified as a joint venture.

Useful lives of property, plant, equipment and intangible assets
Estimates must be utilized in evaluating the useful lives of all property, plant, equipment and intangible assets for calculation of the amortization for each class of assets. For further discussion of the estimation of useful lives, refer to the heading property, plant and equipment and intangible assets contained in this note.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies adopted by the Credit Union follow:

Basis of consolidation

The consolidated financial statements contain the assets, liabilities, income and expenses of subsidiaries after eliminating inter-company transactions and balances.

Investment securities, in which the Credit Union does not control, but exercises significant influence, are accounted for using the equity method. Under this method, the Credit Union records its initial investment at cost and then records its equity share of any post acquisition net income or loss. Dividends received are recorded as a reduction of the investment, which is included in other assets in the Consolidated Statement of Financial Position.

Entities are consolidated when the substance of the relationship between the Credit Union and the entity indicates control. Control exists if the Credit Union has all of the following:

- Power over the investee, meaning the ability to direct the relevant activities of the entity;
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the Credit Union's returns.

Whenever there is a change in the substance of the relationship between the Credit Union and the investee, the Credit Union performs a reassessment of consolidation.

Included in the consolidated financial statements are the following entities:

Subsidiaries

The Credit Union has 100% ownership in Protexus Holdings Corp.

Significant influence investments

The Credit Union has a 40% (2016 – 40%) ownership in CU Dealer Finance Corp (CUDF) and a 25% (2016 – 25%) ownership in Apex Investment GP Inc. (Apex), which were incorporated under the laws of the Province of Saskatchewan, Canada.

Joint ventures

The credit union has a 50% (2016 - 33.3%) ownership in Thrive Wealth Management, which was incorporated under the laws of the Province of Saskachewan, Canada.

Other controlled entities

The Credit Union has determined that Pivot Trust is an entity that the Credit Union controls and therefore consolidates.

Classification and measurement of financial instruments

Financial assets and liabilities are recognized on the Consolidated Statement of Financial Position at the trade date. All financial instruments are measured initially at fair value. Subsequent measurement is determined by the financial instrument's classification. Classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments based on management's intentions.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Transaction costs may include fees and commissions paid to agents or brokers, levies by regulatory agencies and transfer taxes and duties. Transaction costs related to financial instruments not classified as fair value through profit or loss (FVTPL) are added to or deducted from the fair value on initial recognition. For financial instruments classified as FVTPL transaction costs are expensed as incurred.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on point paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instrument classifications

Fair value through profit or loss (FVTPL)

This category comprises two sub-categories: financial assets held-for-trading (HFT) and financial assets designated by the Credit Union as FVTPL upon initial recognition.

A financial instrument is classified as HFT if it is acquired principally for the purpose of selling or repurchasing it in the near-term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as HFT unless they are designated as hedging instruments.

Changes in fair value of HFT financial instruments are recognized in the Consolidated Statement of Comprehensive Income as other income.

Financial instruments (assets or liabilities) designated as FVTPL are recognized initially at fair value with transaction costs expensed as incurred. Gains and losses arising for changes in fair value are included in the Consolidated Statement of Comprehensive Income as other income.

Although IFRS allows any financial instrument to be irrevocably designated as FVTPL, the Credit Union may only use this option providing that management of these financial instruments is in accordance with a documented risk management and investment strategy.

Loans and receivables (LR)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near-term.

Initial measurement is at fair value with subsequent measurement at amortized cost using the effective interest method less any accumulated impairment losses. Interest income on LR is recognized on the Consolidated Statement of Comprehensive Income as net interest income. Any impairment losses are recorded as loan impairment charges on the Consolidated Statement of Comprehensive Income.

Held-to-maturity (HTM)

HTM assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union has the intention and ability to hold to maturity. These are initially recognized at fair value including transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest on HTM financial assets is included in net interest income on the Consolidated Statement of Comprehensive Income.

Available-for-sale (AFS)

AFS assets are non-derivative financial assets intended to be held for an indefinite period of time and are not classified as HFT, FVTPL, LR or HTM financial assets. They are measured at fair value with unrealized gains and losses reported in other comprehensive income (OCI) on the Consolidated Statement of Comprehensive Income. Where no reliable quoted market price exists, the assets are held at cost less any accumulated impairment losses. Gains or losses are recognized in net income when the asset is derecognized or impaired.

Other liabilities (OL)

Financial liabilities not classified as FVTPL fall into this category. These are measured initially at fair value and subsequently at amortized cost using the effective interest method.

Fair value hierarchy

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, deposits at call and other short-term highly liquid investments with original maturities of three months or less. They are subject to insignificant risk of changes in fair value and are used by the Credit Union in the management of its short-term commitments. Cash and cash equivalents are classified as FVTPL. Due to their short-term nature, the recorded amounts of cash and cash equivalents are considered to be the fair value.

Derivative financial instruments
Derivative financial instruments are financial contracts whose values are derived from an underlying interest rate, foreign exchange rate, equity, commodity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions such as interest rate swaps and index-linked options for asset/liability management purposes. Such derivatives include contracts with Concentra Financial Services Association that reposition the Credit Union's interest rate risk profile and hedge agreements with SaskCentral to offset exposure to indices associated with index-linked deposit products.

The Credit Union has chosen not to use hedge accounting; therefore, all derivatives are classified as HFT and are recorded at fair value in the Consolidated Statement of Financial Position. Unrealized and realized gains and losses are recognized as other income on the Consolidated Statement of Comprehensive Income. Derivative interest income and expenses are calculated on an accrual basis and the net amount is recorded as interest income or expense on the Consolidated Statement of Comprehensive Income. Derivative financial instruments with a positive fair value are reported as assets and derivative financial instruments with a negative fair value are reported as liabilities in the Consolidated Statement of Financial Position.

When available, quoted market prices are used to determine the fair value of derivative financial instruments. Otherwise, fair value is determined using pricing models that consider current market prices and the contractual prices of underlying instruments, the time value of money, yield curves, volatility and credit risk factors.

An embedded derivative is a feature within a contract that causes a modification to the cash flows in response to a change in a specified interest rate, foreign currency rate, price or an index of rates or prices. The Credit Union bifurcates an embedded derivative from the host contract if the host contract is not FVTPL or if the embedded derivative and the host contract are not closely related. This embedded derivative is then classified as HFT and accounted for the same as other derivatives above.

Further details on derivatives are provided in Note 4.

Investment securities

Fair value through profit or loss
Investment securities classified as financial assets at FVTPL are designated as such upon initial recognition. These investment securities are designated as FVTPL if the Credit Union manages such investment securities and makes purchases and sales decisions based on their fair value in accordance with the Credit Union's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. In subsequent periods, these investment securities are measured at fair value with unrealized gains or losses recognized in other income on the Consolidated Statement of Comprehensive Income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale
Investment securities that are not classified as FVTPL or HTM, are classified as AFS. The Credit Union's equity investments and certain debt securities classified as AFS are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the marketplace. Subsequent to initial recognition, these investment securities are measured at fair value, with any unrealized gains or losses recognized in OCI. When an investment security is derecognized, the cumulative gain or loss in OCI is transferred to profit or loss. The Credit Union reviews AFS investment securities for impairment and when declines in fair value are deemed to be significant or prolonged the investment securities would then be measured at net realizable value. These permanent impairment losses are recorded in interest income on the Consolidated Statement of Comprehensive Income.

Held-to-maturity
Investment securities classified as HTM are financial assets with fixed or determinable payments and fixed maturity that the Credit Union has the intention and ability to hold to maturity. Subsequent to initial recognition these investment securities are measured at amortized cost using the effective interest method, unless there is a permanent decline in value, in which case the investment securities would then be measured at net realizable value.

Loans and receivables
Investment securities classified as LR are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition these investment securities are measured at amortized cost using the effective interest method, unless there is a permanent decline in value, in which case they would be measured at net realizable value.

Investment in associates and joint ventures
Investment in associates are entities which the Credit Union has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Credit Union holds between 20 and 50 percent of the voting power of another entity.

A joint venture is a joint arrangement whereby the Credit Union has joint control of the entity and has rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an entity, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investment in associates and joint ventures are accounted for using the equity method and are recognized initially at cost. The Credit Union's share of these entities' profits or losses is recognized in other income on the Consolidated Statement of Comprehensive Income.

Loans and advances
Loans and advances (loans) are financial assets with fixed or determinable payments that are not quoted in an active market. Loans the Credit Union does not intend to sell immediately or in the near future are classified as LR.

Loans are initially recognized at fair value which is the cash consideration to originate or purchase the loan including any transaction costs. Subsequently, they are measured at amortized cost using the effective interest method, less allowance for impairment plus accrued interest. Interest on loans is reported as interest income in the Consolidated Statement of Comprehensive Income.

Foreclosed assets held for resale are initially recorded at the lower of the investment recorded in the impaired loan and its estimated net realizable value. Subsequently, they are measured at the lower of carrying amount and fair value less costs to sell. Items in foreclosed assets typically include: commercial buildings and properties, agricultural land or equipment, residential mortgages and vehicles. Foreclosed assets are considered to be assets held in the course of realization of impaired loans. The Credit Union aims to sell foreclosed properties as soon as they can be made ready for sale. Properties are typically not used in the operations of the Credit Union.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of loans and advances

All loans are subject to a continuous management review process to assess whether there is objective evidence that a loan or group of loans is impaired. Impairment of a loan is recognized when objective evidence is available that a loss event has occurred after the initial recognition of the loan and has an impact on the estimated future cash flows.

The Credit Union first assesses whether objective evidence of impairment exists individually for loans that are individually significant or meet default criteria outlined in board approved policy. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed loan, it includes the loan in a portfolio of loans with similar risk profiles and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

The amount of impairment loss is measured as the difference between the carrying amount and the present value of future cash flows discounted at the loan's original effective interest rate. When management cannot reasonably determine the loan's future cash flows, it estimates the recoverable amount as the current market value of the loan's collateral net of expected selling costs. The carrying amount is reduced through the use of an allowance account and the amount of the loss is recognized in loan impairment charges in the Consolidated Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is recorded in interest income on the Consolidated Statement of Comprehensive Income.

The collective impairment is based on a portfolio of loans with similar credit risk characteristics and estimated on the basis of average historical loss experience. The loss trigger event in determining the collective allowance is loans delinquent in excess of 90 days. Historical loss experiences are correlated to the loss trigger events by aggregated loan portfolios. A loan loss factor for each loan portfolio was determined based on a 10 year average of historical write-offs and loan delinquencies greater than 90 days when available. The loan loss factor, in addition to the current loan portfolio balances and related delinquencies greater than 90 days, is used to calculate the collective impairment. The methodology and assumptions used for estimating collective impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Credit Union.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account to a maximum of the original carrying value. The amount of the reversal is recognized in the Consolidated Statement of Comprehensive Income.

Restructured loans

Restructured loans are loans greater than 90 days delinquent that have been restructured outside the Credit Union's normal lending practices as it relates to extensions, amendments and consolidations. Management continually reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securitization

The Credit Union securitizes groups of assets by transferring them to a third party primarily to create liquidity for the Credit Union. All loans securitized by the Credit Union have been on a fully serviced basis. The Credit Union considers both the degree of transfer of risk and rewards on assets transferred to another entity and the degree of control exercised by the Credit Union over the other entity:

- When the Credit Union, in substance, controls the entity to which financial assets have been transferred, the entity is included in the consolidated financial statements and the transferred assets are recognized in the Credit Union's Consolidated Statement of Financial Position.
- When the Credit Union transfers financial assets to an unconsolidated entity and it retains substantially all of the risk and rewards relating to the transferred financial assets, the transferred assets and associated liability for the consideration received are recognized in the Credit Union's Consolidated Statement of Financial Position. The associated liability, secured by the transferred assets, is carried at amortized cost.
- When the Credit Union transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognized from the Credit Union's Consolidated Statement of Financial Position. The Credit Union generally retains an interest in the transferred assets such as servicing rights and various forms of recourse including rights to excess spread and credit enhancements. Retained interests are classified as AFS investment securities and carried at fair value. Gains or losses on securitization depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognized and the retained interests based on their relative fair values at the date of transfer. Changes in fair value of gains and losses deemed to be temporary are recorded in other comprehensive income and those deemed to be other than temporary are recorded in other income. A service liability is recorded at fair value and is amortized to other income over the term of the transferred assets.

Transaction costs incurred in the establishment of a securitization issuance that does not qualify for derecognition are amortized using the effective interest method over the expected life of the transferred assets. In addition, the Credit Union receives residual income from the securitization programs once all associated costs have been met. The residual income is recognized in net interest income on the Consolidated Statement of Comprehensive Income. Transaction costs incurred in the establishment of a securitization issuance that does qualify for derecognition are expensed as incurred.

Details of the transfer of financial assets to third parties are disclosed in Note 8.

Syndication

The Credit Union syndicates groups of assets with various other financial institutions primarily to 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 have been on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets. Fee income is recognized in other income on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

Wealth management services

The Credit Union offers members access to a wide variety of investments through Thrive Wealth Management. Assets under administration are recorded separately from the Credit Union's assets and are not included in the Consolidated Statement of Financial Position. As at December 31, 2017, funds managed totalled $1,415,149 (2016 - $1,185,623).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment
Land is measured at cost. Other items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Land is not amortized. Amortization of other items of property, plant and equipment is calculated using the straight-line method to write down the cost of the assets to their residual values over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The estimated useful lives are as follows:

Buildings	10 to 40 years
Computer equipment	4 to 5 years
Furniture, equipment and vehicles	5 years
Leasehold improvements	5 to 10 years

Amortization of property, plant and equipment is included under either general business expense or occupancy expense on the Consolidated Statement of Comprehensive Income. The assets' residual values are reviewed annually and adjusted if appropriate. Assets are reviewed annually for impairment and tested when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on the disposal of property, plant and equipment are determined by comparing the net proceeds and the carrying amount of the asset. These are included in the Consolidated Statement of Comprehensive Income in the year of disposal.

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

Goodwill is not amortized, but reviewed annually for impairment. The Credit Union tests goodwill impairment at the cash-generating unit (CGU) level when practical. If the Credit Union determines that using the CGU is not practical then goodwill impairment is assessed at the entity level. If an impairment is found to exist, further investigation is performed to determine the level of impairment and any loss is recognized directly in profit or loss on the Consolidated Statement of Comprehensive Income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Intangible assets
The Credit Union has intangible assets consisting of customer lists obtained from the merger with other credit unions, core deposits from the acquisition of other credit unions and software. Customer lists, core deposits and software are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related intangible asset as follows:

Customer lists	10 to 20 years
Core deposits	13 years
Software	3 to 5 years

Amortization of intangible assets is included under general business expense on the Consolidated Statement of Comprehensive Income. Intangible assets are reviewed at least annually for impairment and tested when conditions exist which indicate impairment.

The Credit Union does not have any intangible assets with indefinite lives. The Credit Union has not recognized any internally generated intangible assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Credit Union accounts for income taxes using the asset and liability method. Under this method, the provision for income taxes is calculated based on income tax laws and rates enacted and substantively enacted as at the Consolidated Statement of Financial Position date. The income tax provision is comprised of current income taxes and deferred income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of current year operations. Deferred income tax assets and liabilities arise from changes during the year in temporary differences between the accounting and tax basis of assets and liabilities. A deferred income tax asset is recognized to the extent that the benefit of losses and deductions available to be carried forward to future years for tax purposes are probable.

Other assets

Prepayments and certain receivables included in other assets are non financial instruments and initially recorded at fair value. Subsequently, they are measured at consideration remaining or amounts due, less any impairment losses. Receivables included in other assets that are financial instruments are classified as LR and initially recorded at fair value. Subsequently, they are measured at amortized cost using the effective interest method, less any impairment losses.

Impairment of assets

The Credit Union assesses impairment of all assets with the exception of FVTPL assets at the end of each reporting period. An impairment checklist which checks for impairment indicators is completed for each type of similar asset. If an impairment indicator is found to exist, further investigation is performed to determine the level of impairment. Any impairments determined are recorded as a decrease to the related asset on the Consolidated Statement of Financial Position and a corresponding expense on the Consolidated Statement of Comprehensive Income.

The amount of the impairment loss may decrease in a subsequent period. If this decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit and loss except in the case of AFS equity instruments, which is recognized in OCI. The impairment loss is reversed to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost or carrying value would have been had the impairment not been recognized.

Other financial liabilities

Borrowings, secured debt, deposits, membership shares and member equity accounts, certain other liabilities and subordinated debentures are initially recognized at fair value which is the consideration received net of any transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method.

Short-term employee benefits

Liabilities are recorded for employee benefits including salaries and wages, statutory payroll contributions, paid annual vacation leave and bonuses that are expected to be settled within 12 months of the Consolidated Statement of Financial Position date. These represent present obligations resulting from employees' services provided to the Consolidated Statement of Financial Position date and are included in other liabilities. The expected cost of bonus payments is recognized as a liability when the Credit Union has a present legal or constructive obligation to pay as a result of past events and the obligation can be reliably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when:

- The Credit Union has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation; and
- A reliable estimate can be made of the amount.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market conditions and risks specific to the liability and are recorded as liabilities in the Consolidated Statement of Financial Position and corresponding expenses in the Consolidated Statement of Comprehensive Income.

Foreign currency denominated assets and liabilities

Any assets or liabilities denominated in foreign currencies are translated to Canadian dollars at the rate of exchange at the Consolidated Statement of Financial Position date. All differences arising on the translation are recorded in other income on the Consolidated Statement of Comprehensive Income.

Recognition of income and expenses

Interest income and expense

Interest income arising from loans and investment securities is recognized in the Consolidated Statement of Comprehensive Income using the effective interest method. Interest income continues to be recognized for financial instruments that have become impaired. Management subsequently assesses and determines if the interest is collectible through their impairment of loans and investment securities processes.

Derivative interest income and expenses are calculated on an accrual basis and the net amount is recorded as derivative interest revenue or expense.

Loan origination income such as application fees, processing fees, search fees, disbursement fees, renewal fees, credit check fees, registration fees, personal property security registration fees and amendment fees - are deferred and recognized in the Consolidated Statement of Comprehensive Income as an increase in interest income on a yield basis over the expected life of the related loans. Loan origination expenses such as mortgage acquisition costs and referral incentives paid are also deferred and recognized in the Consolidated Statement of Comprehensive Income as a decrease in interest income on a yield basis over the expected life of the related loans. The balance outstanding of the deferred origination income (expense) is recognized on the Consolidated Statement of Financial Position as a decrease (increase) in the value of loans.

Interest expense arising from deposits and interest bearing liabilities is recognized in the Consolidated Statement of Comprehensive Income using the effective interest method.

Fees, Commissions and Other income

Fees, other than loan origination fees, are recognized as other income in the year the related service is provided. These fees include annual review fees, payment deferral fees, mortgage prepayment bonus fees, letter of credit fees, small business loans fees and outgoing mortgage transfer fees.

When the Credit Union acts in the capacity of an agent rather than as the principal in a transaction, the income recognized is the amount of commission paid to the Credit Union.

Other income is recognized on the accrual basis in the fiscal period in which it is earned.

<u>Unrealized and realized gains (losses) on derivative financial instruments</u>

For derivatives, increases and decreases in fair values are recorded in other income as unrealized and realized gains and losses on derivative financial instruments.

<u>Investment security gains and losses</u>

For investment securities classified as FVTPL, increases and decreases in fair values are recorded in other income as unrealized gains and losses on investment securities. Realized investment securities gains and losses are recorded when the related investment securities are sold. These amounts are recorded in other income on the Consolidated Statement of Comprehensive Income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For investment securities classified as AFS, unrealized gains and losses resulting from temporary changes in fair values are recorded, net of taxes, in other comprehensive income. Fair value declines that are other than temporary are moved from other comprehensive income into other income. Gains and losses on these investment securities are recognized in other income when sold.

For investment securities classified as HTM, gains and losses on these investment securities are recognized at the time of maturity in other income.

Foreign exchange revenue
Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Realized gains and losses resulting from translation are recorded in other income on the Consolidated Statement of Comprehensive Income.

The Credit Union offers currency exchange services and receives income based on the spread between the buy currency exchange rate and the sell currency exchange rate. The income is recorded as other income on the Consolidated Statement of Comprehensive Income when transactions are completed.

Wealth management income
The Credit Union receives commission income and volume bonus income based on the volume of business with Thrive Wealth Management. These commissions are recognized as other income when earned.

Pension costs
The Credit Union contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a post-employment benefit plan under which the Credit Union pays fixed contributions into a separate entity. The contributions are held in trust by the Co-operative Superannuation Society and are not recorded in the Consolidated Statement of Financial Position. As a defined contribution pension plan, the Credit Union has no future liability or obligation for future contributions to fund benefits to plan members.

Credit Union contributions to the plan are expensed as incurred. The annual pension expense from operations of $3,782, (2016 - $3,981) is included in personnel expense.

Future accounting changes

A number of new standards and amendments are not yet effective for the year ended December 31, 2017 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Credit Union, except as discussed below:

IFRS 9 Financial Instruments
IFRS 9 *Financial Instruments* guidance was finalized in July 2014; and brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board (IASB)'s project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 eliminates the five financial instrument classifications currently used under IAS 39. Instead there will be three new classifications as follows:

- Amortized cost is utilized when the objective of the financial instrument is strictly to collect contractual cash flows of principal and interest.
- Fair value through other comprehensive income (FVOCI) is used when the objective is achieved by both collecting contractual cash flows and selling the financial asset.
- Fair value through profit or loss (FVTPL) assets are held for trading and managed on a fair value basis.

The Credit Union has assessed that the members' equity impact of the changes to classification of financial assets upon IFRS 9 implementation will be an increase between $2,000 and $2,500.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For impairment measurement IAS 39 requires an incurred loss model which delays recognition of credit losses until there is evidence of a trigger event. IFRS 9 requires an expected credit loss (ECL) model where an entity will base its measurement of expected credit losses on reasonable and supportable information that is available without undue cost or effort, and includes historical, current and forecast information. The ECL model under IFRS 9 contains a three stage approach which is based on the change in credit quality since initial recognition. Under the first stage, where there has not been a significant increase in credit risk since initial recognition, an amount equal to the 12 month ECL will be recorded. Under the second stage, where there has been a significant increase in credit risk since initial recognition and the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded. Under the third stage, where there is evidence of impairment these financial assets will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded. This will affect the measurement of the individual and collective loan allowances at the Credit Union.

The Credit Union is currently assessing the ECL impacts on the consolidated financial statements.

In general, under IFRS 9 treatment of financial liabilities will remain essentially unchanged from IAS 39, with the exception of financial liabilities classified as FVTPL where changes in fair value are required to be presented in other comprehensive income.

The effective date of IFRS 9 is for fiscal periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 Revenue from Contracts with Customers specifies how an entity will recognize revenue from contracts with customers as well as additional disclosure requirements. It provides a five-step process for revenue recognition that is a control based model as compared to the existing standard which is primarily focused on risks and reward. Under the new standard revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. It is effective for periods beginning on or after January 1, 2018. The standard does not apply to financial instruments as these currently fall under IAS 39 and in the future under IFRS 9 above. Because the majority of the Credit Union’s revenue is earned from financial instrument contracts, this standard is not expected to have a material impact on the consolidated financial statements.

IFRS 16 Leases
IFRS 16 Leases removes the current requirement for lessees to classify leases as finance leases or operating leases by requiring the recognition of lease assets and lease liabilities on the consolidated statement of financial position for most leases with the exception of short term and low value leases. Lessees will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the statement of income. The effective date for IFRS 16 is for fiscal periods beginning on or after January 1, 2019. The Credit Union will assess what impact the application of IFRS 16 will have on amounts reported on the consolidated financial statements.

(In thousands of CDN $)

3. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	22,973	24,639
Restricted cash	71,291	7,975
Deposits at call - SaskCentral	25,385	67,309
Provincial government short-term investment	14,975	34,993
Total cash and cash equivalents	134,624	134,916

Restricted cash is comprised of cash reserves for the auto loan securitization, NHA mortgage backed securities programs and funds in trust for the purchase of credit card receivables (Note 25). Restricted cash is not available for use in the Credit Union's day-to-day operations.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at December 31 and are indicative of either the market risk or the credit risk.

	Maturities of derivatives (notional amount)					Net fair value			
				2017	2016	2017		2016	
	Under 1 year	1 to 5 years	Over 5 years	Total	Total	Assets	Liabilities	Assets	Liabilities
Derivatives at held-for-trading									
Interest rate swaps	-	14,971	10,329	25,300	26,557	-	626	-	1,476
Index-linked options	5,643	42,448	-	48,091	42,916	4,217	4,217	3,674	3,674
Embedded purchase option	-	-	-	-	-	7,135	-	5,892	-
Total	5,643	57,419	10,329	73,391	69,473	11,352	4,843	9,566	5,150

The Credit Union enters into derivative transactions for risk management purposes. There are currently no risk management purpose derivatives held or issued that receive hedge accounting treatment.

Interest rate swaps

The Credit Union currently enters into interest rate swaps with Concentra Financial Services Association to manage exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows based on agreed upon rates to a notional amount. Generally, counterparties exchange a fixed and floating interest rate payment to manage exposure to interest rate risk by modifying the interest rate characteristics of assets or liabilities.

Index-linked options

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

Embedded purchase option

The Credit Union has an agreement with a third party in which it acts as an agent to sell credit cards. The agreement lasts for three years and renews automatically unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying loans associated with the credit cards. The Credit Union has determined this embedded purchase option is a derivative financial instrument. See Note 25 for information on the purchase of these credit card receivables in January 2018.

(In thousands of CDN $)

5. INVESTMENT SECURITIES

The Credit Union's investments are recognized in the Consolidated Statement of Financial Position in accordance with financial instrument designation categories. The Credit Union's recorded values are as follows:

	2017	2016
Fair value through profit or loss		
SaskCentral - statutory liquidity deposits	231,412	157,881
Other securities	21,036	15,908
Total fair value through profit or loss	252,448	173,789
Available-for-sale		
SaskCentral - shares	36,490	36,490
SaskCentral - statutory liquidity deposits	219,077	273,999
Chartered bank guaranteed	55,344	120,286
Federal and provincial government	70,466	55,569
Other securities	14,739	16,985
Accrued interest	1,513	1,581
Total available-for-sale	397,629	504,910
Loans and receivables		
Other securities	592	530
Total loans and receivables	592	530
Total investment securities	650,669	679,229

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

There were no impairment losses for investment securities for the year ended December 31, 2017 (2016 – $nil).

SaskCentral – statutory liquidity deposits

Pursuant to Regulation 18(1)(a), of *The Credit Union Regulations, 1999*, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, Credit Union Deposit Guarantee Corporation (CUDGC) requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2017, the Credit Union met the requirement.

SaskCentral – shares

Currently the Credit Union holds $36,490 in membership shares of SaskCentral, or 22.6% (2016 - $36,490; 22.6%) of the total issued and outstanding membership shares. As defined in *The Credit Union Act, 1998,* the Credit Union has a substantial investment in SaskCentral, and pursuant to *The Credit Union Regulations, 1999*, the Credit Union has been authorized by CUDGC to hold this investment. The voting rights, characteristics, and value of membership shares are set out in the bylaws of SaskCentral. Membership shares of SaskCentral carry an issuance and redemption price of 10 dollars per share.

(In thousands of CDN $)

6. LOANS AND ADVANCES

Loans and advances by portfolio at amortized cost

	2017	**2016**
Consumer loans		
Mortgage guaranteed	1,132,370	1,069,968
Mortgage conventional	866,653	882,466
Non mortgage	702,539	691,611
Total consumer loans	2,701,562	2,644,045
Commercial loans		
Mortgage	1,250,987	1,133,339
Non mortgage	334,038	333,148
Government guaranteed	26,575	21,931
Total commercial loans	1,611,600	1,488,418
Agricultural loans		
Mortgage	334,253	277,083
Non mortgage	223,681	182,205
Government guaranteed	67,695	64,192
Total agricultural loans	625,629	523,480
Gross loans and advances	4,938,791	4,655,943
Amortized loan origination fees	2,138	2,554
Foreclosed property held for resale	1,512	1,778
Accrued interest receivable	14,676	11,850
Individual allowance for credit losses	(6,630)	(2,528)
Collective allowance for credit losses	(2,126)	(742)
Total loans and advances	4,948,361	4,668,855

Loans and advances (loans) are at amortized cost unless stated otherwise.

The Credit Union has entered into securitization transactions on residential mortgages and auto loans that do not qualify for derecognition. As at December 31, 2017, the total amount of securitized loans outstanding included in the loan balances above was $907,131 (2016 - $879,076). Further detail on securitized assets is disclosed in Note 8.

The Credit Union has also entered into syndication transactions with other financial institutions that do qualify for derecognition. As at December 31, 2017, the total amount of syndicated loans outstanding not included in the loan balances above was $645,903 (2016 - $628,556).

(In thousands of CDN $)

6. LOANS AND ADVANCES (continued)

Maturity analysis based on remaining term to maturity

	2017	2016
Scheduled for repayment		
Overdrafts and line of credit facilities	571,968	541,064
Under 1 year	1,976,206	1,947,594
1 year to under 5 years	2,367,669	2,141,614
5 years and over	22,948	25,671
	4,938,791	4,655,943

Security held against loans and advances

	2017	2016
Fully or partially secured by tangible mortgage assets	3,972,499	3,713,903
Fully or partially secured by tangible non mortgage assets	733,023	715,354
Unsecured	233,269	226,686
	4,938,791	4,655,943

It is not practical to fair value all security as at the Consolidated Statement of Financial Position date due to the variety, number and condition of assets. The security information is based at time of loan origination or more current information when available.

7. IMPAIRED AND PAST DUE LOANS AND ADVANCES

Reconciliation of the allowance for credit losses

	2017	2016
Individual allowance for credit losses		
Balance - beginning of year	2,528	2,610
Credit losses for the year:		-
Charges (Recovery) of loan impairment	6,959	2,367
Interest accrued on impaired loans and advances	1,586	834
Amounts written off	(4,443)	(3,283)
Balance - end of year	6,630	2,528
Collective allowance for credit losses		
Balance - beginning of year	742	494
Credit losses for the year:		-
Charges (Recovery) of loan impairment	1,384	248
Balance - end of year	2,126	742
Total allowance for credit losses	8,756	3,270

(In thousands of CDN $)

7. IMPAIRED AND PAST DUE LOANS AND ADVANCES (continued)

Impaired and allowance for credit losses by portfolio

	2017				2016			
	Impaired	Individual allowance	Collective allowance	Net impaired	Impaired	Individual allowance	Collective allowance	Net impaired
Consumer loans								
Mortgage guaranteed	5,277	-	(37)	5,240	2,436	-	(10)	2,426
Mortgage conventional	1,910	(82)	(28)	1,800	1,574	(76)	(6)	1,492
Non mortgage	1,703	(970)	(306)	427	2,238	(1,275)	(268)	695
Total consumer loans	8,890	(1,052)	(371)	7,467	6,248	(1,351)	(284)	4,613
Commercial loans								
Mortgage	27,534	(2,476)	(834)	24,224	8,782	(90)	(285)	8,407
Non mortgage	13,919	(2,968)	(795)	10,156	1,384	(726)	(99)	559
Government guaranteed	173	(34)	(119)	20	499	(301)	(54)	144
Total commercial loans	41,626	(5,478)	(1,748)	34,400	10,665	(1,117)	(438)	9,110
Agricultural loans								
Mortgage	1,289	-	(4)	1,285	419	-	(1)	418
Non mortgage	91	-	(2)	89	412	-	(18)	394
Government guaranteed	282	-	(1)	281	-	-	(1)	(1)
Total agricultural loans	1,662	-	(7)	1,655	831	-	(20)	811
Gross loans and advances	52,178	(6,530)	(2,126)	43,522	17,744	(2,468)	(742)	14,534
Foreclosed property held for resale	-	(100)	-	(100)	-	(60)	-	(60)
Accrued interest receivable	2,541	-	-	2,541	740	-	-	740
Total loans and advances	54,719	(6,630)	(2,126)	45,963	18,484	(2,528)	(742)	15,214

It is not practical to fair value all security as at the Consolidated Statement of Financial Position date due to the variety, number and condition of assets.

Analysis of loans that are impaired with individual allowance based on age of repayments past due

	2017		2016	
	Impaired	Individual allowance	Impaired	Individual allowance
Scheduled for repayment				
Under 1 year	45,976	(5,302)	15,144	(2,147)
1 year to under 5 years	8,743	(1,228)	3,294	(275)
5 years and over	-	-	46	(46)
	54,719	(6,530)	18,484	(2,468)

(In thousands of CDN $)

7. IMPAIRED AND PAST DUE LOANS AND ADVANCES (continued)

Loans with repayments past due but not regarded as impaired

Net impaired loans exclude certain past due loans where payment of interest or principal is contractually in arrears but where payment in full is expected. A loan is considered past due when the counterparty has not made payment by the contractual due date. Loans more than 90 days past due are recorded as impaired. Details of past due loan not included in the impaired amount are as follows:

			2017	2016
	1-30 days	**31-90 days**	**Total**	**Total**
Past due loans				
Consumer	36,929	6,372	43,301	43,128
Commercial	9,157	9,707	18,864	23,289
Agriculture	2,955	3,195	6,150	7,370
Accrued interest	221	224	445	439
	49,262	19,498	68,760	74,226

Other disclosures for impaired and past due loans

	2017	2016
- Assets acquired via enforcement of security	2,637	1,680
- Interest earned on impaired loans	1,586	834
- Interest revenue forgone on impaired loans	367	274

It is not practical to disclose all possession of collateral the Credit Union holds as security due to the variety and number of assets. The policy of the Credit Union is to sell the assets at the earliest reasonable opportunity after measures to assist the customer to repay the debts have been exhausted.

8. SECURITIZATION

In the ordinary course of business, the Credit Union enters into transactions that result in the transfer of financial assets to third parties. The following table summarizes the carrying amounts and the secured debt for each type of securitization:

	2017		2016	
	Carrying amount	**Secured debt**	**Carrying amount**	**Secured debt**
Residential mortgages	766,656	762,801	733,497	730,623
Auto loans	140,475	130,674	145,579	135,422
Total securitization	907,131	893,475	879,076	866,045

The above residential mortgages are included in the consumer loans mortgage guaranteed totals in Notes 6 and 7. The auto loans are included in the consumer non-mortgage totals in Notes 6 and 7.

(In thousands of CDN $)

8. SECURITIZATION (continued)

The following table summarizes the carrying amounts and the secured debt maturities:

	2017		2016	
	Carrying amount	Secured debt	Carrying amount	Secured debt
Less than 1 year	173,342	173,139	106,110	105,925
1 year and over	733,789	720,336	772,966	760,120
Total securitization	907,131	893,475	879,076	866,045

Residential mortgages
The Credit Union has transferred an amortizing ownership interest in various qualifying residential mortgage receivables to Canadian Housing Trust, a multi-seller special purpose trust under the Canadian Mortgage Bond Program (CMB), as well as to various investors through the National Housing Act (NHA) Mortgage-Backed Securities Program. As at December 31, 2017, $766,656 (2016 - $733,497) had been transferred. The Credit Union retains the responsibility for servicing the qualifying residential mortgage receivables. Under both programs, the Credit Union has an obligation to forward principal and interest amounts from the original loan to Canada Mortgage and Housing Corporation monthly whether or not it receives payments from mortgagers. The Credit Union has retained substantially all of the risk and rewards associated with the transferred assets. These assets are recognized within loans and advances and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in secured debt on the Consolidated Statement of Financial Position. The associated liability at December 31, 2017, is recorded net of unamortized transaction costs of $3,855 (2016 - $2,874). In addition, for certain transfers above, the Credit Union has entered into interest rate swaps with Concentra Financial Services Association and investment securities of $nil (2016 - $nil) are held in trust as required by CMB reinvestment guidelines.

Auto loans
The Credit Union has transferred a revolving ownership interest in the auto loan receivable portfolio to Pivot Trust. The Credit Union retains the responsibility for servicing the auto loan receivables. Principal cash flows attributable to Pivot Trust are reinvested into qualifying auto loans and subsequently transferred to Pivot Trust. As at December 31, 2017, $140,475 (2016 - $145,579) had been transferred. The Credit Union controls Pivot Trust as the Credit Union receives a majority of the benefits such as rights to excess spread and is exposed to risks of Pivot Trust as its residual assets relate solely to the Credit Union's aggregate auto loans and credit enhancements. The Credit Union has the ability to exercise control over Pivot Trust by making the predetermination of activities for the benefit of the Credit Union. Accordingly, the Credit Union consolidates Pivot Trust. Auto loan receivables are recognized within loans and advances and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in secured debt on the Consolidated Statement of Financial Position. The associated liability at December 31, 2017 is recorded net of a credit enhancement in the form of overcollateralization provided to Pivot Trust of $9,801 (2016 - $10,157).

The following table illustrates the fair value of the transferred assets, the associated liabilities and the resulting net position:

	2017	2016
Fair value of transferred assets	901,457	887,636
Less: fair value of secured debt	901,523	885,608
Net position	(66)	2,028

(In thousands of CDN $)

9. PROPERTY, PLANT AND EQUIPMENT

	2017					
	Land	**Buildings**	**Computer equipment**	**Furniture, equip. and vehicles**	**Leasehold improvements**	**Total**
Cost:						
Balance at December 31, 2016	8,175	52,686	11,337	5,184	11,226	88,608
Additions	-	804	1,224	971	635	3,634
Disposals	-	(204)	(1,614)	(282)	(61)	(2,161)
Balance at December 31, 2017	8,175	53,286	10,947	5,873	11,800	90,081
Accumulated amortization and impairment losses:						
Balance at December 31, 2016	-	18,123	7,636	2,909	5,789	34,457
Disposals	-	(204)	(1,611)	(282)	(61)	(2,158)
Amortization	-	1,911	1,618	841	1,145	5,515
Balance at December 31, 2017	-	19,830	7,643	3,468	6,873	37,814
Carrying amounts:						
Balance at December 31, 2016	8,175	34,563	3,701	2,275	5,437	54,151
Balance at December 31, 2017	8,175	33,456	3,304	2,405	4,927	52,267

	2016					
	Land	**Buildings**	**Computer equipment**	**Furniture, equip. and vehicles**	**Leasehold improvements**	**Total**
Cost:						
Balance at December 31, 2015	8,180	52,892	10,843	5,824	13,197	90,936
Additions	-	22	1,641	766	524	2,953
Disposals	(5)	(228)	(1,147)	(1,406)	(2,495)	(5,281)
Balance at December 31, 2016	8,175	52,686	11,337	5,184	11,226	88,608
Accumulated amortization and impairment losses:						
Balance at December 31, 2015	-	16,444	7,142	3,469	7,090	34,145
Disposals	-	(228)	(1,137)	(1,390)	(2,476)	(5,231)
Amortization	-	1,907	1,631	830	1,175	5,543
Balance at December 31, 2016	-	18,123	7,636	2,909	5,789	34,457
Carrying amounts:						
Balance at December 31, 2015	8,180	36,448	3,701	2,355	6,107	56,791
Balance at December 31, 2016	8,175	34,563	3,701	2,275	5,437	54,151

The carrying amount of property, plant and equipment includes assets under construction at December 31, 2017, of $361 (2016 - $nil).

There were impairment losses for property, plant and equipment for the year ended December 31, 2017, of $nil (2016 - $nil).

(In thousands of CDN $)

10. GOODWILL AND INTANGIBLE ASSETS

	2017				
	Goodwill	**Core deposits**	**Customer lists**	**Software**	**Total**
Cost:					
Balance at December 31, 2016	1,234	841	43	8,581	10,699
Additions	-	-	-	1,232	1,232
Disposals	-	-	-	(40)	(40)
Balance at December 31, 2017	1,234	841	43	9,773	11,891
Accumulated amortization and impairment losses:					
Balance at December 31, 2016	-	259	27	6,470	6,756
Disposals	-	-	-	(40)	(40)
Amortization	-	65	4	1,445	1,514
Balance at December 31, 2017	-	324	31	7,875	8,230
Carrying amounts:					
Balance at December 31, 2016	1,234	582	16	2,111	3,943
Balance at December 31, 2017	1,234	517	12	1,898	3,661

	2016				
	Goodwill	**Core deposits**	**Customer lists**	**Software**	**Total**
Cost:					
Balance at December 31, 2015	1,234	841	4,708	8,416	15,199
Additions	-	-	-	1,022	1,022
Disposals	-	-	(4,665)	(857)	(5,522)
Balance at December 31, 2016	1,234	841	43	8,581	10,699
Accumulated amortization and impairment losses:					
Balance at December 31, 2015	-	195	4,672	5,639	10,506
Disposals	-	-	(4,665)	(847)	(5,512)
Amortization	-	64	20	1,678	1,762
Balance at December 31, 2016	-	259	27	6,470	6,756
Carrying amounts:					
Balance at December 31, 2015	1,234	646	36	2,777	4,693
Balance at December 31, 2016	1,234	582	16	2,111	3,943

The carrying amount of intangible assets includes assets under development at December 31, 2017, of $3 (2016 - $nil). There were impairment losses for intangible assets for the year ended December 31, 2017, of $nil (2016 - $nil).

Goodwill is tested for impairment annually. For further details on the impairment process see Note 2. There were impairment losses for goodwill for the year ended December 31, 2017, of $nil (2016 - $nil).

(In thousands of CDN $)

11. OTHER ASSETS

	2017	2016
Investment in associates and joint ventures	375	475
Prepayments	619	595
Receivables	16,208	15,293
Total other assets	17,202	16,363

12. BORROWINGS

SaskCentral and Concentra

The Credit Union has an authorized line of credit with SaskCentral in the amount of $95,000 (2016 - $95,000) in Canadian funds and an authorized line of credit with Concentra Bank (Concentra) in the amount of $7,000 in U.S. funds (2016 - $7,000). The interest rate on the Canadian account is the SaskCentral prime interest rate plus or minus the applicable discount or margin. The U.S. account is based on the Concentra U.S. prime interest rate plus or minus the applicable discount or margin. At the end of the year, the amount outstanding was $nil for the Canadian account and $nil for the U.S. account (2016 - $nil for the Canadian account and $nil for the U.S. account). A General Security Agreement and an assignment of book debts are pledged as security on both lines of credit.

The Credit Union has a secured revolving credit line with Concentra in the amount of $50,000 (2016 - $50,000). The interest rate on this secured credit line is one-month CDOR plus or minus the applicable discount or margin. At the end of the year, the amount outstanding was $nil (2016 - $nil). This revolving credit line is being secured by insured residential mortgages.

Caisse Centrale Desjardins

The Credit Union has an authorized credit facility with Fédération des caisses Desjardins du Québec (Desjardins). The facility is a 364 day revolving credit facility available in Canadian funds renewable annually, with a maximum credit available of $100,000 (2016 - $50,000).

The credit facility is structured as either due on demand or repayable for periods of one to three months for each advance. Interest is calculated and depends on the facility, security and duration chosen. The credit facility is being secured by insured residential mortgages.

At the end of the year, the amount outstanding was $60,000 (2016 - $nil).

13. DEPOSITS

	2017	2016
Demand	2,191,833	2,271,049
Term	1,427,520	1,241,336
Registered plans	690,864	669,790
Accrued interest	14,959	13,748
Total deposits	4,325,176	4,195,923

(In thousands of CDN $)

14. MEMBERSHIP SHARES AND MEMBER EQUITY ACCOUNTS

The authorized share capital is unlimited in amount and consists of shares with a par value of $5 per share. In accordance with legislation, amounts held to the credit of a member in a member equity account as allocated retained earnings become membership shares issued by the Credit Union on an equal basis. Member equity accounts are as provided for by *The Credit Union Act, 1998 (The Act)* and administered according to the bylaws and policy of the Credit Union, which sets out the rights, privileges, restrictions and conditions. These accounts are classified as liabilities rather than equity due to the conditions prescribed by *The Act.* Members have the right to withdraw or terminate membership at any time and there is no provision for holders of member shares to receive the remaining property of the Credit Union on liquidation or dissolution. Upon withdrawal or termination of membership, the Credit Union must pay to the member all shares and other interests, subject to charge and set-off for debt of the member to the Credit Union. These accounts are not guaranteed by Credit Union Deposit Guarantee Corporation (CUDGC).

At the approval of the board of directors, earnings are allocated to members on the basis of patronage, having the meaning patronage allocations. Patronage allocations are credited either to members' equity accounts or deposit accounts (in the form of cash distributions). Patronage allocations credited to members' equity accounts are recorded in membership shares and member equity accounts on the Consolidated Statement of Financial Position.

The Credit Union has a no-fee account for members called FreeStyle. This account provides significant, ongoing financial benefits to members of the Credit Union and is the primary alternative for the distribution of excess earnings back to members, as a result a patronage allocation has not been declared in 2017 (2016 - $nil).

The following table summarizes share capital information:

	2017	**2016**
Membership shares at January 1 (required for membership)	597	580
New membership shares	41	42
Redeemed membership shares	(25)	(25)
Membership shares at December 31 (required for membership)	613	597
Member equity accounts at January 1 (based on patronage)	21,946	23,980
Patronage allocated	-	-
Patronage paid to members	(1,817)	(2,034)
Member equity accounts at December 31 (based on patronage)	20,129	21,946
Total membership shares and member equity accounts at December 31	20,742	22,543

15. OTHER LIABILITIES

	2017	**2016**
Accounts payable	3,575	5,811
Payroll related amounts	7,672	8,200
Outstanding settlement items	34,633	29,755
Unclaimed balances	1,096	864
Deferred income	20	36
Total other liabilities	46,996	44,666

16. CAPITAL MANAGEMENT

Objectives and policies

The Credit Union's objectives in managing capital is to generate value for members, while exceeding regulatory minimums, meet operational requirements, absorb unexpected losses while meeting regulatory minimums, and signal financial strength.

The Credit Union manages capital in accordance with its capital management plan and board approved capital policies. The capital plan is developed in accordance with the regulatory capital framework and is reviewed and approved annually by the Audit and Conduct Review Committee of the board of directors.

Regulatory capital

Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of Saskatchewan credit unions, has prescribed capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III capital standards framework established by the Bank for International Settlements and adopted by financial institutions around the globe, including Canadian banks.

CUDGC currently prescribes four standardized tests to assess the capital adequacy of credit unions: total eligible capital to risk-weighted assets (risk-weighted capital ratio); common equity tier 1 capital to risk-weighted assets; total tier 1 capital to risk-weighted assets; and minimum leverage ratio. Regulatory standards require credit unions to maintain minimum capital adequacy tests as follows: risk-weighted capital ratio of 10.5%, common equity tier 1 capital to risk-weighted assets of 7.0%, total tier 1 capital to risk-weighted assets of 8.5% and minimum leverage ratio of 5%.

Risk-weighted assets are calculated in accordance with the rules established by CUDGC for balance sheet and off-balance sheet risks. Credit risk, derivatives and off-balance sheet commitments, and operational risk are considered in calculating risk-weighted assets. Based on the prescribed risk of each type of asset, a weighting is assigned.

Common equity tier 1 capital is defined as a credit unions' primary capital and is comprised of 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 charge. Common equity tier 1 capital at the Credit Union includes retained earnings, contributed surplus, and accumulated other comprehensive income. Total tier 1 capital is common equity tier 1 capital less deductions for goodwill, intangible assets, unconsolidated substantial investments and certain deferred tax assets.

Tier 2 capital at the Credit Union includes collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets and qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital.

The risk-weighted capital ratio is calculated as the sum of total tier 1 and tier 2 capital divided by risk-weighted assets. The minimum leverage ratio is calculated as the sum of total tier 1 and tier 2 capital divided by total assets less deductions from capital plus specified off-balance sheet exposures.

(In thousands of CDN $)

16. CAPITAL MANAGEMENT (continued)

CUDGC also prescribes an internal capital adequacy assessment process (ICAAP) to address unique credit union conditions. ICAAP is an integrated process that evaluates capital adequacy, and is used to establish capital targets that take into consideration the strategic direction (business plan) and risk appetite of the credit union. ICAAP seeks to identify the material risks requiring capital and quantify the amount of capital that should be held in relation to those risks. Enterprise-wide stress testing and scenario analysis are also used to assess the impact of various stress conditions on the Credit Union's risk profile and capital requirements.

If a credit union is not in compliance with CUDGC Standards or Regulatory Guidance Documents including capital requirements, CUDGC may take any necessary action. Necessary action may include, but is not limited to:

- Reducing or restricting a credit union's authorities and limits;
- Subjecting a credit union to preventative intervention;
- Issuing a compliance order;
- Placing a credit union under supervision or administration; or
- Issuing an amalgamation order

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

	2017	2016
Eligible capital		
Common equity tier 1 capital before deductions	463,341	431,492
Additional tier 1 capital	-	
Total tier 2 capital	22,867	23,285
Total eligible capital before deductions	486,208	454,777
Deductions from eligible capital		
Intangible assets	2,427	2,709
Goodwill	1,234	1,234
Investments in associates	375	475
Total deductions from eligible capital	4,036	4,418
Total eligible capital	482,172	450,359
Risk-weighted assets		
Investment securities	96,587	98,348
Consumer loans	877,243	853,684
Commercial and agricultural loans	2,011,502	1,837,676
Other assets and derivatives	81,023	80,300
Commitments	158,116	151,952
Capital charge for operating risk	326,024	313,806
Total risk-weighted assets	3,550,495	3,335,766
Total eligible capital to risk-weighted assets	13.58%	13.50%
Common equity tier 1 capital to risk-weighted assets	12.94%	12.80%
Total tier 1 capital to risk-weighted assets	12.94%	12.80%
Minimum leverage ratio	8.02%	7.79%

(In thousands of CDN $)

17. INTEREST INCOME AND INTEREST EXPENSE

	2017	2016
Interest income		
Cash and cash equivalents	221	204
Investment securities - fair value through profit or loss	1,857	1,385
Investment securities - available-for-sale	5,872	7,487
Investment securities - loans and receivables	24	67
Loans and advances	185,967	176,307
Total interest income	193,941	185,450
Interest expense		
Borrowings	191	147
Derivative financial instruments	367	568
Secured debt	17,007	17,171
Deposits	36,910	36,379
Subordinated debenture	-	992
Total interest expense	54,475	55,257
Net interest income	139,466	130,193

18. OTHER INCOME

	2017	2016
Account service fees	6,566	6,493
Loan fees	3,341	3,488
Loan insurance fees	4,300	3,740
Automated banking machine (ABM) fees	2,569	2,607
Unrealized and realized gains (losses) on derivative financial instruments	2,093	1,281
Unrealized and realized gains (losses) on fair value through profit or loss investment securities	2,560	(998)
Realized gains (losses) on available-for-sale investment securities	(387)	146
Dividend income	4,173	3,426
Income from investment in associates	386	506
Foreign exchange revenue	1,033	969
Payment card revenue	2,320	2,177
Credit card service charge revenue	1,313	1,300
Fixed asset revenue	641	535
Gain on sale of subsidiary	-	11,672
Wealth management income	7,414	5,943
Other	7,001	10,415
Total other income	45,323	53,700

(In thousands of CDN $)

19. INCOME TAX

Income taxes are included in the Consolidated Statement of Comprehensive Income as follows:

	2017	2016
Components of income tax expense		
Current income tax expense		
Current tax on profit for current year	9,733	8,064
Deferred income tax expense		
Origination and reversal of temporary differences	381	764
	10,114	8,828

Income taxes are included in other comprehensive income as follows:

	2017	2016
Net unrealized gains (losses) on available-for-sale investment securities		
Current income tax expense (recovery)	(542)	(379)
Reclassification of (gains) losses on available-for-sale investment securities to income		
Current income tax expense (recovery)	82	(32)
	(460)	(411)

Total income tax reported in the consolidated financial statements:

	2017	2016
	9,654	8,417

Reconciliation of income tax expense:

	2017	2016
Profit before income tax	43,647	49,258
Combined federal and provincial income tax rate	26.8%	27.0%
Income taxes at statutory rate	11,697	13,300
Income tax expense adjusted for the effect of:		
Non-deductible expenses	69	56
Non-taxable portion of gain on sale of subsidiary	-	(2,184)
Non-taxable dividend income	(56)	(48)
Credit Union rate reduction	(2,545)	(2,063)
Deferred income tax expense resulting from tax rate changes	(105)	(20)
Other	1,054	(213)
	10,114	8,828
Effective rate of tax	23%	18%

(In thousands of CDN $)

19. INCOME TAX (continued)

The deferred tax asset is comprised of the following:

	2017	2016
Deferred tax assets		
Property, plant and equipment	598	1,081
Loans and advances	-	82
Total deferred tax assets	598	1,163

The deferred tax liability is comprised of the following:

	2017	2016
Deferred tax liabilities		
Derivative financial instruments	1,103	1,591
Loans and advances	68	-
Other	120	36
	1,291	1,627

Net deferred tax asset (liability)	(693)	(464)

Deferred tax assets of $598 (2016 - $1,163) are presented on the Consolidated Statement of Financial Position separate from deferred tax liabilities of $1,291 (2016 - $1,627) in the current year. The net deferred tax liability at the end of the year is $693 (2016 - $464). The change in the deferred tax asset is recognized in the Consolidated Statement of Comprehensive Income as a charge to income tax expense.

In 2013 federal legislation changed impacting the additional deduction for credit unions. The change is phased in from 2013 through 2017. The previously enacted federal tax rate of 11% in 2012 increased to 11.62% in 2013, 12.6% in 2014, 13.4% in 2015, 14.2% in 2016 and 15% in 2017, for income eligible for the additional credit union deduction. For income not eligible for the additional credit union deduction the rate remains at 15%. The 2013 federal legislation change is in the final year of the phase in, which results in a federal tax rate of 15% for income eligible for the additional credit union deduction in 2017.

In 2017, Saskatchewan provincial legislation changed impacting the provincial preferential tax rate for credit unions. The change is being phased in over a four year period from 2017 through 2020. Simultaneously the general corporation income tax rate, which applies to income not eligible for the preferential tax rate, is being gradually decreased from 12% to 11% over a three year period. The combined effect of these changes is that the previously enacted provincial tax rate of 2% in 2016 increased to 4.44% in 2017, 6.75% in 2018, 8.94% in 2019, and 11% in 2020.

(In thousands of CDN $)

20. RELATED PARTY TRANSACTIONS

Key management persons (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Control is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities. The KMP of the Credit Union includes the executive leadership team and members of the board who held offices during the financial year.

The Credit Union defines related parties as follows:

- Spouses, common-law partners or any relative living in the same residence as a KMP;
- All children of a KMP and their spouse or common-law partners whether dependent or independent; or
- Corporations or business entities controlled by a KMP or any of the above related parties.

Remuneration of KMP

The aggregate compensation of KMP during the year includes amounts paid or payable and was as follows:

	2017	2016
Short-term employee benefits	2,811	2,911
Other long-term benefits	55	64
Post-employment benefits	-	137
Director remuneration	302	341
	3,168	3,453

In the above table, remunerations shown as short-term employee benefits includes wages, salaries, statutory government contributions, paid annual leave and paid sick leave, performance-based incentive and the value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

The Credit Union's executive leadership team earned salaries, performance-based incentive and benefits as follows:

	2017				2016			
	Salaries	Performance incentive	Benefits	Total	Salaries	Performance incentive	Benefits	Total
Chief Executive Officer	480	198	75	753	480	194	83	757
Chief Financial Officer (1)	-	-	-	-	38	82	21	141
Chief Financial Officer	217	73	55	345	210	39	53	302
Chief Risk and Compliance Officer	222	66	54	342	220	66	56	342
Chief Operating Officer	263	98	69	430	255	98	69	422
Chief Experience Officer	173	27	39	239	-	-	-	-
Chief Transformation Officer	209	59	52	320	196	-	50	246
Chief Digital Officer	205	58	51	314	192	52	49	293
Executive - Human Resources (2)	-	-	-	-	102	52	170	324
Executive VP - Marketing and Communications (3)	59	47	17	123	190	46	49	285
	1,828	626	412	2,866	1,883	629	600	3,112

(1) CFO retirement February 2016
(2) Restructured position in 2016
(3) Restructured position in 2017

The performance-based incentive amounts are accrued as an expense in the fiscal year earned, and paid to the individuals in the following year. The above table represents the timing of when amounts are actually paid as opposed to when they are accrued as personnel expenses on the consolidated statement of comprehensive income.

(In thousands of CDN $)

20. RELATED PARTY TRANSACTIONS (continued)

Loans to KMP

The Credit Union's policy for lending to KMP is that all loans are provided based on the same lending criteria applicable to customers. The members of executive management identified as KMP may receive concessional rates of interest on their loans equal to or greater than the prescribed lending rate issued by the Canada Revenue Agency. These lending criteria and concessional rates of interest are available to all Credit Union employees.

There are no benefits or concessional terms and conditions applicable to related parties of KMP unless the related parties have joint borrowings with a KMP in which case concessional rates of interest may apply.

No loan impairment losses have been recorded against KMP balances outstanding during the year (2016 – $nil) or their related parties (2016 – $nil).

The aggregate balances to KMP and related parties include all consumer, agricultural and commercial lending during the year as follows:

	2017	**2016**
Loans outstanding at, beginning of year	4,917	7,437
Loans issued during the year	1,912	1,458
Loan repayments during the year	3,046	1,740
Loans outstanding at, end of year	3,783	7,155
Total interest income earned	136	136

Deposits from KMP

The Credit Union's policy for receiving deposits from KMP is that all deposits are accepted on the same terms and conditions which apply to customers. Interest has been paid on terms and conditions no more favourable than those available to customers.

The aggregate deposit balances to KMP and related parties during the year was as follows:

	2017	**2016**
Total term, savings and demand deposits	2,657	2,350
Total interest expense on deposits	14	7

Other transactions with KMP

As of December 31, 2017, no other known or potential conflict of interest transactions or circumstances were conducted between KMP and the Credit Union that would be outside of normal market practices or pricing.

(In thousands of CDN $)

20. RELATED PARTY TRANSACTIONS (continued)

Subsidiaries

The following table presents the name, location of head office, percentage and recorded value of voting shares owned by the Credit Union of each subsidiary:

Name	Head office	Percentage of voting shares owned by the Credit Union	Recorded value of voting shares owned by the Credit Union (1)
Protexus Holdings Corp.	Regina, Saskatchewan	100%	15,000,004

(1) In dollars

Transactions between the Credit Union and its subsidiaries are eliminated on consolidation and not disclosed in the consolidated financial statements.

Significant influence investments and joint ventures

The Credit Union provides banking services and various support services to CU Dealer Finance Corp. (CUDF) including management, technology, accounting, human resources, property management, marketing and communication services.

The following table presents related party transactions between the Credit Union and both CUDF and Thrive Wealth Management:

	2017	2016
On deposit with the Credit Union	2,951	2,579
Due to the Credit Union	1,075	1,165
Fee for service paid to the Credit Union	2,423	4,892
Management fee received from the Credit Union	6,283	4,784

The Credit Union has a 25% (2016 – 25%) ownership in Apex Investment GP Inc. (Apex). There were no transactions between the Credit Union with Apex during the year.

(In thousands of CDN $)

21. INTEREST RATE SENSITIVITY

The following table details the Credit Union's exposure to interest rate risk as measured by the mismatch or gap, between the maturities or re-pricing dates of interest rate sensitive assets and liabilities, both on and off the Consolidated Statement of Financial Position. Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities and financial assets are not matched.

Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, represent the weighted average effective yield.

				2017				
	Yield	Floating	1 to under 3 months	3 months to under 1 year	1 year to under 5 years	5 years and over	Non-interest sensitive	Total
Assets								
Cash and cash equivalents	0.14%	60,982	-	-	-	-	73,642	134,624
Derivative financial instruments	-	-	274	271	3,672	-	7,135	11,352
Investment securities	1.36%	261,590	66,346	120,196	142,907	-	59,630	650,669
Loans and advances	3.75%	1,254,161	232,690	886,568	2,481,366	83,976	9,600	4,948,361
Property, plant and equipment	-	-	-	-	-	-	52,267	52,267
Intangible assets	-	-	-	-	-	-	2,427	2,427
Deferred tax assets	-	-	-	-	-	-	598	598
Other assets	-	-	-	-	-	-	17,202	17,202
Goodwill	-	-	-	-	-	-	1,234	1,234
		1,576,733	299,310	1,007,035	2,627,945	83,976	223,735	5,818,734
Liabilities								
Borrowings	1.42%	60,000	-	-	-	-	-	60,000
Derivative financial instruments	-	-	274	271	4,067	231	-	4,843
Secured debt	1.89%	-	19,048	154,575	691,011	32,697	(3,856)	893,475
Deposits	0.89%	1,587,811	223,724	876,143	912,495	3,364	721,639	4,325,176
Current tax liabilities	-	-	-	-	-	-	2,870	2,870
Deferred tax liabilities	-	-	-	-	-	-	1,291	1,291
Membership shares and member equity accounts	-	-	-	-	-	-	20,742	20,742
Other liabilities	-	-	-	-	-	-	46,996	46,996
		1,647,811	243,046	1,030,989	1,607,573	36,292	789,682	5,355,393
Members' equity								
Accumulated other comprehensive income	-	-	-	-	-	-	(1,906)	(1,906)
Retained earnings	-	-	-	-	-	-	465,247	465,247
		-	-	-	-	-	463,341	463,341
Asset/liability gap		(71,078)	56,264	(23,954)	1,020,372	47,684	(1,029,288)	-
Notional amount of derivatives								
Pay side instruments	3.01%	-	(3,144)	(2,499)	(57,419)	(10,329)	-	(73,391)
Receive side instruments	0.58%	-	28,444	2,499	42,448	-	-	73,391
Off balance sheet gap		-	25,300	-	(14,971)	(10,329)	-	-
Interest rate gap position		(71,078)	81,564	(23,954)	1,005,401	37,355	(1,029,288)	-

(In thousands of CDN $)

21. INTEREST RATE SENSITIVITY (continued)

	2016							
	Yield	**Floating**	**1 to under 3 months**	**3 months to under 1 year**	**1 year to under 5 years**	**5 years and over**	**Non-interest sensitive**	**Total**
Assets								
Cash and cash equivalents	0.05%	50,132	5,000	-	-	-	79,784	134,916
Derivative financial instruments	-	-	473	771	2,430	-	5,892	9,566
Investment securities	0.84%	222,501	70,334	150,182	176,718	4,985	54,509	679,229
Loans and advances	3.75%	1,238,333	220,065	786,735	2,333,031	72,933	17,758	4,668,855
Property, plant and equipment	-	-	-	-	-	-	54,151	54,151
Intangible assets	-	-	-	-	-	-	2,709	2,709
Deferred tax assets	-	-	-	-	-	-	1,163	1,163
Other assets	-	-	-	-	-	-	16,363	16,363
Goodwill	-	-	-	-	-	-	1,234	1,234
		1,510,966	295,872	937,688	2,512,179	77,918	233,563	5,568,186
Liabilities								
Derivative financial instruments	-	-	473	771	3,217	689	-	5,150
Secured debt	1.89%	-	12,816	93,816	731,210	31,077	(2,874)	866,045
Deposits	0.83%	1,648,122	170,471	578,371	1,053,740	9,038	736,181	4,195,923
Current tax liabilities	-	-	-	-	-	-	740	740
Deferred tax liabilities	-	-	-	-	-	-	1,627	1,627
Membership shares and member equity accounts	-	-	-	-	-	-	22,543	22,543
Other liabilities	-	-	-	-	-	-	44,666	44,666
		1,648,122	183,760	672,958	1,788,167	40,804	802,883	5,136,694
Members' equity								
Accumulated other comprehensive income	-	-	-	-	-	-	(222)	(222)
Retained earnings	-	-	-	-	-	-	431,714	431,714
		-	-	-	-	-	431,492	431,492
Asset/liability gap		(137,156)	112,112	264,730	724,012	37,114	(1,000,812)	-
Notional amount of derivatives								
Pay side instruments	3.01%	-	(3,627)	(4,016)	(46,502)	(15,328)	-	(69,473)
Receive side instruments	0.59%	-	30,184	4,016	35,273	-	-	69,473
Off balance sheet gap		-	26,557	-	(11,229)	(15,328)	-	-
Interest rate gap position		(137,156)	138,669	264,730	712,783	21,786	(1,000,812)	-

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table represents the fair values of the Credit Union's financial instruments, including derivatives. The following methods and assumptions were used to estimate fair values of financial instruments:

The fair values of short-term financial instruments, including cash and cash equivalents, other receivables, other assets and other liabilities are approximately equal to the carrying values.

Fair values of investment securities are based on quoted market prices when available, discounted cash flow calculations based on interest rates being offered for similar investment securities or quoted market prices of similar investments.

For variable interest rate loans and advances that reprice frequently, fair values are approximated by carrying values. Fair values of other loans and advances are estimated using discounted cash flow calculations at market interest rates for groups of loans and advances with similar terms and credit risk.

Carrying values approximate fair values for deposits, loans payable and membership shares and member equity accounts without specified maturity terms. Fair values for secured debt, other deposits, loans payable and subordinated debenture with specific maturity terms are estimated using discounted cash flow calculations at market interest rates for similar terms.

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

The undernoted fair values, presented for information only, reflect conditions that existed only at the respective reporting dates and do not necessarily reflect future value or the amounts the Credit Union might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

The fair value of the financial instruments, their related carrying values and fair value hierarchy levels have been summarized in the tables that follow:

(In thousands of CDN $)

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2017	Carrying Value	Fair Value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets						
Available-for-sale						
SaskCentral-shares	36,490	36,490	-	-	36,490	-
SaskCentral-statutory liquidity deposits	219,077	219,077	-	-	219,077	-
Chartered bank guarantee	55,344	55,344	-	-	55,344	-
Federal and provincial government	70,466	70,466	-	-	70,466	-
Other securities	14,739	14,739	-	-	14,640	99
Accrued interest	1,513	1,513	-	-	1,513	-
Total available-for-sale	397,629	397,629	-	-	397,530	99
Fair value through profit or loss						
Cash and cash equivalent	134,624	134,624	-	119,649	14,975	-
SaskCentral-statutory liquidity deposits	231,412	231,412	-	-	231,412	-
Other securities	21,036	21,036	-	-	21,036	-
Accrued interest	-	-	-	-	-	-
Total fair value through profit or loss	387,072	387,072	-	119,649	267,423	-
Held-for-trading						
Derivative financial instuments	11,352	11,352	-	-	4,217	7,135
Total held-for-trading	11,352	11,352	-	-	4,217	7,135
Loans and receivables						
Loans and advances	4,946,949	4,981,575	34,626	-	4,981,575	-
Other securities	592	592	-	-	592	-
Other assets	16,208	16,208	-	-	16,208	-
Total loans and receivables	4,963,749	4,998,375	34,626	-	4,998,375	-
Non financial instruments						
Loans and advances	1,412					
Property, plant and equipment	52,267					
Intangible assets	2,427					
Deferred tax assets	598					
Other assets	994					
Goodwill	1,234					
Total non financial instruments	58,932					
	5,818,734	5,794,428	34,626	119,649	5,667,545	7,234
Financial Liabilities						
Held-for-trading						
Derivative financial instruments	4,843	4,843	-	-	4,843	-
Total held-for-trading	4,843	4,843	-	-	4,843	-
Other liabilities						
Borrowings	60,000	60,000	-	-	60,000	-
Secured debt	893,475	901,523	8,048	-	901,523	-
Deposits	4,325,176	4,334,451	9,275	-	4,334,451	-
Membership shares and member equity accounts	20,742	20,742	-	-	20,742	-
Other liabilites	46,547	46,547	-	-	46,547	-
Subordinated debenture	-	-	-	-	-	-
Total other liabilities	5,345,940	5,363,263	17,323	-	5,363,263	-
Non financial instruments						
Current tax liabilities	2,870					
Deferred tax liabilities	1,291					
Other liabilities	449					
Total non financial instruments	4,610					
	5,355,393	5,368,106	17,323	-	5,368,106	-

(In thousands of CDN $)

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2016	Carrying Value	Fair Value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets						
Available-for-sale						
SaskCentral-shares	36,490	36,490	-	-	36,490	-
SaskCentral-statutory liquidity deposits	273,999	273,999	-	-	273,999	-
Chartered bank guarantee	120,286	120,286	-	-	120,286	-
Federal and provincial government	55,569	55,569	-	-	55,569	-
Other securities	16,985	16,985	-	-	16,886	99
Accrued interest	1,581	1,581	-	-	1,581	-
Total available-for-sale	504,910	504,910	-	-	504,811	99
Fair value through profit or loss						
Cash and cash equivalent	134,916	134,916	-	99,923	34,993	-
SaskCentral-statutory liquidity deposits	157,881	157,881	-	-	157,881	-
Other securities	15,908	15,908	-	-	15,908	-
Total fair value through profit or loss	308,705	308,705	-	99,923	208,782	-
Held-for-trading						
Derivative financial instuments	9,566	9,566	-	-	3,674	5,892
Total held-for-trading	9,566	9,566	-	-	3,674	5,892
Loans and receivables						
Loans and advances	4,667,137	4,741,735	74,598	-	4,741,735	-
Other securities	530	530	-	-	530	-
Other assets	15,293	15,293	-	-	15,293	-
Total loans and receivables	4,682,960	4,757,558	74,598	-	4,757,558	-
Non financial instruments						
Loans and advances	1,718					
Property, plant and equipment	54,151					
Intangible assets	2,709					
Deferred tax assets	1,163					
Other assets	1,070					
Goodwill	1,234					
Total non financial instruments	62,045					
	5,568,186	5,580,739	74,598	99,923	5,474,825	5,991
Financial Liabilities						
Held-for-trading						
Derivative financial instruments	5,150	5,150	-	-	5,150	-
Total held-for-trading	5,150	5,150	-	-	5,150	-
Other liabilities						
Secured debt	866,045	885,608	19,563	-	885,608	-
Deposits	4,195,923	4,202,735	6,812	-	4,202,735	-
Membership shares and member equity	22,543	22,543	-	-	22,543	-
Other liabilites	44,153	44,153	-	-	44,153	-
Total other liabilities	5,128,664	5,155,039	26,375	-	5,155,039	-
Non financial instruments						
Current tax liabilities	740					
Deferred tax liabilities	1,627					
Other liabilities	513					
Total non financial instruments	2,880					
	5,136,694	5,160,189	26,375	-	5,160,189	-

(In thousands of CDN $)

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following tables reconcile the Credit Union's Level 3 fair value measurements from December 31, 2016 to December 31, 2017 and December 31, 2015 to December 31, 2016:

Fair value measurements using Level 3 inputs	
Balance at December 31, 2016	5,991
Unrealized gain (loss) on embedded purchase option	1,243
Purchase of other securities	-
Balance at December 31, 2017	7,234

Fair value measurements using Level 3 inputs	
Balance at December 31, 2015	5,260
Unrealized gain (loss) on embedded purchase option	632
Purchase of other securities	99
Balance at December 31, 2016	5,991

The gain included in other comprehensive income is recorded in the Consolidated Statement of Comprehensive Income as net unrealized gains on available-for-sale financial assets. The unrealized gain on the embedded purchase option is recorded in the Consolidated Statement of Comprehensive Income as other income.

Included in the above level 3 amount is an embedded purchase option of $7,135 (2016 - $5,892) in derivative financial instruments. The Credit Union has entered into an agreement with a third party in which it acts as an agent to sell credit cards. As part of this agreement the Credit Union has the option to acquire the underlying loans associated with the credit cards. This purchase option is considered an embedded derivative financial instrument, which is recorded at fair value.

Fair value can be calculated using various valuation techniques. The preferable method is an active quoted market price, but there is no active market for the above purchase option. Therefore, a discounted cash flow calculation was used to determine fair value. This calculation estimates all future cash flows from the purchase of the credit card business for the next 10 years to arrive at total future cash flows. These cash flows are discounted using a net present value calculation at a discount rate equal to the weighted average cost of equity for the Credit Union. The weighted average cost of equity (WACE) is 9.67% (2016 – 8.32%) for the Credit Union.

The WACE is calculated under the assumption that financial information from the 5 largest Canadian banks' can be used to determine the Credit Union's WACE. Related assumptions include using the 5 banks total market value and levered equity beta to arrive at a debt to capital ratio and unlevered equity beta of 0.70 (2016 – 0.63) that is comparable to the Credit Union. Other significant assumptions used in the WACE calculation include: the risk-free rate is the Government of Canada bond greater than 10 years rate of 1.95% (2016 – 1.21%), the equity risk premium is 6.94% (2016 – 6.90%), the size premium is 2.68% (2016 - 2.54%) and member shares and equity of the Credt Union are considered debt.

Included in the above level 3 amount is the purchase of units in CICAN Essential Skills Social Finance Limited Partnership of $99 (2016 - $99). The return and fair value of the social impact bond is based on the success of the program.

Reasonable changes to the above unobservable inputs would not result in a significant change in the recorded fair values of the level 3 items.

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Credit Union is primarily exposed to the following risks as a result of holding financial instruments: credit risk; market risk; and liquidity risk. The following is a description of those risks and how they are managed.

Credit risk

Credit risk is the risk of financial loss resulting from a borrower or counterparty failing to meet its obligations. Credit risk primarily arises from the Credit Union's direct lending activities and the possibility that members will be unable or unwilling to repay some or all of the principal amount they have borrowed, and/or the interest accrued. The Credit Union's estimate of its exposure to credit risk with respect to loans and advances (loans) is reported in Note 6 and Note 7. For investment securities and derivative instruments, the credit risk the Credit Union is exposed to is the risk of default by the counterparty, as reported in Note 5 and Note 4.

Credit risk management processes and controls for loans

The credit granting process is controlled by board approved policies, as well as detailed loan policy manuals for each credit portfolio type: commercial, agricultural and consumer. These detailed loan policy manuals are developed, maintained and approved by the Credit Management Centre (CMC). Each credit application is assessed in accordance with these policies. The assessment of commercial and agricultural credit includes the assignment of a credit score in accordance with internal credit rating criteria. The Credit Union's credit risk processes and controls relating to lending activities are managed through a centralized department – CMC. The function of the CMC includes development of lending policies, monitoring of organizational credit risk and oversight approval of lending where the amount exceeds the authorization levels for retail management or where the underwriting is outside of the operational lending policies. Lending decision-making authority is determined in compliance with the delegation of authority set out in the credit risk management policies. The CMC also provides approval and underwriting support to lenders for loans that are considered to be complex, unusual, higher risk or problematic. Credit requests above the CMC limits are referred to the Executive Credit Committee (ECC) for approval.

The detailed lending policies set out criteria to determine annual review requirements for all loan types to ensure adequate monitoring of the Credit Union's credit exposure. Accounts that are deemed to be higher than average risk are subject to more frequent monitoring. These accounts are brought to the attention of the CMC to provide direction on specific monitoring requirements.

At regular meetings, the board and Risk Committee receive reports from the internal auditors and management. These reports provide information identifying quality of underwriting, loan and industry mix, current and potential loan risk exposures, delinquency, compliance to policy and trending information.

Credit risk limits for loans

The Credit Union has implemented certain credit limits through board policy. These limits are in place to manage the overall credit risk of the loan portfolio and establish parameters for credit diversification. The Credit Union has established limits for each loan portfolio type (agriculture, consumer mortgage, consumer non mortgage, and commercial loans), limits by industry, as well as maximum borrowing limits for individual borrowers. The Credit Union has a maximum exposure limit to an individual borrower, or connected borrowers, of $50 million.

The Credit Union also controls credit risk using various risk mitigation techniques. The most common method used to mitigate credit risk is to obtain quality security from counterparties in guarantee of the Credit Union's commitments. A second common risk mitigation method is to syndicate loans as a means of transferring to a third party a portion of the credit risk.

(In thousands of CDN $)

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The following table illustrates the Credit Union's loan portfolio mix as a percentage of assets at year-end:

Loan portfolio mix

	2017		2016	
	Total	**Percentage**	**Total**	**Percentage**
Consumer loans				
Mortgage guaranteed	1,132,370	19.46%	1,069,968	19.21%
Mortgage conventional	866,653	14.89%	882,466	15.85%
Non mortgage	702,539	12.07%	691,611	12.42%
Total consumer loans	2,701,562	46.42%	2,644,045	47.48%
Commercial loans				
Mortgage	1,250,987	21.50%	1,133,339	20.35%
Non mortgage	334,038	5.74%	333,148	5.98%
Government guaranteed	26,575	0.46%	21,931	0.39%
Total commercial loans	1,611,600	27.70%	1,488,418	26.72%
Agricultural loans				
Mortgage	334,253	5.74%	277,083	4.98%
Non mortgage	223,681	3.84%	182,205	3.27%
Government guaranteed	67,695	1.16%	64,192	1.15%
Total agricultural loans	625,629	10.74%	523,480	9.40%
Gross loans and advances	4,938,791	84.86%	4,655,943	83.60%
Amortized loan origination fees	2,138	0.04%	2,554	0.05%
Foreclosed property held for resale	1,512	0.03%	1,778	0.03%
Accrued interest receivable	14,676	0.25%	11,850	0.21%
Individual allowance for credit losses	(6,630)	-0.11%	(2,528)	-0.05%
Collective allowance for credit losses	(2,126)	-0.04%	(742)	-0.01%
Total loans and advances	4,948,361	85.03%	4,668,855	83.83%

Guarantees for loans

In some cases, the Credit Union obtains third-party guarantees and insurance to reduce the risk of loan default. In total, 21% (2016 - 21%) of the Credit Union's loan portfolio is guaranteed by a federal government program or agency. The largest of these guarantees is in the residential mortgage portfolio, which is guaranteed by either Genworth Financial Canada at 13% (2016 - 13%) or Canada Mortgage and Housing Corporation (CMHC), a government owned corporation, at 6% (2016 - 6%). Other noteworthy guarantors include the Government of Canada's Canada Small Business Financing Program (CSBFP) for small business loans at 1% (2016 - 1%) and the Government of Canada's Canadian Agricultural Loans Act (CALA) program for farm improvement loans at 1% (2016 - 1%) of total loans.

Security for loans

The Credit Union has a credit risk management process that involves policies for the valuation of security on loans. Security limits are set based on the type of loan and industry with a related policy that dictates how security is valued. Updates for these valuations are performed periodically to ensure they remain reasonable.

(In thousands of CDN $)

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk management for investment securities and derivative instruments

Investment securities and derivative management is performed in accordance with board approved policies. Investment policies set out eligible investment securities and limits with respect to issuer groups, single entity exposures, and maximum terms. Eligible derivatives, including limits and counterparties are defined in policy. Authority limits to purchase and dispose of investment securities and derivatives are established in policy. Credit risk within the investment securities and derivative portfolios is monitored and measured by reviewing exposure to individual counterparties to ensure total investment securities and derivatives are within policy limits by issuer weightings and by dollar amount. This also mitigates concentration risk in the portfolio. The quality of the counterparties is assessed through published credit ratings. The table below shows the credit risk exposure on investment securities and derivative financial instruments, excluding liquidity reserves and balances on deposit with SaskCentral and Concentra:

	2017	2016
Rating		
AAA	-	4,555
AA	109,493	164,745
A	30,957	23,441
BBB	592	530
Unrated	21,136	16,008
Derivatives (SaskCentral and Concentra)	4,217	3,673
	166,395	212,952

Ratings are as provided by Dominion Bond Rating Service (DBRS) unless otherwise indicated. The Credit Union identifies and implements appropriate monitoring and/or corrective action on investments that are expected to be downgraded to below investment grade.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of two types of risk: interest rate risk and currency risk. The primary market risk exposure of the Credit Union is interest rate risk, specifically, from timing differences in the re-pricing of assets and liabilities, both on and off-balance sheet. Interest rate movements can cause changes in interest income and interest expense and, although these changes move in the same direction, their relative magnitude will have a favourable or unfavourable impact on annual net interest income and the economic value (present value of estimated cash flows) of members’ equity. The extent of that impact depends on several factors, including asset and liability matching and interest rate curves. Regular simulation modeling is performed to assess the impact of various risk scenarios on net interest income and the economic value of members' equity and to guide the management of interest rate risk.

Processes and controls

Interest rate risk is managed in accordance with specific operating and board policies. The policies set risk limits based on the impact of a change in interest rates on the following: annual net interest income and economic value of members’ equity.

The impact of movements in interest rates on the financial position and earnings of the Credit Union is measured through a number of sophisticated tests, namely: income simulation, static gap analysis, stochastic analysis (earnings at risk), value at risk (economic value of equity) and duration analysis. Using rate sensitivity analysis with probable rate scenarios, interest rate risk is managed to comply with the Credit Union's policy requirement. For 2017, the Credit Union’s interest rate risk was within acceptable levels, as measured by board approved parameters.

(In thousands of CDN $)

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest rate risk is reported to the Asset Liability Management Committee (ALCO). One of the Committee's primary responsibilities is to provide oversight and direction for the management of interest rate risk. The ALCO establishes and approves targets and strategies related to interest rate risk management and liquidity management. The ALCO is comprised of all executive management and other selected senior management from the areas of finance, risk management, lending and retail operations. The ALCO frequently reviews historical and forward looking performance and risk measurements as part of a standardized reporting package. These reports include simulation results on interest margin with stress testing and scenario analysis.

Stress testing and scenario analysis

Stress testing and scenario analysis is performed and measured in relation to policy limits as part of the monthly interest rate risk simulation process. These tests include the effects of most likely and stressed movements in interest rates on the financial position of the Credit Union and its current and projected net earnings. Interest rate risk stress testing includes illustrating the impact of the most likely scenario (based on the Credit Union's rate forecast), a flat rate scenario, declining rate scenario (3% decline in prime rate over one year), rising rate scenario (3% increase in prime rate over one year), a shock down of 100 basis points, and a shock up of 100 basis points (100 basis points is equal to 1 percent).

The following table illustrates the potential impact of an immediate and sustained 100 basis point change in interest rates on net income, other comprehensive income and economic value of equity. These measures are based upon assumptions made by management such as asset growth and funding mix.

	2017	2016
100-basis-point increase in interest rate:		
Impact on net income	8,537	12,808
Impact on other comprehensive income[1]	-	(7,566)
Impact on economic value of equity	-6.47%	-4.42%
100-basis-point decrease in interest rate:		
Impact on net income	(10,789)	(3,064)
Impact on other comprehensive income[1]	-	7,100
Impact on economic value of equity	5.85%	-4.34%

[1]The credit union has projected it will not have other comprehensive income financial instruments under IFRS 9

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to currency risk because of members' U.S. dollar deposits. The Credit Union mitigates currency risk by investing in offsetting foreign denominated financial instruments of similar terms. Currency risk is managed in accordance with prescribed regulatory requirements and internal board policy, including limits with respect to the maximum holdings of unhedged foreign currency.

The Credit Union measures currency risk based on the percentage of foreign denominated financial assets against similar foreign denominated financial liabilities on a daily basis. As at December 31, 2017, the percentage of foreign denominated financial assets is 101% (2016 - 108%) of foreign denominated financial liabilities.

Board policy for foreign currency risk tolerance limits aggregate holdings in unhedged on-balance sheet foreign currency to 2% of eligible capital. Investment securities permitted under the investment management policy may be purchased and held in U.S. dollars for the purpose of hedging U.S. dollar liabilities.

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk arises from having insufficient funds to meet obligations as they come due at a reasonable cost. Liquidity risk stems from mismatched cash flows between assets and liabilities as well as certain product characteristics, including commitments to extend credit and redemption features on deposits. One of the Credit Union's primary objectives as a financial institution 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, at a reasonable price, to meet commitments as they become due, even under stressed conditions. Liquidity management ensures variations in cash flows are managed on a daily and seasonal basis.

Liquidity risk is managed through a three tiered structure: local credit union level; the Saskatchewan provincial credit union system tier; and the national Canadian credit union system tier. At the local level, the Credit Union's liquidity risk is managed according to an established framework that includes: established strategies and policies for managing liquidity risk; maintaining a portfolio of liquid assets; measuring and monitoring funding requirements; managing market access to funds; contingency plans; and internal controls over management practices and processes. At the provincial level, SaskCentral manages a provincial statutory liquidity pool on behalf of Saskatchewan credit unions. At the national level (national liquidity program), SaskCentral is party to the Inter-Central Liquidity Agreement whereby SaskCentral can access bi-lateral credit lines with the other participating centrals for the purpose of accessing funding in a liquidity event. SaskCentral is required to maintain liquidity investments in support of these bi-lateral credit lines.

Liquidity management framework

The Credit Union's liquidity management framework and liquidity targets and strategies are reviewed and documented in a liquidity risk management plan. The plan also identifies the long-term liquidity requirements of the Credit Union and describes the strategies to meet any funding needs. The plan is periodically reviewed by management and approved annually by the Risk Committee of the board of directors. Liquidity risk is managed in accordance to specific operating and board policies. Board policies set out the level of acceptable liquidity risk and the Credit Union's processes and controls for managing liquidity. As required by policy, the Credit Union has established limits and requirements with respect to: level of liquid assets, quality of liquid assets, concentration limits, cash flow mismatch limits and procedural control requirements with respect to measuring and monitoring liquidity risk.

Fundamental to the Credit Union's liquidity management framework is the assessment of the adequacy of liquidity under both normal operating conditions and under stress conditions. Stress conditions may include a liquidity event or crisis. The Credit Union maintains appropriate contingency plans to handle such an event.

Deposit liabilities are the Credit Union's primary funding source. Accordingly, diversification of deposits by product type, counterparty and term structure is an important element of the liquidity management framework. The Credit Union maintains access to borrowings facilities as detailed in Note 12 to augment and diversify liquidity requirements. The Credit Union also uses securitization, loan sales and syndications to manage funding requirements.

Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of Saskatchewan credit unions, prescribe liquidity adequacy measures and minimum liquidity requirements. The liquidity adequacy rules issued by CUDGC have been based on the Basel III liquidity adequacy standards established by the Bank for International Settlements and adopted by financial institutions around the globe, including Canadian banks.

The primary measures for liquidity adequacy at the Credit Union include the operating liquidity ratio and the liquidity coverage ratio. The operating liquidity ratio is calculated as available liquidity and cash inflows divided by cash outflows. Available liquidity is defined as investment securities that are immediately available as cash, investment securities marketable in an active secondary market, redeemable investment securities held with Concentra Financial and committed credit facilities. The Credit Union seeks to maintain this ratio at greater than or equal to 150%.

The liquidity coverage ratio is calculated as the stock of high quality liquid assets divided by net cash outflows over a 30-day time period. Regulatory standards require credit unions to maintain a minimum liquidity coverage ratio of 80% in 2018, 90% in 2019, and 100% in 2020. The Credit Union maintains internal liquidity adequacy targets that exceed regulatory requirements.

(In thousands of CDN $)

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The following table summarizes the Credit Union's liquid assets at December 31:

	2017	2016
Cash and cash equivalents	134,624	134,916
Other marketable investment securities	155,425	227,735
Statutory liquidity investment securities at SaskCentral	450,489	431,880
Total liquid assets	740,538	794,531

The following table summarizes the Credit Union's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been prepared using undiscounted cash flows of financial liabilities based on the earliest date on which the Credit Union can be required to pay. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The amounts included below for variable interest rate instruments is subject to changes if variable interest rates differ to those estimates of interest rates determined at the end of the reporting period. Commitments to extend loans and lines of credit are also included and are classified by the earliest funding time frame provided by contract.

	2017						
	Liability maturity table						
	Less than 1 year	1 year to under 2 years	2 years to under 3 years	3 years to under 4 years	4 years to under 5 years	5 years and over	Total
Liabilities							
Borrowings	60,084	-	-	-	-	-	60,084
Secured debt	187,228	222,504	174,928	147,865	165,907	32,624	931,056
Deposits	3,419,970	508,931	213,677	106,906	89,168	3,342	4,341,994
Membership shares and member equity accounts	20,742	-	-	-	-	-	20,742
Other liabilities	46,996	-	-	-	-	-	46,996
	3,735,020	731,435	388,605	254,771	255,075	35,966	5,400,872

	Earliest funding time frame for commitments to extend credit					
	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	5 years and over	Total
Off-balance sheet items						
Undrawn lines of credit	309,957	-	-	-	-	309,957
Commitments to extend credit	504,998	-	-	-	-	504,998
	814,955	-	-	-	-	814,955

(In thousands of CDN $)

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

	2016						
	Liability maturity table						
	Less than 1 year	1 year to under 2 years	2 years to under 3 years	3 years to under 4 years	4 years to under 5 years	5 years and over	Total
Liabilities							
Borrowings	-	-	-	-	-	-	-
Secured debt	120,986	205,860	228,968	182,445	134,660	31,023	903,942
Deposits	3,144,273	513,782	342,827	111,071	93,265	9,019	4,214,237
Membership shares and member equity accounts	22,543	-	-	-	-	-	22,543
Other liabilities	44,666	-	-	-	-	-	44,666
	3,332,468	719,642	571,795	293,516	227,925	40,042	5,185,388

	Earliest funding time frame for commitments to extend credit					
	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	5 years and over	Total
Off-balance sheet items						
Undrawn lines of credit	307,758	-	-	-	-	307,758
Commitments to extend credit	533,713	-	-	-	-	533,713
	841,471	-	-	-	-	841,471

Processes and controls

Various internal controls have been implemented into the liquidity management process. Specifically, the liquidity position of the Credit Union is regularly reported to executive management, ALCO and the board. Included in the ALCO mandate is to review, monitor and set management risk limits with respect to liquidity. A review is conducted by the enterprise risk management department on the compliance with established liquidity policies and procedures and the interdependence of liquidity risk to other organizational risks such as strategic risk and credit risk. A periodic review is also conducted by internal audit on the liquidity management processes and systems of the Credit Union.

Stress testing and scenario analysis

Stress testing and scenario analysis is performed to assess the adequacy of liquidity. Contingency plans address liquidity management under scenario events or stressed conditions. Stress and scenario conditions include larger than predicted deposit withdrawals and borrowing levels, as well as market disruptions resulting in limited to no access to capital markets.

(In thousands of CDN $)

24. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit instruments

To meet the financial needs of members, the Credit Union enters into various commitments consisting of undrawn lines of credit, commitments to extend credit and letters of credit.

Even though these obligations are not recognized on the Consolidated Statement of Financial Position, they do contain credit and liquidity risk and are therefore part of the overall risk of the Credit Union.

The following amounts represent the maximum amount of additional credit that the Credit Union could be obligated to extend at December 31:

	2017	2016
Undrawn lines of credit	309,957	307,758
Commitments to extend credit	504,998	533,713
Letters of credit	23,854	26,159
	838,809	867,630

Contingent liabilities

In the ordinary course of business, the Credit Union has legal proceedings brought against it and provisions are recorded when appropriate. It is the opinion of management that final determination of these claims will not have a material adverse impact on the Credit Union.

Investment commitments

Pursuant to the bylaws of SaskCentral, the Credit Union is required to maintain membership shares in SaskCentral in an amount equal to no less than 1% of the Credit Union's assets unless SaskCentral's capital requirements are met. The Credit Union is in compliance with all bylaws of SaskCentral and currently has 0.63% (2016 - 0.66%) of assets in membership shares in SaskCentral.

Other commitments

The Credit Union is committed to investments in Apex Investment Fund Limited Partnership (Apex LP), Apex II Investment Fund Limited Partnership (Apex II LP) and Lex Energy Partners LP III (LEX).

(In thousands of CDN $)

24. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

The following amounts represent the maximum of additional investment that the Credit Union could be obligated to provide at December 31:

	2017	2016
Apex II LP	1,836	2,950
LEX	750	2,750
	2,586	5,700

The Credit Union has a commitment to Saskworks Venture Fund Inc. in the form of a promissory note at December 31, 2017, of $12,906 (2016 - $13,384).

The Credit Union has various other commitments that include community investments, information technology maintenance contracts and construction contracts. Total other commitments are as follows:

2018	6,310
2019	1,060
2020	345
2021	310
2022	19
Thereafter	19
Total other commitments	8,063

Operating leases

The Credit Union has entered into commercial leases on premises expiring on various dates up to the year 2030. The lease agreements are treated as operating leases with rents charged to operations in the year to which they are related. The aggregate lease commitments are as follows:

2018	4,217
2019	3,961
2020	3,081
2021	2,790
2022	2,136
Thereafter	6,262
Total operating leases	22,447

25. SUBSEQUENT EVENTS

On January 1, 2018 the Credit Union will exercise their purchase option to acquire the underlying receivables associated with their credit cards from The Toronto-Dominion Bank. The purchase option is recorded in the consolidated financial statements as an embedded derivative in Note 4. The preliminary purchase price of the receivables is $68,255.