

# CONEXUS CREDIT UNION

Consolidated Financial Statements  
December 31, 2018

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# 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.



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Chief Executive Officer



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# Independent **Auditor's** Report

To the Members of  
Conexus Credit Union 2006

## Opinion

We have audited the consolidated financial statements of Conexus Credit Union 2006 and its subsidiaries (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis for Opinion

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

## Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

*Deloitte LLP*

Chartered Professional Accountants

Regina, Saskatchewan  
March 1, 2019

# Consolidated Statement of Financial Position

(In thousands of CDN \$)

As at December 31, 2018

	Note	2018	2017
<b>Assets</b>			
Cash and cash equivalents	3	212,267	134,624
Derivative financial instruments	4	4,189	11,352
Investment securities	5	674,241	650,669
Loans and advances	6,7	5,276,887	4,948,361
Property, plant and equipment	9	60,444	52,267
Intangible assets	10	11,084	2,427
Deferred tax assets	19	815	598
Other assets	11	18,994	17,202
Goodwill	10	1,234	1,234
<b>Total assets</b>		<b>6,260,155</b>	<b>5,818,734</b>
<b>Liabilities</b>			
Borrowings	12	-	60,000
Derivative financial instruments	4	4,857	4,843
Secured debt	8	907,660	893,475
Deposits	13	4,765,586	4,325,176
Current tax liabilities		4,813	2,870
Deferred tax liabilities	19	967	1,291
Membership shares and member equity accounts	14	19,142	20,742
Other liabilities	15	53,546	46,996
<b>Total liabilities</b>		<b>5,756,571</b>	<b>5,355,393</b>
<i>Contingent liabilities and commitments</i>	24		
<b>Members' equity</b>			
Accumulated other comprehensive income (loss)		(1,092)	(1,906)
Retained earnings		504,676	465,247
<b>Total members' equity</b>		<b>503,584</b>	<b>463,341</b>
<b>Total liabilities and members' equity</b>		<b>6,260,155</b>	<b>5,818,734</b>

See accompanying notes to the consolidated financial statements

## APPROVED BY THE BOARD:



Joel Mowchenko, 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, 2018

	Note	2018	2017
Interest income	17	232,539	193,941
Interest expense	17	72,552	54,475
Net interest income		159,987	139,466
Loan impairment charges	7	16,100	9,929
Net interest income after impairment charges		143,887	129,537
Other income	18	52,446	45,323
Net interest income and other income		196,333	174,860
Operating expenses			
Personnel		72,837	73,512
General business		51,125	40,963
Occupancy		11,369	10,985
Member security		3,866	3,744
Organizational		2,958	2,009
Total operating expenses		142,155	131,213
Profit for the year before income tax		54,178	43,647
Income tax expense	19	11,575	10,114
Profit for the year		42,603	33,533
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Net unrealized gains (losses) on fair-value-through-other-comprehensive-income financial assets		(715)	-
Net unrealized gains (losses) on available-for-sale financial assets		-	(1,989)
Net adjustments for realized net (gains) losses		66	305
Other comprehensive income for the year, net of tax		(649)	(1,684)
Total comprehensive income for the year		41,954	31,849

See accompanying notes to the consolidated financial statements

## Consolidated Statement of Changes in Members' Equity

(In thousands of CDN \$)

As at December 31, 2018

	2018	2017
<b>Accumulated other comprehensive income</b>		
Balance at beginning of year	(1,906)	(222)
Impact of adopting IFRS 9 at January 1, 2018 (Note 26)	1,463	-
Restated balance at January 1, 2018	(443)	(222)
Other comprehensive income:		
Net change in fair value of fair-value-through-other-comprehensive-income assets (net of tax of \$186)	(649)	-
Net change in fair value of available-for-sale assets (net of tax of \$460)	-	(1,684)
Balance at end of year	(1,092)	(1,906)
<b>Retained earnings</b>		
Balance at beginning of year	465,247	431,714
Impact of adopting IFRS 9 at January 1, 2018 (Note 26)	(3,174)	-
Restated balance at January 1, 2018	462,073	431,714
Profit for the year	42,603	33,533
Balance at end of year	504,676	465,247
<b>Total members' equity</b>	<b>503,584</b>	<b>463,341</b>

See accompanying notes to the consolidated financial statements



# Consolidated Statement of Cash Flows

(In thousands of CDN \$)

For the year ended December 31, 2018

	Note	2018	2017
<b>Cash flows provided by (used in) operating activities</b>			
Profit for the year		42,603	33,533
Adjustments for non-cash items:			
Loan impairment charges		16,100	9,929
Credit card acquisition adjustment	25	(2,024)	-
Amortization of property, plant and equipment	9	5,564	5,515
Amortization of intangible assets	10	1,886	1,514
(Gain) on disposal of property, plant and equipment		(135)	(4)
Net interest income	17	(159,987)	(139,466)
Dividends on investment securities	18	(8,679)	(4,173)
Unrealized and realized (gains) losses on investment securities	18	(5,309)	(2,173)
Income from investment in associates	18	(600)	(386)
Income tax expense	19	11,575	10,114
Changes in operating assets and liabilities:			
Loans and advances	6	(274,629)	(286,609)
Credit card acquisition	25	(64,575)	-
Secured debt	8	14,185	27,430
Deposits	13	432,679	128,042
Derivative financial assets	4	28	(1,786)
Derivative financial liabilities	4	14	(307)
Other assets	11	(1,792)	(839)
Other liabilities	15	2,680	2,330
Other non-cash operating items		(1,180)	1,737
Interest received		216,057	183,141
Interest paid		(64,821)	(53,264)
Income tax paid		(10,458)	(7,238)
<b>Cash flows provided by (used in) operating activities</b>		<b>149,182</b>	<b>(92,960)</b>
<b>Cash flows provided by (used in) investing activities</b>			
Interest received		11,950	8,042
Dividends received	18	8,679	4,173
Volume bonus and dividend received from investment in associate		374	517
Purchases of investment securities		(388,012)	(513,518)
Proceeds on sale of investment securities		373,588	539,772
Purchase of property, plant and equipment	9	(13,889)	(3,634)
Proceeds from sale of property, plant and equipment		192	7
Purchase of intangible assets	10	(1,712)	(1,232)
<b>Cash flows provided by (used in) investing activities</b>		<b>(8,830)</b>	<b>34,127</b>
<b>Cash flows provided by (used in) financing activities</b>			
(Repayment) Advance of borrowings: (Beginning 2018 - \$60,000 , Net cash flows - (60,000), Ending 2018 - \$nil)	12	(60,000)	60,000
Membership shares redeemed: (Beginning 2018 - \$20,742, Net cash flows - (\$1,600), Non-cash items - \$nil, Ending 2018 - \$19,142)		(1,600)	(1,801)
<b>Cash flows provided by (used in) financing activities</b>		<b>(61,600)</b>	<b>58,199</b>
Net increase (decrease) in cash and cash equivalents during the year		78,752	(634)
Net foreign exchange difference on cash held		(1,109)	342
Cash and cash equivalents, beginning of year	3	134,624	134,916
<b>Cash and cash equivalents, end of year</b>	<b>3</b>	<b>212,267</b>	<b>134,624</b>

See accompanying notes to the consolidated financial statements

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Adoption of new and revised standards in the current year

As explained in Note 26 the Credit Union has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018.

The Credit Union has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of January 1, 2018. It has been determined that the adoption of this standard has not resulted in any material changes to the consolidated financial statements of the Credit Union.

Other changes to IFRS standards which became effective in 2018 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, 2018, were authorized for issue by the board of directors on March 1, 2019.

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 (FVTPL), fair value through other comprehensive income (FVOCI) 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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Determination of allowance for credit losses- applicable after January 1, 2018*

The Credit Union measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for debt investment securities that are determined to have low credit risk at the reporting date and loans and advances where credit risk has not increased significantly since their initial recognition. In particular, management judgement is required in the estimate of whether credit risk of an instrument has increased significantly, inputs into the ECL quantitative model and in the use of forward-looking information.

The Credit Union incorporates forward-looking economic information in its measurement of ECL.

The Credit Union assesses whether credit risk on a financial asset has increased significantly considering reasonable and supportable information since initial recognition in order to determine whether a 12 month ECL or lifetime ECL should be recognized. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert credit assessment.

See the impairment of loans and advances under the significant accounting policies contained in this note for further discussion of allowance for credit losses.

### *Determination of allowance for credit losses- applicable before January 1, 2018*

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.

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.

### *Classification of financial assets- applicable after January 1, 2018*

#### *Business Model Assessment*

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Credit Union considers:

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Credit Union's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

### *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 22.4% (2017 - \$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% (2017 - 20.1%) of the total issued and outstanding units of Apex Investment Limited Partnership (Apex I LP). The Credit Union does not have significant influence over strategic, operating and financial policies of Apex I LP, including decisions about dividends and other distributions. Therefore, management has determined that the Credit Union does not have significant influence over Apex I LP.

The Credit Union holds a 40% (2017 - 40%) ownership in CU Dealer Finance Corp (CUDF) and a 25% (2017 - 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% (2017- 50%) ownership in Thrive Wealth Management Ltd. (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.

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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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% (2017 – 40%) ownership in CUDF and a 25% (2017 – 25%) ownership in Apex Investment GP Inc., which were incorporated under the laws of the Province of Saskatchewan, Canada.

### *Joint ventures*

The credit union has a 50% (2017 – 50%) ownership in Thrive Wealth Management, which was incorporated under the laws of the Province of Saskatchewan, 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 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.

Applicable after January 1, 2018 for financial instruments other than credit-impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *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.

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.

### *Financial instrument classifications- Policy applicable after January 1, 2018*

#### *Classification of Financial Assets*

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to classify as fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

### *Financial Liability classification*

The Credit Union classifies its financial liabilities, as measured at amortized cost or FVTPL. Borrowings, secured debt, deposits, membership shares and member equity accounts and certain other liabilities 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.

Before January 1, 2018, other financial liabilities were classified as other liabilities (OL) and carried at amortized cost.

### *Financial instrument classifications - Policy applicable before January 1, 2018*

#### *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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### **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 amortized cost.

Before January 1, 2018, 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 their 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 Bank that reposition the Credit Union's interest rate risk profile and hedge agreements with SaskCentral and Desjardins 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 FVTPL after January 1, 2018 and HFT before January 1, 2018 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

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

instruments, the time value of money, yield curves, volatility and credit risk factors.

Further details on derivatives are provided in Note 4.

### **Investment securities**

*Policy applicable after January 1, 2018*

#### **Amortized cost**

Investment securities classified as financial assets at amortized cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method. These investment securities are held within a business model whose objective is to collect the contractual cash flows and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### **Fair value through profit or loss (FVTPL)**

Investment securities classified as financial assets at FVTPL are designated as such upon initial recognition. These investment securities are held within a business model whose objective is to manage such investment securities and make purchases and sales decision 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.

#### **Equity securities designated as at FVOCI**

On initial recognition, the Credit Union may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVOCI. Upon initial recognition the equity securities designated as FVOCI are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of the investment.

#### **Debt securities measured at FVOCI**

Investment securities classified as debt securities measured at FVOCI are designated as such upon initial recognition. These investment securities are held within a business model whose objective is to collect the contractual cash flows and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Upon initial recognition the debt securities designated as FVOCI are measured at fair value plus transaction costs. In subsequent periods, these investment securities are measured at fair value with 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.

*Policy applicable before January 1, 2018*

#### **Fair value through profit or loss (FVTPL)**

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.

#### **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.



# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *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 amortized cost. Before January 1, 2018 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.

### **Modification of financial assets**

If the terms of the financial asset are modified, the Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

### *Policy applicable after January 1, 2018*

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Policy applicable before January 1, 2018*

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.

**Impairment-** *Policy applicable after January 1, 2018*

### **Impairment of financial assets**

The Credit Union recognizes a loss allowance for expected credit losses on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (loans and advances and certain investment securities),
- undrawn lines of credit,
- loan commitments to extend credit; and
- letters of credit.

No impairment loss is recognized on equity securities designated as FVOCI.

The Credit Union measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Credit Union considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade".

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

In instances where a loan and advance includes both a drawn and undrawn component, such as a line of credit and loan commitment, the Credit Union cannot identify the ECL on the undrawn component separately from those on the drawn component the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Credit Union compares the risk of default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative changes in internal credit risk ratings and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Credit Union's quantitative modelling, the internal credit risk rating has deteriorated by 4 or more rating points for both the consumer portfolios and the commercial portfolios.

Using its expert credit judgement and, where possible, relevant historical experience, the Credit Union may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Irrespective of the outcome of the above assessment, the Credit Union presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Credit Union has reasonable and supportable information that demonstrates otherwise.

The Credit Union assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default,
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- adverse changes in economic and business conditions in the longer term may, but will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Credit Union incorporates forward-looking information into its measurement of ECL. Based on advice from the Economic and Consumer Credit Analytics (EECA) of the software vendor Moody's Analytics (Moody's), the Credit Union formulates a "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private sector and expert forecasters.

The Credit Union has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2018 included the Canada unemployment rate, Canada equity, and the Canada oil price for the years ending December 31, 2018 and 2017.

For undrawn lines of credit, loan commitments to extend credit and letters of credit, the date that the Credit Union becomes a party to the irrevocable commitment is considered the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Credit Union also considers changes in the internal credit risk ratings of the loan to which a loan commitment relates. For financial guarantee contracts, the Credit Union considers the changes in the risk that the specified debtor will default on the contract.

The Credit Union regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

### *Measurement of ECL*

ECL are a probability-weighted estimate of credit losses. They are measured using a three-stage approach as follows:

- *12- Month ECL:* Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, the 12 month ECL is recorded as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive);
- *Lifetime ECL not credit impaired:* When a financial instrument experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, the lifetime ECL is recorded as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Credit Union in accordance with the contract and the cash flows that the Credit Union expects to receive); and
- *Lifetime ECL credit impaired:* When a financial instrument is considered to be in default, the lifetime ECL is computed as the difference between the gross carrying amount and the present value of estimated future cash flows.

The ECL on undrawn lines of credit and loan commitments to extend credit are computed as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive. The ECL on letters of credit are computed as the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

### *Definition of Default*

The Credit Union considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Credit Union, in full (without taking into account any collaterals held by the Credit Union).

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Irrespective of the above analysis, the Credit Union considers that default has occurred when a financial asset is more than 90 days past due unless the Credit Union has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

### *Credit-impaired financial assets*

At each reporting date, the Credit Union assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit impaired. A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- a restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

### *Write-off policy*

Loans and advances and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

### *Impairment of non-financial assets*

The Credit Union assesses impairment of all non-financial assets with the exception of FVTPL assets at the end of each reporting period. An impairment checklist that 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.

### **Impairment of loans and advances- Policy applicable before January 1, 2018**

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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### **Impairment of assets other than loans and advances- Policy applicable before January 1, 2018**

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.

### **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.

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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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, 2018, funds managed totaled \$1,409,031 (2017 - \$1,415,149).

### 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
Leasehold improvements	5 to 10 years
Furniture, equipment and vehicles	5 years
Computer equipment	4 to 5 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, credit card customer relationships and software. Customer lists, core deposits, credit card customer relationships 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:

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other	10 to 20 years
Credit card customer relationship	15 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.

### 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 amortized cost and initially recorded at fair value. Subsequently, they are measured at amortized cost using the effective interest method, less any impairment losses.

Before January 1, 2018, receivables were classified as LR and carried at amortized cost.

### 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.

### 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

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 applied to the gross carrying amount of the asset. For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. 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 at the point in time the related service is provided and control of the services have transferred to the member. 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. Payment of the fees, commissions and other revenues are due immediately as the service is provided.

Credit card revenue, including service charges and other fee income, are recognized as earned as the Credit Union transfers control of the service and satisfies its performance obligation. Payment of the transaction price is due immediately as the service is provided.

Credit card interchange revenue is recognized as the Credit Union transfers control of two distinct services; providing rewards points and payment processing services to members. The transaction price allocated to providing the rewards points is recorded as a rewards contract liability at the time of the initial sales transaction. The stand-alone selling price per point is estimated based on the point value given when the points are redeemed by the member and the likelihood of redemption, as evidenced by the Credit Union's historical experience. The transaction price allocated to providing the payment processing services is recognized as the interchange revenue is earned. Payment of the transaction price is due immediately as the service is provided.

Credit card annual fees are recognized over a twelve month period as control is transferred to the member and the Credit Union satisfies its performance obligation. Payment of the transaction price is due up-front in full for the services.

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 and the Credit Union satisfies its performance obligation.

#### Unrealized and realized gains (losses) on derivative financial instruments

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



# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment security gains and losses

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.

For equity securities designated at FVOCI, increases and decreases in fair values are recorded in other comprehensive income. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of the investment. For debt securities designated at FVOCI, increases and decreases in fair value are recorded in OCI. When an investment security is derecognized, the cumulative gain or loss in OCI is transferred to other income.

Before January 1, 2018 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.

Before January 1, 2018 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. The transaction price of the commission income is based on assets under management and is highly subject to factors outside the Credit Union's influence. These commissions are recognized as other income when the fee is earned as control is transferred to the member and the uncertainty of the transaction price is resolved. Payment of the transaction price is due immediately as the service is provided.

### **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 Credit Union's 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 \$3,821, (2017 - \$3,782) 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, 2018 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 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 Consolidated Statement of Comprehensive Income. The effective date for IFRS 16 is for fiscal periods beginning on or after January 1, 2019. The Credit Union is currently assessing what impact the application of IFRS 16 will have on amounts reported on the consolidated financial statements.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 3. CASH AND CASH EQUIVALENTS

	2018	2017
Cash on hand	77,921	22,973
Restricted cash	10,922	71,291
Deposits at call - SaskCentral	33,596	25,385
Chartered bank guaranteed short-term investment	89,828	-
Provincial government short-term investment	-	14,975
<b>Total cash and cash equivalents</b>	<b>212,267</b>	<b>134,624</b>

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			
	Under 1 year	1 to 5 years	Over 5 years	2018	2017	2018		2017	
				Total	Total	Assets	Liabilities	Assets	Liabilities
<b>Derivatives at FVTPL</b>									
Interest rate swaps	218	15,563	21,717	37,498	25,300	5	673	-	626
Index-linked options	7,093	44,522	-	51,615	48,091	4,184	4,184	4,217	4,217
Embedded purchase option	-	-	-	-	-	-	-	7,135	-
<b>Total</b>	<b>7,311</b>	<b>60,085</b>	<b>21,717</b>	<b>89,113</b>	<b>73,391</b>	<b>4,189</b>	<b>4,857</b>	<b>11,352</b>	<b>4,843</b>

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 Bank to manage exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows based on agreed upon rates to a notional amount. Generally, counterparties exchange a fixed and floating interest rate payment to manage exposure to interest rate risk by modifying the interest rate characteristics of assets or liabilities.

### Index-linked options

The Credit Union offers index-linked deposit products to its members that pay interest to the depositors at the end of the term, based on stock market index performance. The Credit Union has entered into index-linked options with SaskCentral and Desjardins 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 and Desjardins 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 had an agreement with a third party in which it acts as an agent to sell credit cards. The agreement contains an option for the Credit Union to acquire the underlying loans associated with the credit cards. The Credit Union had determined this embedded purchase option was a derivative financial instrument. The credit card receivables were purchased on January 1, 2018, for further details see Note 25.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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:

	2018	2017
<b>Fair value through profit or loss</b>		
SaskCentral - statutory liquidity deposits	290,766	231,412
Other securities	21,302	21,036
<b>Total fair value through profit or loss</b>	<b>312,068</b>	<b>252,448</b>
<b>Amortized cost</b>		
SaskCentral - statutory liquidity deposits	192,520	-
Federal and provincial government	35,423	-
Accrued interest	1,060	-
<b>Total amortized cost</b>	<b>229,003</b>	<b>-</b>
<b>Equity securities designated as FVOCI</b>		
SaskCentral - shares	36,490	-
<b>Total equity securities designated as FVOCI</b>	<b>36,490</b>	<b>-</b>
<b>Debt securities measured at FVOCI</b>		
Chartered bank guaranteed	52,724	-
Federal and provincial government	43,461	-
Accrued interest	528	-
<b>Total debt securities measured at FVOCI</b>	<b>96,713</b>	<b>-</b>
<b>Available-for-sale</b>		
SaskCentral - shares	-	36,490
SaskCentral - statutory liquidity deposits	-	219,077
Chartered bank guaranteed	-	55,344
Federal and provincial government	-	70,466
Other securities	-	14,739
Accrued interest	-	1,513
<b>Total available-for-sale</b>	<b>-</b>	<b>397,629</b>
<b>Loans and receivables</b>		
Other securities	-	592
<b>Total loans and receivables</b>	<b>-</b>	<b>592</b>
12- month ECL	(33)	-
<b>Total investment securities</b>	<b>674,241</b>	<b>650,669</b>

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 impairment recoveries for investment securities for the year ended December 31, 2018 of \$44 (2017 – \$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, 2018, the Credit Union met the requirement.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 5. INVESTMENT SECURITIES (continued)

### SaskCentral – shares

Currently the Credit Union holds \$36,490 in membership shares of SaskCentral, or 22.4% (2017 - \$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.

On January 1, 2018 the Credit Union designated its investment in SaskCentral equity securities as at FVOCI. In 2017, this investment was classified as available-for-sale and measured at cost. The FVOCI designation was made because the shares in SaskCentral are required as a condition of membership in SaskCentral. There is no active market for these shares as they are issued only by virtue of membership in SaskCentral. The shares are redeemable upon withdrawal of membership or at the discretion of the board of directors of SaskCentral. The shares may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a SaskCentral by-law providing for the redemption of its share capital.

## 6. LOANS AND ADVANCES

### Loans and advances by portfolio at amortized cost

	2018	2017
<b>Consumer loans</b>		
Mortgage guaranteed	1,213,512	1,132,370
Mortgage conventional	886,742	867,419
Non mortgage	765,116	706,732
<b>Total consumer loans</b>	<b>2,865,370</b>	<b>2,706,521</b>
<b>Commercial loans</b>		
Mortgage	1,705,982	1,583,004
Non mortgage	603,576	557,134
Government guaranteed	94,609	94,270
<b>Total commercial loans</b>	<b>2,404,167</b>	<b>2,234,408</b>
Gross loans and advances	5,269,537	4,940,929
Foreclosed property held for resale	4,476	1,512
Accrued interest receivable	19,133	14,676
Allowance for impaired loans	(16,259)	(8,756)
<b>Total loans and advances</b>	<b>5,276,887</b>	<b>4,948,361</b>

The Credit Union has entered into securitization transactions on residential mortgages and auto loans that do not qualify for derecognition. As at December 31, 2018, the total amount of securitized loans outstanding included in the loan balances above was \$922,297 (2017 - \$907,131). 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, 2018, the total amount of syndicated loans outstanding not included in the loan balances above was \$588,176 (2017 - \$645,903) and the gain/(losses) on these syndicated loans were (\$16) (2017- (\$799)) recorded in other income.

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

### 6. LOANS AND ADVANCES (continued)

Maturity analysis based on remaining term to maturity

	2018	2017
<b>Scheduled for repayment</b>		
Overdrafts and line of credit facilities	665,558	571,968
Under 1 year	2,021,284	1,976,206
1 year to under 5 years	2,549,031	2,369,807
5 years and over	33,664	22,948
	5,269,537	4,940,929

Security held against loans and advances

	2018	2017
Fully or partially secured by tangible mortgage assets	4,205,585	3,971,029
Fully or partially secured by tangible non mortgage assets	730,343	733,023
Unsecured	333,609	236,877
	5,269,537	4,940,929

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

	2018			Total
	12- month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
<b>Loans and advances</b>				
Balance at January 1 per IAS 39	-	-	-	8,756
Adjustment on initial application of IFRS 9	-	-	-	2,874
Balance at January 1 per IFRS 9	310	3,913	7,407	11,630
Credit losses for the year:				-
Charges (Recovery) of loan impairment	566	1,300	9,699	11,565
Interest accrued on impaired loans and advances	-	-	4,579	4,579
Amounts written off	-	-	(11,515)	(11,515)
<b>Loans and advances balance at December 31</b>	876	5,213	10,170	16,259

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

### Reconciliation of the allowance for credit losses (continued)

	2017		
	Individual allowance	Collective allowance	Total
<b>Balance at January 1 per IAS 39</b>	2,528	742	3,270
Credit losses for the year:			
Charges (Recovery) of loan impairment	6,959	1,384	8,343
Interest accrued on impaired loans and advances	1,586	-	1,586
Amounts written off	(4,443)	-	(4,443)
<b>Balance at December 31 per IAS 39</b>	6,630	2,126	8,756

### Impaired and allowance for credit losses by portfolio

	2018				
	Impaired	12- month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Net impaired
<b>Consumer loans</b>					
Mortgage guaranteed	2,917	(7)	(52)	-	2,858
Mortgage conventional	2,306	(9)	(34)	(309)	1,954
Non mortgage	5,415	(760)	(809)	(3,654)	192
<b>Total consumer loans</b>	10,638	(776)	(895)	(3,963)	5,004
<b>Commercial loans</b>					
Mortgage	54,063	(39)	(2,822)	(2,360)	48,842
Non mortgage	22,522	(60)	(1,304)	(3,587)	17,571
Government guaranteed	495	(1)	(192)	(97)	205
<b>Total commercial loans</b>	77,080	(100)	(4,318)	(6,044)	66,618
Gross loans and advances	87,718	(876)	(5,213)	(10,007)	71,622
Foreclosed property held for resale	-	-	-	(163)	(163)
Accrued interest receivable	4,580	-	-	-	4,580
<b>Total loans and advances</b>	92,298	(876)	(5,213)	(10,170)	76,039

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2018 that are still subject to enforcement activity is \$1,710 (2017- \$2,906).

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

#### Impaired and allowance for credit losses by portfolio (continued)

	2017			
	Impaired	Individual allowance	Collective allowance	Net impaired
<b>Consumer loans</b>				
Mortgage guaranteed	5,277	-	(37)	5,240
Mortgage conventional	1,910	(82)	(28)	1,800
Non mortgage	1,703	(970)	(306)	427
Total consumer loans	8,890	(1,052)	(371)	7,467
<b>Commercial loans</b>				
Mortgage	28,823	(2,476)	(838)	25,509
Non mortgage	14,010	(2,968)	(797)	10,245
Government guaranteed	455	(34)	(120)	301
Total commercial loans	43,288	(5,478)	(1,755)	36,055
Gross loans and advances	52,178	(6,530)	(2,126)	43,522
Foreclosed property held for resale	-	(100)	-	(100)
Accrued interest receivable	2,541	-	-	2,541
Total loans and advances	54,719	(6,630)	(2,126)	45,963

The fair value of the collateral held by the Credit Union as security for the above impaired loans for 2018 was \$117,594. The Credit Union has estimated the fair value of collateral based on management's knowledge of local real estate market conditions and on an updated assessment of the security appraisal, where appropriate.

The collateral and other credit enhancements held by the Credit Union as security for loans include;

- mortgages over residential lots and properties,
- recourse to business assets such as real estate, equipment, inventory and accounts receivable,
- recourse to the commercial real estate properties being financed, and
- recourse to liquid assets, guarantees and securities.

Valuations of collateral are performed periodically to ensure they remain reasonable. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

The following table provides an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance.

	12- month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired
<b>Loans and advances to members at amortized cost</b>			
The acquisition of a credit card portfolio increased consumer non-mortgage loans by \$66,656	526	272	2,154

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

### Other disclosures for impaired and past due loans

	2018	2017
- Assets acquired via enforcement of security	4,471	2,637
- Interest earned on impaired loans	4,579	1,586
- Interest revenue forgone on impaired loans	489	367

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.

### Analysis of loans that are impaired with individual allowances based on age of repayments past due – comparative information under IAS 39

	2017	
	Impaired	Individual allowance
<b>Scheduled for repayment</b>		
Under 1 year	45,976	(5,302)
1 year to under 5 years	8,743	(1,228)
5 years and over	-	-
	54,719	(6,530)

### Loans with repayments past due but not regarded as impaired- comparative information under IAS 39

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		
	1-30 days	31-90 days	Total
<b>Past due loans</b>			
Consumer	36,929	6,372	43,301
Commercial	12,112	12,902	25,014
Accrued interest	221	224	445
	49,262	19,498	68,760

## 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:

	2018		2017	
	Carrying amount	Secured debt	Carrying amount	Secured debt
Residential mortgages	788,307	783,018	766,656	762,801
Auto loans	133,990	124,642	140,475	130,674
Total securitization	922,297	907,660	907,131	893,475

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.



# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 8. SECURITIZATION (continued)

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

	2018		2017	
	Carrying amount	Secured debt	Carrying amount	Secured debt
Less than 1 year	193,571	193,362	173,342	173,139
1 year and over	728,726	714,298	733,789	720,336
Total securitization	922,297	907,660	907,131	893,475

### 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, 2018, \$788,307 (2017 - \$766,656) 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 mortgagors. 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, 2018, is recorded net of unamortized transaction costs of \$5,289 (2017 - 3,855).

### 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, 2018, \$133,990 (2017 - \$140,475) 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, 2018 is recorded net of a credit enhancement in the form of overcollateralization provided to Pivot Trust of \$9,348 (2017 - \$9,801).

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

	2018	2017
Fair value of transferred assets	901,245	901,457
Less: fair value of secured debt	911,879	901,523
Net position	(10,634)	(66)

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

### 9. PROPERTY, PLANT AND EQUIPMENT

	2018					
	Land	Buildings	Computer equipment	Furniture, equip. and vehicles	Leasehold improvements	Total
Cost:						
Balance at December 31, 2017	8,175	53,286	10,947	5,873	11,800	90,081
Additions	-	9,938	1,748	781	1,422	13,889
Disposals	(29)	(340)	(1,029)	(215)	(64)	(1,677)
Balance at December 31, 2018	8,146	62,884	11,666	6,439	13,158	102,293
Accumulated amortization and impairment losses:						
Balance at December 31, 2017	-	19,830	7,643	3,468	6,873	37,814
Disposals	-	(294)	(1,029)	(164)	(42)	(1,529)
Amortization	-	1,899	1,571	919	1,175	5,564
Balance at December 31, 2018	-	21,435	8,185	4,223	8,006	41,849
Carrying amounts:						
Balance at December 31, 2017	8,175	33,456	3,304	2,405	4,927	52,267
Balance at December 31, 2018	8,146	41,449	3,481	2,216	5,152	60,444
	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

The carrying amount of property, plant and equipment includes assets under construction at December 31, 2018, of \$10,109 (2017 - \$361).

There were impairment losses for property, plant and equipment for the year ended December 31, 2018, of \$nil (2017 - \$nil).

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 10. GOODWILL AND INTANGIBLE ASSETS

2018						
	Goodwill	Core deposits	Other	Credit card customer relationship	Software	Total
Cost:						
Balance at December 31, 2017	1,234	841	43	-	9,773	11,891
Additions	-	-	788	8,832	923	10,543
Disposals	-	-	-	-	(209)	(209)
Balance at December 31, 2018	1,234	841	831	8,832	10,487	22,225
Accumulated amortization and impairment losses:						
Balance at December 31, 2017	-	324	31	-	7,875	8,230
Disposals	-	-	-	-	(209)	(209)
Amortization	-	65	4	579	1,238	1,886
Balance at December 31, 2018	-	389	35	579	8,904	9,907
Carrying amounts:						
Balance at December 31, 2017	1,234	517	12	-	1,898	3,661
Balance at December 31, 2018	1,234	452	796	8,253	1,583	12,318
2017						
	Goodwill	Core deposits	Other	Credit card customer relationship	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

There were impairment losses for intangible assets for the year ended December 31, 2018, of \$nil (2017 - \$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, 2018, of \$nil (2017 - \$nil).

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 11. OTHER ASSETS

	2018	2017
Investment in associates and joint ventures	580	375
Prepayments	3,959	619
Receivables	14,455	16,208
Total other assets	18,994	17,202

## 12. BORROWINGS

### SaskCentral and Concentra

The Credit Union has an authorized line of credit with SaskCentral in the amount of \$95,000 (2017 - \$95,000) in Canadian funds and an authorized line of credit with Concentra Bank in the amount of \$7,000 in U.S. funds (2017 - \$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 Bank 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 (2017 - \$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 Bank in the amount of \$50,000 (2017 - \$50,000). The interest rate on this secured credit line is three-month CDOR (2017- one-month CDOR) plus or minus the applicable discount or margin. At the end of the year, the amount outstanding was \$nil (2017 - \$nil). This revolving credit line is being secured by insured residential mortgages with a carrying value of \$55,315.

### 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 (2017 - \$100,000).

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 secured by collateral in the form of insured residential mortgages with a carrying value of \$100,562.

At the end of the year, the amount outstanding was \$nil (2017 - \$60,000).

The Credit Union has a new authorized letter of credit with Desjardins of \$881 related to the construction of property, plant and equipment. At the end of the year the amount outstanding was \$nil and the interest rate is one-month CDOR plus or minus the applicable discount or margin.

## 13. DEPOSITS

	2018	2017
Demand	2,299,195	2,191,833
Term	1,718,150	1,427,520
Registered plans	725,551	690,864
Accrued interest	22,690	14,959
Total deposits	4,765,586	4,325,176

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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 2018 (2017 - \$nil).

The following table summarizes share capital information:

	2018	2017
Membership shares at January 1 (required for membership)	613	597
New membership shares	50	41
Redeemed membership shares	(34)	(25)
Membership shares at December 31 (required for membership)	629	613
Member equity accounts at January 1 (based on patronage)	20,129	21,946
Patronage allocated	-	-
Patronage paid to members	(1,616)	(1,817)
Member equity accounts at December 31 (based on patronage)	18,513	20,129
Total membership shares and member equity accounts at December 31	19,142	20,742

## 15. OTHER LIABILITIES

	2018	2017
Accounts payable	9,066	1,604
Payroll related amounts	8,455	7,672
Outstanding settlement items	27,963	34,633
Loyalty points liability	6,407	1,971
Unclaimed balances	1,336	1,096
Deferred income	319	20
Total other liabilities	53,546	46,996

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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:

	2018	2017
Eligible capital		
Common equity tier 1 capital before deductions	503,584	463,341
Additional tier 1 capital	-	-
Total tier 2 capital	25,265	22,867
<b>Total eligible capital before deductions</b>	<b>528,849</b>	<b>486,208</b>
Deductions from eligible capital		
Intangible assets	11,084	2,427
Goodwill	1,234	1,234
Investments in associates	580	375
<b>Total deductions from eligible capital</b>	<b>12,898</b>	<b>4,036</b>
<b>Total eligible capital</b>	<b>515,951</b>	<b>482,172</b>
Risk-weighted assets		
Investment securities	104,038	96,587
Consumer loans	890,716	877,243
Commercial and agricultural loans	2,237,782	2,011,502
Other assets and derivatives	97,539	81,023
Commitments	265,139	158,116
Capital charge for operating risk	354,390	326,024
<b>Total risk-weighted assets</b>	<b>3,949,604</b>	<b>3,550,495</b>
Total eligible capital to risk-weighted assets	13.06%	13.58%
Common equity tier 1 capital to risk-weighted assets	12.42%	12.94%
Total tier 1 capital to risk-weighted assets	12.42%	12.94%
Leverage ratio	8.05%	8.02%

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

### 17. INTEREST INCOME AND INTEREST EXPENSE

	2018	2017
<b>Interest income</b>		
Cash and cash equivalents	1,569	221
Investment securities - fair value through profit or loss	5,308	1,857
Investment securities- amortized cost	3,354	-
Investment securities- debt securities measured at FVOCI	1,794	-
Investment securities - available-for-sale	-	5,872
Investment securities - loans and receivables	-	24
Loans and advances	220,514	185,967
<b>Total interest income</b>	<b>232,539</b>	<b>193,941</b>
<b>Interest expense</b>		
Borrowings	1,694	191
Derivative financial instruments	281	367
Secured debt	18,625	17,006
Deposits	51,952	36,911
<b>Total interest expense</b>	<b>72,552</b>	<b>54,475</b>
<b>Net interest income</b>	<b>159,987</b>	<b>139,466</b>

### 18. OTHER INCOME

	2018	2017
Account service fees	6,733	6,566
Loan fees	3,045	3,341
Loan insurance fees	4,071	4,300
Automated banking machine (ABM) fees	2,525	2,569
Unrealized and realized gains (losses) on derivative financial instruments	(41)	2,093
Unrealized and realized gains (losses) on fair value through profit or loss investment securities	5,395	2,560
Realized gains (losses) on fair value through other comprehensive investment securities	(86)	-
Realized gains (losses) on available-for-sale investment securities	-	(387)
Realized gains (losses) on amortized cost assets	(16)	-
Realized gains (losses) on loans and receivables	-	(799)
Dividend income	8,679	4,173
Income from investment in associates	600	386
Foreign exchange revenue	1,426	1,033
Payment card revenue	2,006	2,320
Credit card revenue	2,688	1,313
Fixed asset revenue	631	641
Gain on sale of property, plant and equipment	135	-
Wealth management income	8,927	7,414
Other	5,728	7,800
<b>Total other income</b>	<b>52,446</b>	<b>45,323</b>



# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 18. OTHER INCOME (continued)

Timing of revenue recognition for contracts with customers	2018	2017
<b>At a point in time</b>		
Account service fees	6,733	6,566
Loan fees	3,045	3,341
Loan insurance fees	4,071	4,300
Automated banking machine (ABM) fees	2,525	2,569
Payment card revenue	1,720	2,052
Credit Card revenue	1,855	1,313
Other	3,927	5,112
	23,876	25,253
<b>Over time</b>		
Payment card revenue	286	268
Credit card revenue	833	-
Wealth management income	8,927	7,414
Other	1,801	2,688
	11,847	10,370
<b>Revenue for contracts with customers</b>	35,723	35,623

## 19. INCOME TAX

The deferred tax asset is comprised of the following:

	2018	2017
Deferred tax assets		
Property, plant and equipment	815	598
<b>Total deferred tax assets</b>	815	598

The deferred tax liability is comprised of the following:

	2018	2017
Deferred tax liabilities		
Intangibles	740	-
Derivative financial instruments	-	1,103
Loans and advances	60	68
Other	167	120
	967	1,291
<b>Net deferred tax asset (liability)</b>	(152)	(693)

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 19. INCOME TAX (continued)

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

	2018	2017
Components of income tax expense		
Current income tax expense		
Current tax on profit for current year	12,115	9,733
Deferred income tax expense		
Origination and reversal of temporary differences	(540)	381
	11,575	10,114

Income taxes are included in other comprehensive income as follows:

	2018	2017
Net unrealized gains (losses) on fair-value-through-other-comprehensive-income investment securities		
Current income tax expense (recovery)	(205)	(542)
Reclassification of (gains) losses on fair-value-through-other-comprehensive-income investment securities to income		
Current income tax expense (recovery)	19	82
	(186)	(460)

Total income tax reported in the consolidated financial statements:

	2018	2017
	11,389	9,654

Reconciliation of income tax expense:

	2018	2017
Profit before income tax	54,178	43,647
Combined federal and provincial income tax rate	27.0%	26.8%
Income taxes at statutory rate	14,628	11,697
Income tax expense adjusted for the effect of:		
Non-deductible expenses	91	69
Non-taxable dividend income	(214)	(56)
Credit Union rate reduction	(3,070)	(2,545)
Deferred income tax expense resulting from tax rate changes	(338)	(105)
Other	478	1,054
	11,575	10,114
Effective rate of tax	21%	23%

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, was scheduled to reduce to 11% over a period through 2019. However this has been reversed for 2018. 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, 9.5% in 2019 and 12% in 2020.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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. KMP of the Credit Union include executive management, select senior management and members of the board who held offices during the financial year.

### Remuneration of KMP

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

	2018	2017
Short-term employee benefits	3,757	2,811
Other long-term benefits	199	55
Director remuneration	255	302
	4,211	3,168

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 management earned salaries, performance-based incentive and benefits as follows:

	2018				2017			
	Salaries	Performance incentive	Benefits	Total	Salaries	Performance incentive	Benefits	Total
Chief Executive Officer	480	216	77	773	480	309	75	864
Chief Financial Officer	228	76	57	361	217	73	55	345
Chief Risk and Compliance Officer	226	67	55	348	222	66	54	342
Chief Operating Officer <sup>(1)</sup>	56	92	23	171	263	98	69	430
Executive VP - Operations	84	-	26	110	-	-	-	-
Executive VP - Business Banking	88	-	28	116	-	-	-	-
Executive VP - Retail Banking	95	-	29	124	-	-	-	-
Chief Employee Experience Officer <sup>(1)</sup>	198	53	49	300	173	27	39	239
Chief Member Experience Officer	89	-	16	105	-	-	-	-
Chief Transformation Officer	223	69	55	347	209	59	52	320
Chief Digital Officer	221	58	55	334	205	58	51	314
Executive VP - Marketing and Communications <sup>(2)</sup>	-	-	-	-	59	47	17	123
	1,988	631	470	3,089	1,828	737	412	2,977

(1) Restructured position in 2018

(2) 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.

### Loans and deposits with related parties

The Credit Union defines related parties as KMP, close family members of KMP, entities controlled and subject to significant influence by the noted parties.

The Credit Union's policy for lending to related parties and receiving deposits from related parties are based on the same terms and conditions, which apply to customers. Executive management and select senior management identified as KMP may receive concessional rates of interest on their loans and deposits, these rates of interest are available to all Credit Union employees.

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

### 20. RELATED PARTY TRANSACTIONS (continued)

There are no concessional rates of interest for other related parties unless the related parties have joint borrowings and accounts with executive management or select senior management in which case concessional rates of interest may apply.

No loan impairment losses have been recorded against related party balances outstanding during the year (2017 – \$nil).

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

	2018	2017
Loans outstanding at, beginning of year <sup>(1)</sup>	6,397	4,917
Loans issued during the year	5,819	1,912
Loan repayments during the year	1,915	3,046
Loans outstanding at, end of year	10,301	3,783
Total interest income earned on loans	262	136
Total term, savings and demand deposits, end of year	3,822	2,657
Total interest expense on deposits	33	14

(1) Opening balance differs from the ending balance as it includes additional KMP loans outstanding

#### Other transactions with related parties

As of December 31, 2018, no other known or potential conflict of interest transactions or circumstances were conducted between related parties and the Credit Union that would be outside of normal market practices or pricing.

#### 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	Recorded value of
		shares owned by the Credit Union	voting shares owned by the Credit Union <sup>(1)</sup>
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 CUDF and Thrive Wealth Management 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:

	2018	2017
On deposit with the Credit Union	3,095	2,951
Due to the Credit Union	740	1,075
Fee for service paid to the Credit Union	873	2,423
Management fee received from the Credit Union	8,187	6,283

The Credit Union has a 25% (2017 – 25%) ownership in Apex Investment GP Inc. There were no transactions between the Credit Union with Apex Investment GP Inc. during the year.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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.

	2018							Total
	Yield	Floating	1 to 3 months	under 3 months to 1 year	1 year to under 5 years	5 years and over	Non-interest sensitive	
<b>Assets</b>								
Cash and cash equivalents	1.49%	154,688	-	-	-	-	57,579	212,267
Derivative financial instruments	-	-	391	255	3,539	4	-	4,189
Investment securities	2.48%	295,767	19,685	81,571	217,864	-	59,354	674,241
Loans and advances	3.94%	1,292,321	234,839	940,586	2,715,061	82,200	11,880	5,276,887
Property, plant and equipment	-	-	-	-	-	-	60,444	60,444
Intangible assets	-	-	-	-	-	-	11,084	11,084
Deferred tax assets	-	-	-	-	-	-	815	815
Other assets	-	-	-	-	-	-	18,994	18,994
Goodwill	-	-	-	-	-	-	1,234	1,234
		1,742,776	254,915	1,022,412	2,936,464	82,204	221,384	6,260,155
<b>Liabilities</b>								
Borrowings	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	391	256	3,777	433	-	4,857
Secured debt	2.15%	-	26,897	166,766	688,492	30,794	(5,289)	907,660
Deposits	1.33%	1,720,421	245,426	964,967	1,124,552	2,132	708,088	4,765,586
Current tax liabilities	-	-	-	-	-	-	4,813	4,813
Deferred tax liabilities	-	-	-	-	-	-	967	967
Membership shares and member equity accounts	-	-	-	-	-	-	19,142	19,142
Other liabilities	-	-	-	-	-	-	53,546	53,546
		1,720,421	272,714	1,131,989	1,816,821	33,359	781,267	5,756,571
<b>Members' equity</b>								
Accumulated other comprehensive income	-	-	-	-	-	-	(1,092)	(1,092)
Retained earnings	-	-	-	-	-	-	504,676	504,676
		-	-	-	-	-	503,584	503,584
Asset/liability gap		22,355	(17,799)	(109,577)	1,119,643	48,845	(1,063,467)	-
<b>Notional amount of derivatives</b>								
Pay side instruments	2.86%	-	(3,151)	(4,161)	(60,084)	(21,717)	-	(89,113)
Receive side instruments	1.87%	-	40,648	3,943	44,522	-	-	89,113
Off balance sheet gap		-	37,497	(218)	(15,562)	(21,717)	-	-
Interest rate gap position		22,355	19,698	(109,795)	1,104,081	27,128	(1,063,467)	-

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 21. INTEREST RATE SENSITIVITY (continued)

	2017							
	Yield	Floating	1 to under 3 months to 3 months	under 1 year	1 year to under 5 years	5 years and over	Non-interest sensitive	Total
<b>Assets</b>								
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
<b>Liabilities</b>								
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
<b>Members' equity</b>								
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)	-
<b>Notional amount of derivatives</b>								
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)	-

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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:

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

### 22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2018					
	Carrying Value	Fair Value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
<b>Financial assets</b>						
<u>Amortized cost</u>						
Cash and cash equivalent	212,267	212,267	-	122,439	89,828	-
SaskCentral-statutory liquidity deposits	192,487	191,891	(596)	-	191,891	-
Federal and provincial government	35,423	34,174	(1,249)	-	34,174	-
Loans and advances	5,272,574	5,271,953	(621)	-	5,271,953	-
Other assets	14,454	14,454	-	-	14,454	-
Accrued interest	1,060	1,060	-	-	1,060	-
<b>Total amortized cost</b>	<b>5,728,265</b>	<b>5,725,799</b>	<b>(2,466)</b>	<b>122,439</b>	<b>5,603,360</b>	<b>-</b>
<u>Fair value through profit or loss</u>						
Derivative financial instruments	4,189	4,189	-	-	4,189	-
SaskCentral-statutory liquidity deposits	290,766	290,766	-	-	290,766	-
Other securities	21,302	21,302	-	-	21,302	-
<b>Total fair value through profit or loss</b>	<b>316,257</b>	<b>316,257</b>	<b>-</b>	<b>-</b>	<b>316,257</b>	<b>-</b>
<u>Equity securities designated as FVOCI</u>						
SaskCentral-shares	36,490	36,490	-	-	36,490	-
<b>Total equity securities designated as FVOCI</b>	<b>36,490</b>	<b>36,490</b>	<b>-</b>	<b>-</b>	<b>36,490</b>	<b>-</b>
<u>Debt securities measured at FVOCI</u>						
Chartered bank guaranteed	52,724	52,724	-	-	52,724	-
Federal and provincial government	43,461	43,461	-	-	43,461	-
Accrued interest	528	528	-	-	528	-
<b>Total debt securities measured at FVOCI</b>	<b>96,713</b>	<b>96,713</b>	<b>-</b>	<b>-</b>	<b>96,713</b>	<b>-</b>
<u>Non financial instruments</u>						
Loans and advances	4,313					
Property, plant and equipment	60,444					
Intangible assets	11,084					
Deferred tax assets	815					
Other assets	4,540					
Goodwill	1,234					
<b>Total non financial instruments</b>	<b>82,430</b>					
	<b>6,260,155</b>	<b>6,175,259</b>	<b>(2,466)</b>	<b>122,439</b>	<b>6,052,820</b>	<b>-</b>
<b>Financial Liabilities</b>						
<u>Fair value through profit or loss</u>						
Derivative financial instruments	4,857	4,857	-	-	4,857	-
<b>Total fair value through profit or loss</b>	<b>4,857</b>	<b>4,857</b>	<b>-</b>	<b>-</b>	<b>4,857</b>	<b>-</b>
<u>Amortized cost</u>						
Secured debt	907,660	911,879	4,219	-	911,879	-
Deposits	4,765,586	4,768,709	3,123	-	4,768,709	-
Membership shares and member equity accounts	19,142	19,142	-	-	19,142	-
Other liabilities	52,791	52,791	-	-	52,791	-
Subordinated debenture	-	-	-	-	-	-
<b>Total amortized cost</b>	<b>5,745,179</b>	<b>5,752,521</b>	<b>7,342</b>	<b>-</b>	<b>5,752,521</b>	<b>-</b>
<u>Non financial instruments</u>						
Current tax liabilities	4,813					
Deferred tax liabilities	967					
Other liabilities	755					
<b>Total non financial instruments</b>	<b>6,535</b>					
	<b>5,756,571</b>	<b>5,757,378</b>	<b>7,342</b>	<b>-</b>	<b>5,757,378</b>	<b>-</b>



# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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)
<b>Financial assets</b>						
<u>Available-for-sale</u>						
SaskCentral-shares	36,490	36,490	-	-	36,490	-
SaskCentral-statutory liquidity deposits	219,077	219,077	-	-	219,077	-
Chartered bank guaranteed	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	-
<b>Total available-for-sale</b>	<b>397,629</b>	<b>397,629</b>	<b>-</b>	<b>-</b>	<b>397,530</b>	<b>99</b>
<u>Fair value through profit or loss</u>						
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	-	-	-	-	-	-
<b>Total fair value through profit or loss</b>	<b>387,072</b>	<b>387,072</b>	<b>-</b>	<b>119,649</b>	<b>267,423</b>	<b>-</b>
<u>Held-for-trading</u>						
Derivative financial instruments	11,352	11,352	-	-	4,217	7,135
<b>Total held-for-trading</b>	<b>11,352</b>	<b>11,352</b>	<b>-</b>	<b>-</b>	<b>4,217</b>	<b>7,135</b>
<u>Loans and receivables</u>						
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	-
<b>Total loans and receivables</b>	<b>4,963,749</b>	<b>4,998,375</b>	<b>34,626</b>	<b>-</b>	<b>4,998,375</b>	<b>-</b>
<u>Non financial instruments</u>						
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					
<b>Total non financial instruments</b>	<b>58,932</b>					
	5,818,734	5,794,428	34,626	119,649	5,667,545	7,234
<b>Financial Liabilities</b>						
<u>Held-for-trading</u>						
Derivative financial instruments	4,843	4,843	-	-	4,843	-
<b>Total held-for-trading</b>	<b>4,843</b>	<b>4,843</b>	<b>-</b>	<b>-</b>	<b>4,843</b>	<b>-</b>
<u>Other liabilities</u>						
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 liabilities	46,547	46,547	-	-	46,547	-
Subordinated debenture	-	-	-	-	-	-
<b>Total other liabilities</b>	<b>5,345,940</b>	<b>5,363,263</b>	<b>17,323</b>	<b>-</b>	<b>5,363,263</b>	<b>-</b>
<u>Non financial instruments</u>						
Current tax liabilities	2,870					
Deferred tax liabilities	1,291					
Other liabilities	449					
<b>Total non financial instruments</b>	<b>4,610</b>					
	5,355,393	5,368,106	17,323	-	5,368,106	-

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following tables reconcile the Credit Union's Level 3 fair value measurements from December 31, 2017 to December 31, 2018 and December 31, 2016 to December 31, 2017:

<b>Fair value measurements using Level 3 inputs</b>	
Balance at December 31, 2017	7,234
Redemption of embedded purchase option on credit card acquisition	(7,135)
Redemption of other securities	(99)
Balance at December 31, 2018	-

  

<b>Fair value measurements using Level 3 inputs</b>	
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

The gain included in other comprehensive income is recorded in the Consolidated Statement of Comprehensive Income as net unrealized gains on FVOCI and 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 \$nil (2017 - \$7,135) in derivative financial instruments. The Credit Union entered into an agreement with a third party in which it acted as an agent to sell credit cards. As part of this agreement the Credit Union had the option to acquire the underlying loans associated with the credit cards. This purchase option was considered an embedded derivative financial instrument, which is recorded at fair value for December 31, 2017. On January 1, 2018 the Credit Union exercised the purchase option to acquire the underlying receivables associated with their credit cards from The Toronto-Dominion Bank. See Note 25 for information on the purchase of these credit card receivables.

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) was 9.67% in 2017 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 for 2017 that is comparable to the Credit Union. Other significant assumptions used in the 2017 WACE calculation include: the risk-free rate is the Government of Canada bond greater than 10 years rate of 1.95%, the equity risk premium of 6.94%, the size premium of 2.68% and member shares and equity of the Credit 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 \$nil (2017 - \$99). The return and fair value of the social impact bond for 2017 was 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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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 management processes for modified loans*

When the terms of a loan are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of;

- its remaining lifetime probability of default (PD) at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Credit Union renegotiates loan to members in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. A loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to meet the revised terms.

The revised terms usually include extending the maturity and changing the timing of interest payments.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered credit-impaired/in default such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

#### *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.

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

#### Loan portfolio mix

	2018		2017	
	Total	Percentage	Total	Percentage
<b>Consumer loans</b>				
Mortgage guaranteed	1,213,512	19.38%	1,132,370	19.46%
Mortgage conventional	886,742	14.16%	867,419	14.91%
Non mortgage	765,116	12.22%	706,732	12.15%
<b>Total consumer loans</b>	<b>2,865,370</b>	<b>45.76%</b>	<b>2,706,521</b>	<b>46.52%</b>
<b>Commercial loans</b>				
Mortgage	1,705,982	27.25%	1,583,004	27.21%
Non mortgage	603,576	9.64%	557,134	9.57%
Government guaranteed	94,609	1.51%	94,270	1.62%
<b>Total commercial loans</b>	<b>2,404,167</b>	<b>38.40%</b>	<b>2,234,408</b>	<b>38.40%</b>
Gross loans and advances	5,269,537	84.16%	4,940,929	84.92%
Foreclosed property held for resale	4,476	0.07%	1,512	0.03%
Accrued interest receivable	19,133	0.31%	14,676	0.25%
Allowance for impaired loans	(16,259)	-0.26%	(8,756)	-0.15%
<b>Total loans and advances</b>	<b>5,276,887</b>	<b>84.28%</b>	<b>4,948,361</b>	<b>85.05%</b>

Agricultural loans are included in the commercial loan portfolio in the above table and total 11.17% (2017- 10.74%) of the overall loan and advances balance.

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

#### *Guarantees for loans*

In some cases, the Credit Union obtains third-party guarantees and insurance to reduce the risk of loan default. In total, 22% (2017 - 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 14% (2017 - 13%) or Canada Mortgage and Housing Corporation (CMHC), a government owned corporation, at 6% (2017 - 6%). Other noteworthy guarantors include the Government of Canada's Canada Small Business Financing Program (CSBFP) for small business loans at 1% (2017 - 1%) and the Government of Canada's Canadian Agricultural Loans Act (CALA) program for farm improvement loans at 1% (2017 - 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.

#### *Credit risk grading framework*

The Credit Union's current credit risk grading framework for loans and advances and investment securities is detailed in the table below.

Commercial loan internal Risk rating	Consumer loan risk category	Investment securities published credit ratings	Description	Basis for recognizing expected credit losses
Internal risk rating 1-4: Low risk	Credit score > 661: Low risk	Rating AAA- BBB: Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12 month ECL
Internal risk rating 5-7: Moderate risk	Credit score 429-660: Moderate risk	Rating BB-CCC: Moderate risk	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL- not credit-impaired
Internal risk rating 8: High risk	Credit score < 428: High risk	Rating < CC: High risk	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL- credit-impaired

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

#### *Credit quality analysis*

The following table sets out information about the credit quality of loans and advances and investment securities excluding liquidity reserves, balances on deposit with SaskCentral, and SaskCentral shares. Investment securities classified as FVTPL are included in the table below for investment rating disclosure purposes. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	2018			Total
	12- month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
<b>Loans and advances</b>				
<b>Consumer loans</b>				
Credit score > 660: Low risk	1,978,634	546,964	537	2,526,135
Credit score 429-660: Moderate risk	4,476	324,658	7,822	336,956
Credit score < 429: High risk	-	-	2,279	2,279
Total consumer loans	1,983,110	871,622	10,638	2,865,370
<b>Commercial loans</b>				
Internal risk rating 1-4: Low risk	1,423,444	321,748	7,706	1,752,898
Internal risk rating 5-7: Moderate risk	10,929	570,966	21,726	603,621
Internal risk rating 8: High risk	-	-	47,648	47,648
Total commercial loans	1,434,373	892,714	77,080	2,404,167
<b>Gross loans and advances</b>	<b>3,417,483</b>	<b>1,764,336</b>	<b>87,718</b>	<b>5,269,537</b>
<b>Investment securities</b>				
Rating AAA- BBB: Low risk	276,686	-	-	276,686
Rating BB- CCC: Moderate risk	-	-	-	-
Rating < CC: High risk	-	-	-	-
Unrated	21,302	-	-	21,302
Total investments securities	297,988	-	-	297,988

Ratings in the above table are 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.

#### *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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

### **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 2018, the Credit Union's interest rate risk was within acceptable levels, as measured by board approved parameters.

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 select executive management and other 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).

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

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.

	2018	2017
100-basis-point increase in interest rate:		
Impact on net income	5,494	8,537
Impact on other comprehensive income <sup>1</sup>	(2,045)	-
Impact on economic value of equity	-6.93%	-6.47%
100-basis-point decrease in interest rate:		
Impact on net income	(11,926)	(10,789)
Impact on other comprehensive income <sup>1</sup>	2,113	-
Impact on economic value of equity	7.42%	5.85%

<sup>1</sup> In 2017 it was projected there would be no financial instruments classified in FVOCI under IFRS 9, as a result the amounts are \$nil.

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, 2018, the percentage of foreign denominated financial assets is 102% (2017 - 101%) 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.

#### 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.



# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

### *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 encompass both systemic (market driven) events and idiosyncratic (credit union only) events. The Credit Union maintains appropriate contingency plans to handle such events.

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 liquidity ratio (Level 2 Liquidity), Liquid Asset Ratio (LAR) and the Liquidity Coverage Ratio (LCR). The liquidity ratio (Level 2 Liquidity) 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 Bank and committed credit facilities. The Credit Union seeks to maintain this ratio at greater than or equal to 150%. The LAR measure current liquid assets of Conexus as calculated totaling cash, liquid investments, and marketable investments less borrowings divided by total assets less borrowings. The Credit Union seeks to maintain this ratio greater than or equal to 3%.

The LCR is calculated as the stock of high quality liquid assets (HQLA) divided by net cash outflows over a 30-day stress scenario. The Credit Union seeks to maintain this ratio greater than or equal to 100%. HQLA are assets that can be easily converted into cash at little or no loss of value and include eligible investments held as liquidity reserve deposits at SaskCentral.

CUDGC defines the LCR in the Standards of Sound Business Practices – Liquidity Adequacy Requirements, by grouping HQLA into either Level 1 or Level 2 categories and applying various weightings to reflect their value in stressed conditions. Level 1 assets are the highest quality assets whereas Level 2 assets are considered less liquid. Net cash outflows is defined as total expected cash outflows minus total expected inflows; various categories of outflows are applied run-off rates while inflows are multiplied by rate they are expected to flow in under a stressed scenario.

Regulatory standards require credit unions to maintain a minimum liquidity coverage ratio of 90% in 2018, and 100% in 2019. During the year the Credit Union maintained internal liquidity adequacy targets that exceed regulatory requirements.

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

The following table summarized the Credit Union's liquidity coverage ratio at December 31:

	December 31, 2018		December 31, 2017	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
<b>High-quality liquid assets</b>				
Level 1 Assets				
Cash and cash equivalents	62,749	62,749	97,625	97,625
SaskCentral - statutory liquidity deposits	388,114	388,114	253,265	253,265
Federal and provincial government	43,461	43,461	38,443	38,443
<b>Total Level 1 Assets</b>	<b>494,324</b>	<b>494,324</b>	<b>389,333</b>	<b>389,333</b>
Level 2A Assets				
SaskCentral - statutory liquidity deposits	19,595	16,656	17,389	14,781
Other securities	-	-	14,640	12,444
<b>Total Level 2A Assets</b>	<b>19,595</b>	<b>16,656</b>	<b>32,029</b>	<b>27,225</b>
Level 2B Assets				
SaskCentral - statutory liquidity deposits	32,127	16,063	31,309	15,654
<b>Total Level 2B Assets</b>	<b>32,127</b>	<b>16,063</b>	<b>31,309</b>	<b>15,654</b>
<b>Total high-quality liquid assets</b>	<b>546,046</b>	<b>527,043</b>	<b>452,671</b>	<b>432,212</b>
<b>Cash Outflows</b>				
Retail and small business deposits	2,840,703	109,448	2,733,862	125,372
Unsecured wholesale funding	1,902,193	210,026	1,576,355	250,020
Secured funding run-off	-	-	60,000	15,000
Additional requirements	1,096,175	73,304	880,870	61,486
<b>Total cash outflows</b>	<b>5,839,071</b>	<b>392,778</b>	<b>5,251,087</b>	<b>451,878</b>
<b>Cash inflows</b>				
Retail and small business customers	24,008	12,004	19,335	9,668
Other wholesale inflows	12,197	6,099	23,764	11,882
Receivable from financial institutions	149,691	149,691	37,000	37,000
Other contractual inflows	8,014	8,014	7,844	7,844
<b>Total cash inflows</b>	<b>193,910</b>	<b>175,808</b>	<b>87,943</b>	<b>66,394</b>
<b>Total net cash outflows</b>	<b>5,645,161</b>	<b>216,970</b>	<b>5,163,144</b>	<b>385,484</b>
<b>Liquidity coverage ratio</b>		<b>242.91%</b>		<b>112.12%</b>

## Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

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

	2018	2017
Cash and cash equivalents	212,267	134,624
Other marketable investment securities	131,608	155,425
Statutory liquidity investment securities at SaskCentral	483,286	450,489
<b>Total liquid assets</b>	<b>827,161</b>	<b>740,538</b>

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 credit and undrawn lines of credit are also included and are classified by the earliest funding time frame provided by contract.

	2018						Total
	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	
<b>Liabilities</b>							
Secured debt	209,014	174,442	150,445	209,785	179,429	30,680	953,795
Deposits	3,655,176	697,365	258,741	100,864	76,548	2,065	4,790,759
Membership shares and member equity accounts	19,142	-	-	-	-	-	19,142
Other liabilities	53,546	-	-	-	-	-	53,546
	3,936,878	871,807	409,186	310,649	255,977	32,745	5,817,242
	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
<b>Off-balance sheet items</b>							
Undrawn lines of credit	342,491	-	-	-	-	-	342,491
Commitments to extend credit	682,467	-	-	-	-	-	682,467
	1,024,958	-	-	-	-	-	1,024,958

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

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

### *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.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 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:

	2018	2017
Undrawn lines of credit	342,491	309,957
Commitments to extend credit	682,467	504,998
Letters of credit	23,586	23,854
	1,048,544	838,809

### 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 at December 31, 2017 unless SaskCentral's capital requirements are met. The Credit Union is in compliance with all bylaws of SaskCentral and holds 0.58% (2017 - 0.63%) of assets in membership shares in SaskCentral on December 31, 2018.

Effective in 2019 new bylaws of SaskCentral require the Credit Union to maintain membership shares in an amount equal to no less than 0.6% to a maximum of 1.0% of the Credit Union's assets. The Credit Union shall, following the end of each fiscal year, and no later than June 30 of that following year, purchase and maintain membership shares based on SaskCentral bylaws. The Credit Union has a commitment to purchase \$1,071 of additional shares no later than June 30, 2019.

### Other commitments

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

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

	2018	2017
Apex II LP	930	1,836
Apex III LP	5,000	-
LEX III LP	450	750
LEX IV LP	4,850	-
Westcap II LP	4,500	-
	15,730	2,586

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

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

In the ordinary course of business the Credit Union has the obligation to post collateral to related counterparties for derivatives if the fair value of the derivatives falls below a pre-determined threshold, see Note 4. The pre-determined threshold is established in the International Swaps and Derivatives Association master agreement (ISDA) and the Credit Support Annex schedule (CSA), which are counterparty specific. At the end of December 31, 2018 the pre-determined threshold was not triggered.

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

2019	6,124
2020	4,117
2021	878
2022	845
2023	845
Thereafter	2,570
<b>Total other commitments</b>	<b>15,379</b>

### 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:

2019	4,180
2020	3,822
2021	3,193
2022	2,252
2023	922
Thereafter	5,384
<b>Total operating leases</b>	<b>19,753</b>

## 25. CREDIT CARD ACQUISITION

On January 1, 2018, the Credit Union acquired the underlying receivables associated with their credit cards from The Toronto-Dominion Bank. The transaction was treated as an asset acquisition and the receivables are recorded in the consolidated financial statements as loans and advances included in Note 6.

The Credit Union acquired approximately 30,000 accounts with an outstanding balance of \$68,681 at a price of par less a credit card rewards liability of \$3,928 and other adjustments for a total cash consideration of \$64,575. At the date of acquisition, the Credit Union recorded the credit card receivables at their fair value of \$66,656 and the fair value of an intangible asset for the purchased credit card relationship was \$8,832.

The Credit Union does not recognize a gain or loss on initial recognition of a financial asset or financial liability if the fair value is neither evidenced by a quoted price in an active market (i.e. a Level 1 input) nor based on a valuation technique that uses data from only observable markets. The Credit Union will recognize in profit or loss the difference between the fair value at initial recognition and the transaction price over time reflecting a change in factors that market participants would take into account when pricing the asset or liability. The Credit Union concluded that the transaction price of the credit card receivables was not the best evidence of fair value as there was evidence of credit losses on the portfolio.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 26. EXPLANATION OF TRANSITION TO IFRS 9

The Credit Union has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Credit Union has chosen not to apply hedge accounting under IFRS 9.

The key changes to the Credit Union's accounting policies resulting from its adoption of IFRS 9 are summarized below.

### *Classification of financial assets and financial liabilities*

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available for sale. For an explanation of how the Credit Union classifies financial assets under IFRS 9, see Note 2.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However under IFRS 9 fair value changes in liabilities are presented as follows;

- the amount of changes in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Credit Union classifies financial liabilities under IFRS 9, see Note 2.

### *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain undrawn lines of credit, loan commitments and letters of credit but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

IFRS 9 requires the Credit Union to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. Alternatively, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for purchased or originated credit-impaired financial assets), the Credit Union is required to measure the loss allowance for that financial instrument at an amount equal to a 12 month ECL.

For an explanation of how the Credit Union applies the impairment requirements of IFRS 9, see Note 2.

# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 26. EXPLANATION OF TRANSITION TO IFRS 9 (continued)

### Transition

The table below reconciles the carrying amount of financial instruments under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018. The table below also illustrates the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Credit Union's financial assets and financial liabilities as at January 1, 2018.

	Original classification under IAS 39	New classification under IFRS 9	Notes	Original carrying amount under IAS 39	Reclassification	Remeasurement (Pre-tax)	New carrying amount under IFRS 9
<b>Financial assets</b>							
<u>FVTPL</u>							
Cash and cash equivalents	FVTPL	Amortized cost	3	134,624	(134,624)	-	-
Derivative financial instruments	HFT	FVTPL	4	-	11,352	-	11,352
Investment securities	AFS	FVTPL	5	252,448	99	-	252,547
<b>Total FVTPL</b>				<b>387,072</b>	<b>(123,173)</b>	<b>-</b>	<b>263,899</b>
<u>Held-for-trading</u>							
Derivative financial instruments	HFT	FVTPL	4	11,352	(11,352)	-	-
<b>Total held-for-trading</b>				<b>11,352</b>	<b>(11,352)</b>	<b>-</b>	<b>-</b>
<u>Amortized Cost</u>							
Cash and cash equivalents	FVTPL	Amortized cost	3	-	134,624	-	134,624
Cash and cash equivalents	LR	Amortized cost	3	-	592	-	592
Investment securities	AFS	Amortized cost	5	-	251,983	1,612	253,595
Loans and advances	LR	Amortized cost	6	-	4,946,949	(2,874)	4,944,075
Other assets	LR	Amortized cost	11	-	16,208	-	16,208
<b>Total amortized cost</b>				<b>-</b>	<b>5,350,356</b>	<b>(1,262)</b>	<b>5,349,094</b>
<u>FVOCI</u>							
Investment securities- equity	AFS	FVOCI	5	-	36,490	-	36,490
Investment securities- debt	AFS	FVOCI	5	-	109,057	-	109,057
<b>Total FVOCI</b>				<b>-</b>	<b>145,547</b>	<b>-</b>	<b>145,547</b>
<u>AFS</u>							
Investment securities	AFS	FVOCI, FVTPL & Amortized cost	5	397,629	(397,629)	-	-
<b>Total AFS</b>				<b>397,629</b>	<b>(397,629)</b>	<b>-</b>	<b>-</b>
<u>Loans and receivables</u>							
Loans and advances	LR	Amortized cost	6	4,946,949	(4,946,949)	-	-
Investment securities	LR	Amortized cost	5	592	(592)	-	-
Other assets	LR	Amortized cost	11	16,208	(16,208)	-	-
<b>Total loans and advances</b>				<b>4,963,749</b>	<b>(4,963,749)</b>	<b>-</b>	<b>-</b>
<b>Total financial assets</b>				<b>5,759,802</b>	<b>-</b>	<b>(1,262)</b>	<b>5,758,540</b>
<b>Financial liabilities</b>							
<u>FVTPL</u>							
Derivative financial instruments	HFT	FVTPL	4	-	4,843	-	4,843
<b>Total FVTPL</b>				<b>-</b>	<b>4,843</b>	<b>-</b>	<b>4,843</b>
<u>Held-for-trading</u>							
Derivative financial instruments	HFT	FVTPL	4	4,843	(4,843)	-	-
<b>Total held-for-trading</b>				<b>4,843</b>	<b>(4,843)</b>	<b>-</b>	<b>-</b>
<u>Amortized Cost</u>							
Borrowings	OL	Amortized cost	12	60,000	-	-	60,000
Secured debt	OL	Amortized cost	8	893,475	-	-	893,475
Deposits	OL	Amortized cost	13	4,325,176	-	-	4,325,176
Membership shares and member equity accounts	OL	Amortized cost	14	20,742	-	-	20,742
Other liabilities	OL	Amortized cost	15	46,547	-	-	46,547
<b>Total amortized cost</b>				<b>5,345,940</b>	<b>-</b>	<b>-</b>	<b>5,345,940</b>
<b>Total financial liabilities</b>				<b>5,350,783</b>	<b>-</b>	<b>-</b>	<b>5,350,783</b>



# Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2018

## 26. EXPLANATION OF TRANSITION TO IFRS 9 (continued)

The following table illustrates the impact of transition to IFRS 9 on accumulated other comprehensive income and retained earnings on January 1, 2018.

	IFRS 9
<b>Accumulated other comprehensive income</b>	
Closing balance under IAS 39 (December 31, 2017)	(1,906)
Tax adjustment for reclassifications under IFRS 9	(226)
Reclassification of investment securities from available-for-sale to amortized cost	1,689
<b>Opening accumulated other comprehensive income balance under IFRS 9 (January 1, 2018)</b>	<b>(443)</b>
<b>Retained earnings</b>	
Closing balance under IAS 39 (December 31, 2017)	465,247
Tax adjustment for reclassifications under IFRS 9	(223)
Recognition of expected credit losses under IFRS 9 for loans and advances, loan commitments and financial guarantee contracts	(2,874)
Recognition of expected credit losses under IFRS 9 for investment securities	(77)
<b>Opening retained earnings balance under IFRS 9 (January 1, 2018)</b>	<b>462,073</b>
<b>Total opening members' equity under IFRS 9</b>	<b>461,630</b>

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Credit Union has assumed that credit risk on the asset had not increased significantly since its initial recognition on the date of initial application.

The Credit Union's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 2. The application of these policies resulted in the reclassifications as set out in the table above and explained below:

- a) The Credit Union's cash and cash equivalents have met the solely payments of principal and interest criteria and are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortized cost under IFRS 9.
- b) Certain debt securities are held by the Credit Union's Treasury department in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Credit Union considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortized cost under IFRS 9.
- c) The Credit Union's equity investment in SaskCentral has been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, this security was measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception.
- d) On December 31, 2018 the Credit Union reclassified additional amounts from performing loans and advances to impaired loans and advances. This reclassification is the result of the transition to IFRS 9, and the related new staging requirements. These new staging requirements are the result of the new definition of default accounting policy and the significant increase to credit risk accounting policy.