Dodsland and District Credit Union Limited
Consolidated Financial Statements
December 31, 2019

Contents

For the year ended December 31, 2019

Management's Responsibility

To the Members of Dodsland and District Credit Union Limited:

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

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

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

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

March 18, 2020

General Manager

Independent Auditor's Report

To the Members of Dodsland and District Credit Union Limited:

Opinion

We have audited the consolidated financial statements of Dodsland and District Credit Union Limited (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2019, 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.

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, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Saskatoon, Saskatchewan

March 18, 2020

MNP LLP

Chartered Professional Accountants

Dodsland and District Credit Union Limited
Consolidated Statement of Financial Position
As at December 31, 2019

	2019	*2018*
Assets		
Cash and cash equivalents *(Note 5)*	**22,444,174**	10,585,353
Investments *(Note 6)*	**2,047,197**	2,048,143
Member loans receivable *(Note 7)*	**93,090,758**	93,673,827
Other assets *(Note 8)*	**294,611**	387,670
Property, plant and equipment *(Note 9)*	**394,479**	421,863
Investment property *(Note 10)*	**270,500**	288,500
Intangible asset *(Note 11)*	**13,280**	26,560
Goodwill *(Note 12)*	**907,988**	907,988
	119,462,987	108,339,904
Liabilities		
Member deposits *(Note 14)*	**105,282,935**	95,482,691
Other liabilities *(Note 16)*	**114,854**	164,047
Membership shares *(Note 17)*	**7,690**	7,625
	105,405,479	95,654,363
Commitment *(Note 23)*		
Members' equity		
Retained earnings	**14,057,508**	12,685,541
	119,462,987	108,339,904

Approved on behalf of the Board

Director

Director

The accompanying notes are an integral part of these financial statements

Dodsland and District Credit Union Limited
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2019

	2019	*2018*
Interest income		
Member loans	**4,854,916**	4,523,917
Investments	**351,640**	396,573
	5,206,556	4,920,490
Interest expense		
Member deposits	**1,599,540**	1,161,082
Borrowed money	**21,311**	71,160
	1,620,851	1,232,242
Gross financial margin	**3,585,705**	3,688,248
Other income	**820,543**	834,366
	4,406,248	4,522,614
Operating expenses		
Personnel	**1,238,014**	1,303,793
Security	**98,622**	98,662
Organizational	**42,874**	49,668
Occupancy	**103,618**	132,085
General business	**964,656**	696,110
	2,447,784	2,280,318
Income before provision for (recovery of) impaired loans, patronage refund and income taxes	**1,958,464**	2,242,296
Provision for (recovery of) impaired loans *(Note 7)*	**(25,524)**	655,860
Patronage refund *(Note 18)*	**150,000**	150,000
Income before provision for (recovery of) income taxes	**1,833,988**	1,436,436
Provision for (recovery of) income taxes *(Note 15)*		
Current	**366,351**	405,259
Deferred	**95,670**	(117,683)
	462,021	287,576
Comprehensive income	**1,371,967**	1,148,860

The accompanying notes are an integral part of these financial statements

Dodsland and District Credit Union Limited
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2019

	Retained earnings	*Total equity*
Balance December 31, 2017	**12,021,148**	**12,021,148**
Comprehensive income	**1,148,860**	**1,148,860**
IFRS 9 transition adjustment	**(484,467)**	**(484,467)**
Balance December 31, 2018	**12,685,541**	**12,685,541**
Comprehensive income	**1,371,967**	**1,371,967**
Balance December 31, 2019	**14,057,508**	**14,057,508**

Dodsland and District Credit Union Limited
Consolidated Statement of Cash Flows
For the year ended December 31, 2019

	2019	2018
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**4,757,183**	4,344,539
Interest received from investments	**352,585**	392,728
Other income	**820,543**	834,366
Cash paid to suppliers and employees	**(2,436,196)**	(2,174,244)
Interest paid on deposits	**(1,391,709)**	(1,141,140)
Interest paid on borrowed money	**(21,311)**	(71,160)
Patronage refund	**(150,000)**	(150,000)
Income taxes paid	**(371,078)**	(457,844)
	1,560,017	1,577,245
Financing activities		
Net change in member deposits	**9,592,413**	299,798
Net change in membership shares *(Note 17)*	**65**	95
	9,592,478	299,893
Investing activities		
Purchases of investments	**-**	(978,913)
Net change in member loans receivable	**706,326**	(3,959,896)
	706,326	(4,938,809)
Increase (decrease) in cash and cash equivalents	**11,858,821**	(3,061,671)
Cash and cash equivalents, beginning of year	**10,585,353**	13,647,024
Cash and cash equivalents, end of year	**22,444,174**	10,585,353

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Dodsland and District Credit Union Limited (the "Credit Union") was formed pursuant to the *Credit Union Act, 1998* of Saskatchewan ("the Act") and operates one Credit Union branch.

The Credit Union serves members and non-members in Dodsland, Saskatchewan and the surrounding community. The address of the Credit Union's registered office is 201 2nd Avenue, Box 129, Dodsland, Saskatchewan.

The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2019 comprise the Credit Union and its wholly owned subsidiary Shortt Insurance Brokers Ltd. Together, these entities are referred to as the Credit Union.

The Credit Union operates principally in personal and commercial banking in Saskatchewan.

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

Statement of compliance

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

The consolidated financial statements were approved by the Audit and Risk Committee on behalf of the Board of Directors and authorized for issue on March 18, 2020.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2019. Adoption of these amendments had no effect on the Credit Union's consolidated financial statements.

- IFRS 9 *Financial instruments*
- IFRS 16 *Leases*
- IAS 28 *Investments in associates and joint ventures*
- IFRIC 23 *Uncertainty over income tax treatments*

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

Significant accounting judgments, estimates and assumptions

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

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

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

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

Classification of financial assets

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

Key assumptions in determining the allowance for expected credit losses

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

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

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

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

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

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

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

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

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

Fair value of unquoted equity instruments

The Credit Union has assessed that the fair value of its SaskCentral shares approximates its cost based on the terms that the equity investments can not be transferred, the shares can not be sold and new shares are issued at par value of all currently held shares.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Deferred income taxes

The calculation of deferred income tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred income tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of financial statement preparation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future years could be material. Further details are in Note 15.

Useful lives of property, plant and equipment, investment property, and intangible asset

Estimates must be utilized in evaluating the useful lives of all property, plant and equipment, investment property, and intangible assets for calculation of the depreciation and amortization for each class of assets. For further discussion of the estimation of useful lives, refer to the headings property, plant and equipment, investment property, and intangible asset contained in Note 4.

4. Summary of significant accounting policies

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its wholly owned subsidiary, Shortt Insurance Brokers Ltd.

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

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

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

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

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

Foreign currency translation

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

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined. Translation gains and losses are included in comprehensive income.

Revenue recognition

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

Service charge fees, commission and other revenue

The Credit Union generates revenue from providing various financing and investing services to its members. Revenue is recognized as services are rendered.

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

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

The Credit Union does not expect to have any contracts where the period between the transfer of the promised goods or services to the member and payment by the member exceeds one year. Consequently, the Credit Union does not adjust any of the transaction prices for the time value of money.

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

Financial instruments

Financial assets

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, SaskCentral deposits, member loans receivable and accrued interest thereon, and accounts receivable balances.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial asset mandatorily measured at fair value through profit or loss include cash.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of SaskCentral shares.

Business model assessment

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

Contractual cash flow assessment

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

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

Reclassifications

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

Impairment

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

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

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

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

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

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

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

Refer to Note 21 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

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

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

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

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

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

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

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

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

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

Modification of financial assets

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

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

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

Financial liabilities

Recognition and initial measurement

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

Classification and subsequent measurement

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

Derecognition of financial liabilities

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

Derivatives

Derivatives are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivative instruments are recognized in profit or loss.

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

Dividend income

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

Interest

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

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

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

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

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

Offsetting

Financial assets and financial liabilities are offset, with the net amount presented in the statement of financial position, when, and only when, the Credit Union has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material.

Collateral

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

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

Cash and cash equivalents

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

Investments

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

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

SaskCentral deposits and shares

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

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

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

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

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

Syndication

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

Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of cost and fair value less costs to sell. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell. Foreclosed assets are recorded in member loans receivable as outlined in Note 7.

Property, plant and equipment

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

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

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

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

	Rate
Buildings	8-20 years
Equipment	2-5 years
Furniture and fixtures	2-5 years
Computer equipment	2-5 years

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

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

Investment property

Investment property consists of land and buildings held to earn rental income or for capital appreciation, or both.

Rental income and operating expenses from investment property are presented within other income and occupancy expenses, respectively.

Investment property is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

All investment property having a limited useful life is depreciated using the straight-line method over the estimated useful lives. Investment property is depreciated from the date of acquisition.

The residual value, useful life and depreciation method applied to each class of asset are reviewed at least annually.

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

	Rate
Buildings	8-20 years

Intangible asset

Specified intangible assets are recognized separately from goodwill. Such intangible assets are recorded at cost and amortized as follows, based upon management's best estimate of the useful life of the asset.

The estimated useful life and amortization method is reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

	Method	**Rate**
Customer list	straight-line	20 years

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date of control (acquisition date). Goodwill is measured as the excess of the cost of the acquisition over the Credit Union's interests in the net fair value of the identifiable net assets, liabilities and contingent liabilities of the acquiree recognized at the date of acquisition.

For the purposes of assessing impairment, goodwill is allocated to cash-generating unit or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit to which goodwill is allocated represents, subject to an operating segment ceiling test, the lowest level within the Credit Union that goodwill is monitored for internal reporting purposes. The impairment of non-financial assets note describes how goodwill is tested for impairment.

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

Income taxes

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

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

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

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

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

Employee benefits

The Credit Union’s post employment benefit programs consist of a defined contribution plan.

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $61,224 (2018 – $61,268) were paid to the defined contribution retirement plan during the year.

Membership shares

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

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2019 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Credit Union does not expect the amendments to have a material impact on its consolidated financial statements.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

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

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union has not yet determined the impact of these amendments on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union has not yet determined the impact of these amendments on its consolidated financial statements.

5. Cash and cash equivalents

	2019	*2018*
Cash	**4,863,914**	1,478,519
Cash equivalents	**17,580,260**	9,106,834
	22,444,174	10,585,353

6. Investments

	2019	*2018*
Measured at amortized cost		
SaskCentral deposits	**978,913**	978,913
Measured at fair value through profit or loss		
SaskCentral shares	**1,065,385**	1,065,385
	2,044,298	2,044,298
Accrued interest	**2,899**	3,845
Total	**2,047,197**	2,048,143

The table below shows the credit exposure on investments, excluding liquidity reserves and balances on deposit with SaskCentral and Concentra Bank. Ratings are provided by Dominion Bond Rating Services ("DBRS") unless otherwise indicated.

	2019	*2018*
Investment portfolio rating		
R1	**1,065,385**	1,065,385

SaskCentral shares are included in the R1 category above.

Statutory liquidity

Pursuant to Regulations, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Credit Union Deposit Guarantee Corporation ("CUDGC"), requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2019 the Credit Union met the requirement.

6. Investments *(Continued from previous page)*

Liquidity coverage ratio

Effective January 1, 2017 the Credit Union has implemented a Liquidity Coverage Ratio ("LCR") to be phased in over a two-year period. This is a regulatory requirement of CUDGC, with the minimum beginning at 80% as of January 1, 2017. The minimum requirement rose in equal steps of 10% annually to reach 100% on January 1, 2019 and continue thereafter. The objective of the LCR is to ensure that the Credit Union has an adequate stock of unencumbered high-quality liquid assets ("HQLA") that:

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

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

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

As at December 31, 2019, the Credit Union is in compliance with regulatory requirements.

7. Member loans receivable

Principal and allowance by loan type:

					2019
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance for expected credit losses**	**Net carrying value**
Agriculture loans	8,362,185	-	-	54,314	**8,307,871**
Commercial loans	13,609,408	-	-	160,091	**13,449,317**
Consumer loans	4,299,886	28,208	23,208	38,596	**4,266,290**
Lines of credit	5,218,182	-	-	26,820	**5,191,362**
Mortgages	60,756,876	511,717	192,517	335,381	**60,740,695**
	92,246,537	539,925	215,725	615,202	**91,955,535**
Foreclosed assets	390,000	-	-	-	**390,000**
Accrued interest	745,223	17,170	17,170	-	**745,223**
Total	93,381,760	557,095	232,895	615,202	**93,090,758**

7. Member loans receivable *(Continued from previous page)*

2018

	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value
Agriculture loans	6,969,964	-	-	104,889	6,865,075
Commercial loans	13,237,953	87,206	87,206	238,785	12,999,168
Consumer loans	4,768,219	92,196	57,196	79,965	4,723,254
Lines of credit	6,386,267	267,220	267,220	38,056	6,348,211
Mortgages	62,209,066	529,818	135,618	477,276	62,125,990
	93,571,469	976,440	547,240	938,971	93,061,698
Accrued interest	612,129	52,529	52,529	-	612,129
Total	94,183,598	1,028,969	599,769	938,971	93,673,827

The allowance for loan impairment changed as follows:

	2019	*2018*
Balance, beginning of year	**1,538,740**	311,762
IFRS 9 transition adjustments	**-**	617,155
Provision for (recovery of) impaired loans	**(25,524)**	655,860
	1,513,216	1,584,777
Less: accounts written off, net of recoveries	**665,119**	46,037
Balance, end of year	**848,097**	1,538,740

8. Other assets

	2019	*2018*
Accounts receivable	**33,388**	29,225
Corporate income tax recoverable	**46,389**	41,660
Prepaid expenses and deposits	**3,018**	9,299
Deferred tax asset	**211,816**	307,486
	294,611	387,670

9. Property, plant, and equipment

	Land	*Buildings*	*Equipment*	*Furniture and fixtures*	*Computer equipment*	*Total*
Cost						
Balance at December 31, 2017	9,600	622,033	271,428	22,303	25,999	951,363
Balance at December 31, 2018	9,600	622,033	271,428	22,303	25,999	951,363
Balance at December 31, 2019	**9,600**	**622,033**	**271,428**	**22,303**	**25,999**	**951,363**
Accumulated depreciation						
Balance at December 31, 2017	-	192,256	269,148	14,887	24,814	501,105
Depreciation	-	25,803	456	1,483	653	28,395
Balance at December 31, 2018	-	218,059	269,604	16,370	25,467	529,500
Depreciation	-	**25,539**	**365**	**1,187**	**293**	**27,384**
Balance at December 31, 2019	-	**243,598**	**269,969**	**17,557**	**25,760**	**556,884**
Net book value						
At December 31, 2018	9,600	403,974	1,824	5,933	532	421,863
At December 31, 2019	**9,600**	**378,435**	**1,459**	**4,746**	**239**	**394,479**

10. Investment property

Changes to the carrying amount of investment property from the beginning to the end of the year are as follows:

	2019	*2018*
Carrying amount, beginning of the year	**288,500**	306,500
Depreciation	**(18,000)**	(18,000)
Carrying amount, end of year	**270,500**	288,500

Investment property consisting of three rental houses is measured under the cost model. Based on market comparison, a range of estimates from $618,000 to $664,000 (2018 - $618,000 to $664,000) has been determined, within which the fair value of investment property valued under the cost model is likely to lie.

During the year ended December 31, 2019, $12,900 (2018 - $9,000) of rental income from investment property was recognized in other income. Property taxes, general repairs and maintenance and house insurance are the responsibility of the Credit Union, as well as utilities when the property is not being rented. These costs are included in occupancy expenses each year.

11. Intangible asset

	Customer list
Cost	
Balance at December 31, 2017	**265,600**
Balance at December 31, 2018	**265,600**
Balance at December 31, 2019	**265,600**
Amortization	
Balance at December 31, 2017	**225,760**
Amortization for the year	**13,280**
Balance at December 31, 2018	**239,040**
Amortization for the year	**13,280**
Balance at December 31, 2019	**252,320**
Carrying amount	
At December 31, 2018	26,560
At December 31, 2019	**13,280**

12. Goodwill

	2019	*2018*
Carrying amount	**907,988**	907,988

The purchase of the Credit Union's subsidiary on January 1, 2013 resulted in a goodwill balance equal to that of the purchase price less the net assets of the subsidiary at the time of purchase. There has been no impairment of goodwill since this time.

13. Line of credit

SaskCentral

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at prime minus 0.5% (3.45% at December 31, 2019), in the amount of $2,130,000 (2018 - $2,130,000) from SaskCentral. At December 31, 2019, the Credit Union has utilized $nil (2018 - $396,341) of its line of credit and has included this balance in cash and cash equivalents. The Credit Union is charged interest at prime plus 4.00% on amounts over the authorized limit.

Borrowings are secured by an assignment of book debts, financial services agreement, and on an operating account agreement.

Concentra Bank

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at three month CDOR plus 2.50% in the amount of $3,000,000 (2018 - $3,000,000) from Concentra Bank. As at December 31, 2019 the balance was $nil (2018 - $nil). Unadvanced balances carry a standby fee of 22 basis points annually, assessed monthly on unused average balances. Assets pledged as collateral are specific Concentra deposit products and a general security agreement for priority security interest over the Credit Union's present and after-acquired property.

14. Member deposits

	2019	2018
Chequing and savings	**52,853,681**	51,917,270
Registered plans	**9,214,568**	8,667,993
Term deposits	**42,509,123**	34,399,696
Accrued interest	**705,563**	497,732
	105,282,935	95,482,691

Member deposits are subject to the following terms:

- Chequing and saving products are due on demand and bear interest at rates up to 1.00% (2018 - 1.20%).
- Registered plans are subject to fixed and variable rates of interest up to 3.60% (2018 - 3.30%), with interest payments due monthly, annually, or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 4.00% (2018 - 3.50%), with interest payments due monthly, annually, or on maturity.

15. Income tax

Income tax expense recognized in comprehensive income

The applicable tax rate is the aggregate of the federal income tax rate of 9% on income under $145,467 and 15% on income greater than $145,467 (2018 - 10% and 15%, under/over $284,444) and the provincial tax rate of 2% on income under $174,560 and 12% on income over $174,560 (2018 - 2% and 12%, under/over $341,333).

Deferred income tax expense (recovery) recognized in comprehensive income

The deferred income tax expense recognized in comprehensive income for the current year is a result of the following changes:

	2019	2018
Deferred tax asset		
Property, plant, and equipment	**28,163**	26,829
Intangible asset	**10,867**	9,198
Liabilities that are deducted for tax purposes only when paid	**-**	1,350
Capital losses available for offset against future gains	**393**	393
Allowance for impaired loans	**172,393**	269,716
	211,816	307,486
Deferred tax asset is reflected in the consolidated statement of financial position as follows:		
Deferred tax asset	**211,816**	307,486

Reconciliation between average effective tax rate and the applicable tax rate

	2019	2018
Applicable tax rate	**27.00 %**	27.00 %
Income eligible for small business deduction	**(1.43)%**	(3.37)%
Difference in expected income tax rates	**(0.92)%**	(2.51)%
Non-deductible and other items	**0.54 %**	(1.10)%
Average effective tax rate (tax expense divided by profit before tax)	**25.19 %**	20.02 %

15. Income tax *(Continued from previous page)*

The provincial government announced a phase-out of the credit union tax deduction over a four year period commencing in 2017. This increase in tax rate did not impact the Credit Union as they are not eligible for the Credit Union deduction.

16. Other liabilities

	2019	*2018*
Accounts payable	**114,854**	164,047

17. Membership shares

Authorized:

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

Issued:

	2019	*2018*
1,538 Membership shares (2018 - 1,525)	**7,690**	7,625

All common shares are classified as liabilities.

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

During the year, the Credit Union issued 123 (2018 - 117) and redeemed 110 (2018 - 98) common shares.

18. Patronage

The Credit Union declared a patronage refund payable in the amount of $150,000 (2018 - $150,000), approved by the Board of Directors on December 18, 2019, to be paid by cash to the members based on lending and deposit business for the year ended December 31, 2019.

The patronage refund of $150,000 (2018 - $150,000) has been reflected in the consolidated statement of comprehensive income with related tax savings of approximately $40,500 (2018 - $40,500) being reflected in the current year's provision for income taxes.

19. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") of the Credit Union are the General Manager, Compliance Officer/Project Manager and Senior Member Services Representative, and members of the Board of Directors.

KMP remuneration includes the following expenses:

	2019	*2018*
Salaries and short-term benefits	**420,212**	432,848

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

Transactions with key management personnel

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

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

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

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

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

	2019	*2018*
Aggregate loans to KMP	**4,473,793**	2,756,455
Aggregate revolving credit facilities to KMP	**692,200**	576,200
Less: approved and undrawn lines of credit	**(545,829)**	(395,916)
	4,620,164	2,936,739

	2019	*2018*
During the year the aggregate value of loans and lines of credit approved to KMP amounted to:		
Revolving credit	**120,000**	50,000
Mortgages	**866,592**	-
Loans	**1,541,000**	838,778
	2,527,592	888,778

	2019	*2018*
Income and expense transactions with KMP consisted of:		
Interest earned on loans and revolving credit facilities to KMP	**147,952**	98,246
Interest paid on deposits to KMP	**62,111**	51,646

	2019	*2018*
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**2,717,600**	3,623,912
Term deposits	**662,795**	1,546,965
Registered plans	**651,861**	692,245
Total value of member deposits due to KMP	**4,032,256**	5,863,122

Directors' fees and expenses

	2019	*2018*
Directors' expenses	**1,333**	1,949
Meeting, training, and conference costs	**3,780**	3,780

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

SaskCentral and Concentra Bank

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

The Credit Union is related to Concentra Bank, which is owned in part by SaskCentral. Concentra Bank provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers.

Interest and dividends earned on investments during the year ended December 31, 2019 amounted to $351,640 (2018 - $396,573).

Interest paid on borrowings during the year ended December 31, 2019 amounted to $21,311 (2018 - $71,160).

Payments made for affiliation dues for the year ended December 31, 2019 amounted to $17,006 (2018 - $19,029).

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions was formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan, and Manitoba along with Concentra Bank.

20. Capital management

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

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

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

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

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

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

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

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

The following table compares CUDGC regulatory standards to the Credit Union's board standards for 2019:

	Regulatory standards	***Board standards***
Total eligible capital to risk-weighted assets	**10.50 %**	**11.50 %**
Tier 1 capital to risk-weighted assets	**8.50 %**	**10.00 %**
Common equity tier 1 capital to risk-weighted assets	**7.00 %**	**8.00 %**
Leverage ratio	**5.00 %**	**7.00 %**

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

The following table summarizes key capital information:

	2019	*2018*
Eligible capital		
Common equity tier 1 capital	13,136,240	11,750,993
Additional tier 1 capital	-	-
Total tier 1 capital	13,136,240	11,750,993
Total tier 2 capital	622,892	946,596
Total eligible capital	13,759,132	12,697,589
Risk-weighted assets		
Total eligible capital to risk-weighted assets	**17.65 %**	16.43 %
Total tier 1 capital to risk-weighted assets	**16.85 %**	15.21 %
Common equity tier 1 capital to risk-weighted assets	**16.85 %**	15.21 %
Leverage ratio	**11.37 %**	11.60 %

21. Financial instruments

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

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

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

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

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

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

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

Credit risk

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

Risk management process

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

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

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

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

The Credit Union makes the following instruments available to its members:

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

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

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

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

	2019	*2018*
Unadvanced lines of credit	8,101,862	6,787,660
Guarantees and standby letters of credit	1,336,659	1,059,630
Commitments to extend credit	1,165,645	958,171
	10,604,166	8,805,461

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

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

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

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

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

Measurement of expected credit losses

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

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

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

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

Write-offs

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

Exposure to credit risk

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

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

	2019			
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and lines of credit				
Low risk	**4,372,188**	**-**	**-**	**4,372,188**
Default	**-**	**-**	**79,603**	**79,603**
Total gross carrying amount	**4,372,188**	**-**	**79,603**	**4,451,791**
Less: loss allowance	**39,882**	**-**	**23,409**	**63,291**
Total carrying amount	**4,332,306**	**-**	**56,194**	**4,388,500**
Residential mortgages and lines of credit				
Low risk	**35,737,406**	**-**	**-**	**35,737,406**
Medium risk	**-**	**480,745**	**-**	**480,745**
Default	**-**	**-**	**630,038**	**630,038**
Total gross carrying amount	**35,737,406**	**480,745**	**630,038**	**36,848,189**
Less: loss allowance	**324,663**	**10,717**	**63,968**	**399,348**
Total carrying amount	**35,412,743**	**470,028**	**566,070**	**36,448,841**

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

	2019			
	12-month ECL	***Lifetime ECL (not credit impaired)***	***Lifetime ECL (credit impaired)***	***Total***
Commercial loans and lines of credit				
Low risk	**26,036,946**	**-**	**-**	**26,036,946**
Medium risk	**-**	**566,392**	**-**	**566,392**
Default	**-**	**-**	**1,115,491**	**1,115,491**
Total gross carrying amount	**26,036,946**	**566,392**	**1,115,491**	**27,718,829**
Less: loss allowance	**163,455**	**16,897**	**145,519**	**325,871**
Total carrying amount	**25,873,491**	**549,495**	**969,972**	**27,392,958**
Agricultural loans and lines of credit				
Low risk	**23,634,353**	**-**	**-**	**23,634,353**
Default	**-**	**-**	**133,300**	**133,300**
Total gross carrying amount	**23,634,353**	**-**	**133,300**	**23,767,653**
Less: loss allowance	**59,587**	**-**	**-**	**59,587**
Total carrying amount	**23,574,766**	**-**	**133,300**	**23,708,066**
Total				
Low risk	**89,780,893**	**-**	**-**	**89,780,893**
Medium risk	**-**	**1,047,137**	**-**	**1,047,137**
Default	**-**	**-**	**1,958,432**	**1,958,432**
Total gross carrying amount	**89,780,893**	**1,047,137**	**1,958,432**	**92,786,462**
Less: loss allowance	**587,587**	**27,614**	**232,896**	**848,097**
Total carrying amount	**89,193,306**	**1,019,523**	**1,725,536**	**91,938,365**

	2018			
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and lines of credit				
Low risk	5,170,988	-	-	5,170,988
Medium risk	-	29,817	-	29,817
Default	-	-	139,042	139,042
Total gross carrying amount	5,170,988	29,817	139,042	5,339,847
Less: loss allowance	56,138	816	92,334	149,288
Total carrying amount	5,114,850	29,001	46,708	5,190,559
Residential mortgages and lines of credit				
Low risk	36,291,567	-	-	36,291,567
Medium risk	-	217,189	-	217,189
Default	-	-	950,443	950,443
Total gross carrying amount	36,291,567	217,189	950,443	37,459,199
Less: loss allowance	408,742	5,943	137,463	552,148
Total carrying amount	35,882,825	211,246	812,980	36,907,051

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial loans and lines of credit				
Low risk	29,599,502	-	-	29,599,502
Medium risk	-	503,392	-	503,392
Default	-	-	1,410,477	1,410,477
Total gross carrying amount	29,599,502	503,392	1,410,477	31,513,371
Less: loss allowance	173,485	13,031	528,451	714,967
Total carrying amount	29,426,017	490,361	882,026	30,798,404
Agricultural loans and lines of credit				
Low risk	19,758,440	-	-	19,758,440
Medium risk	-	329,473	-	329,473
Default	-	-	147,579	147,579
Total gross carrying amount	19,758,440	329,473	147,579	20,235,492
Less: loss allowance	113,629	8,708	-	122,337
Total carrying amount	19,644,811	320,765	147,579	20,113,155
Total				
Low risk	90,820,497	-	-	90,820,497
Medium risk	-	1,079,871	-	1,079,871
Default	-	-	2,647,541	2,647,541
Total gross carrying amount	90,820,497	1,079,871	2,647,541	94,547,909
Less: loss allowance	751,994	28,498	758,248	1,538,740
Total carrying amount	90,068,503	1,051,373	1,889,293	93,009,169

Concentrations of credit risk

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

Amounts arising from expected credit losses

Reconciliation of the loss allowance

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

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and lines of credit				
Balance at January 1, 2018	**44,853**	**1,896**	**118,653**	**165,402**
Net remeasurement of loss allowance	**11,285**	**(1,080)**	**(26,319)**	**(16,114)**
Balance at December 31, 2018	**56,138**	**816**	**92,334**	**149,288**
Net remeasurement of loss allowance	**(16,256)**	**(816)**	**(68,925)**	**(85,997)**
Balance at December 31, 2019	**39,882**	**-**	**23,409**	**63,291**
Residential mortgages and lines of credit				
Balance at January 1, 2018	**346,693**	**3,581**	**81,671**	**431,945**
Net remeasurement of loss allowance	**62,049**	**2,362**	**55,792**	**120,203**
Balance at December 31, 2018	**408,742**	**5,943**	**137,463**	**552,148**
Net remeasurement of loss allowance	**(84,079)**	**4,774**	**(73,495)**	**(152,800)**
Balance at December 31, 2019	**324,663**	**10,717**	**63,968**	**399,348**
Commercial loans and lines of credit				
Balance at January 1, 2018	**117,030**	**1,188**	**151,791**	**270,009**
Net remeasurement of loss allowance	**56,455**	**11,843**	**376,660**	**444,958**
Balance at December 31, 2018	**173,485**	**13,031**	**528,451**	**714,967**
Net remeasurement of loss allowance	**(10,030)**	**3,866**	**(382,932)**	**(389,096)**
Balance at December 31, 2019	**163,455**	**16,897**	**145,519**	**325,871**
Agricultural loans and lines of credit				
Balance at January 1, 2018	**60,658**	**903**	**-**	**61,561**
Net remeasurement of loss allowance	**52,971**	**7,805**	**-**	**60,776**
Balance at December 31, 2018	**113,629**	**8,708**	**-**	**122,337**
Net remeasurement of loss allowance	**(54,042)**	**(8,708)**	**-**	**(62,750)**
Balance at December 31, 2019	**59,587**	**-**	**-**	**59,587**
Total				
Balance at January 1, 2018	**569,234**	**7,568**	**352,115**	**928,917**
Net remeasurement of loss allowance	**182,760**	**20,930**	**406,133**	**609,823**
Balance at December 31, 2018	**751,994**	**28,498**	**758,248**	**1,538,740**
Net remeasurement of loss allowance	**(164,407)**	**(884)**	**(525,352)**	**(690,643)**
Balance at December 31, 2019	**587,587**	**27,614**	**232,896**	**848,097**

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

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

Market risk

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

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

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

Risk measurement

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

Objectives, policies, and processes

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

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

Interest rate risk

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

In managing interest rate risk, the Credit Union relies primarily upon use of asset - liability and interest rate sensitivity simulation models, which is monitored by the Credit Union. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union’s financial instruments.

Sensitivity analysis is used to assess the change in value of the Credit Union’s financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a quarterly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest margin by $204,195 (2018 - $199,036) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest margin by $204,195 (2018 - $199,036) over the next 12 months.

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

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

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

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

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

Interest rate sensitivity

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

Contractual repricing and maturity

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

(In thousands)

	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year	Non-Interest Sensitive	2019 Total	2018 Total
Assets							
Cash and cash equivalents	17,580	-	-	-	4,864	**22,444**	10,585
Average yield %	*1.70*	-	-	-	-	*1.33*	*1.67*
Investments	979	-	-	-	1,068	**2,047**	2,048
Average yield %	*1.70*	-	-	-	-	*0.81*	*0.93*
Member loans receivable	7,085	10,636	36,618	37,923	829	**93,091**	93,674
Average yield %	*4.85*	*4.82*	*4.89*	*5.30*	-	*5.00*	*4.80*
Accounts receivable	-	-	-	-	33	**33**	29
	25,644	**10,636**	**36,618**	**37,923**	**6,794**	**117,615**	106,336
Liabilities							
Member deposits	7,786	14,654	18,049	36,836	27,958	**105,283**	95,483
Average yield %	*0.87*	*2.56*	*2.74*	*3.09*	-	*1.97*	*1.67*
Accounts payable	-	-	-	-	115	**115**	164
Membership shares	-	-	-	-	8	**8**	8
	7,786	**14,654**	**18,049**	**36,836**	**28,081**	**105,406**	95,655
Net sensitivity	**17,858**	**(4,018)**	**18,569**	**1,087**	**(21,287)**	**12,209**	10,681

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes. Refer to Note 6 for further information about the Credit Union's regulatory requirements.

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

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

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows; and

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

- Contingent liquidity risk, which assesses the impact of sudden stressful events and the Credit Union's responses thereto.

The primary liquidity risk policies and procedures include the following:
- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with SaskCentral and Concentra Bank;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits
- Monitoring of term deposits; and
- Contingency planning.

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

The following table details contractual maturities of financial liabilities:

As at December 31, 2019:

(In thousands)

	< 1 year	**1-2 years**	**> 3 years**	**Total**
Member deposits	**68,447**	**7,815**	**29,021**	**105,283**
Accounts payable	**115**	**-**	**-**	**115**
Membership shares	**-**	**-**	**8**	**8**
Total	**68,562**	**7,815**	**29,029**	**105,406**

As at December 31, 2018:

(In thousands)

	< 1 year	**1-2 years**	**> 3 years**	**Total**
Member deposits	65,439	5,613	24,431	95,483
Accounts payable	164	-	-	164
Membership shares	-	-	8	8
Total	65,603	5,613	24,439	95,655

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

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

As at December 31, 2019:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	**22,444**	**-**	**-**	**22,444**
Investments	**982**	**-**	**1,065**	**2,047**
Member loans receivable	**55,168**	**12,865**	**25,058**	**93,091**
Accounts receivable	**33**	**-**	**-**	**33**
Total	**78,627**	**12,865**	**26,123**	**117,615**

As at December 31, 2018:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	10,585	-	-	10,585
Investments	983	-	1,065	2,048
Member loans receivable	57,272	7,140	29,262	93,674
Accounts receivable	29	-	-	29
Total	68,869	7,140	30,327	106,336

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union maintains foreign cash balances to approximately offset deposits held in foreign funds.

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financial investments for an extended period.

22. Fair value measurements

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

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

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

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

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

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

Financial assets and financial liabilities measured at fair value

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

(In thousands)	***Fair Value***	***Level 1***	***Level 2***	***2019 Level 3***
Financial assets				
Cash	**4,864**	**4,864**	**-**	**-**
SaskCentral shares	**1,065**	**-**	**-**	**1,065**
Total financial assets	**5,929**	**4,864**	**-**	**1,065**

(In thousands)	*Fair Value*	*Level 1*	*Level 2*	*2018 Level 3*
Financial assets				
Cash	1,478	1,478	-	-
SaskCentral shares	1,065	-	-	1,065
Total financial assets	2,543	1,478	-	1,065

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

Financial instruments not measured at fair value

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

(in thousands)	***Carrying amount***	***Fair Value***	***Level 1***	***Level 2***	***2019 Level 3***
Financial assets measured at amortized cost					
Cash equivalents	**17,580**	**17,580**	**17,580**	**-**	**-**
Investments	**982**	**982**	**-**	**982**	**-**
Member loans receivable	**93,091**	**94,208**	**-**	**94,208**	**-**
Accounts receivable	**33**	**33**	**-**	**33**	**-**
Total financial assets	**111,686**	**112,803**	**17,580**	**95,223**	**-**
Financial liabilities measured at amortized cost					
Member deposits	**105,283**	**107,292**	**-**	**107,292**	**-**
Accounts payable	**115**	**115**	**-**	**115**	**-**
Membership shares	**8**	**8**	**-**	**-**	**8**
Total financial liabilities	**105,406**	**107,415**	**-**	**107,407**	**8**

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

(In thousands)	*Carrying amount*	*Fair Value*	*Level 1*	*Level 2*	*2018* *Level 3*
Financial assets measured at amortized cost					
Cash equivalents	9,107	9,107	9,107	-	-
Investments	983	983	-	983	-
Member loans receivable	93,674	94,445	-	94,445	-
Accounts receivable	29	29	-	29	-
Total financial assets	103,793	104,564	9,107	95,457	-
Financial liabilities measured at amortized cost					
Member deposits	95,483	96,762	-	96,762	-
Accounts payable	164	164	-	164	-
Membership shares	8	8	-	-	8
Total financial liabilities	95,655	96,934	-	96,926	8

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

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

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

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to their amortized cost.

23. Commitment

In 2016, the Credit Union entered into a seven year commitment with Celero for the provision of retail banking services. The annual operating fee is calculated based on the average number of outstanding accounts throughout the year. The annual operating fees the year ended December 31, 2019 were $59,353 (2018 - $57,666) and recorded as an expense. The annual estimated fee for the year ended December 31, 2020 is $60,274 (2018 - $59,353).

24. Other legal and regulatory risk

Legal and regulatory risk is the risk that the Credit Union has not complied with requirements set out in terms of compliance such as standards of sound business practice, anti-money laundering legislation, or their code of conduct/conflict of interest requirements. In seeking to manage these risks, the Credit Union has established policies and procedures and monitors to ensure ongoing compliance.