VISION

At Radius Credit Union, our vision is to work together to strengthen our communities and provide the best options to meet your financial needs.

MISSION STATEMENT

Our rural, community focused credit union is a financially strong and viable financial service provider.

We build relationships by providing financial solutions and supporting our communities.

VALUES

COMMUNITY

- We support community events and projects as well as promoting community development
- Our communities are stronger because of our credit union
- Our staff and board exhibit leadership by direct involvement in community organizations

FINANCIAL STABILITY

- We make sound financial decisions to ensure long-term success and benefits to our members and communities
- We balance the need for strong financial performance with the needs of our members and communities

EMPLOYEE ENGAGEMENT

- We respect our employees and their contributions to our success
- We support development, providing education and enhancing co-operation to support leadership
- We respect our employees' need to balance their personal and professional lives

CO-OPERATION

- We co-operate with other organizations and the credit union system for our mutual benefit
- We are guided by the co-operative principles of voluntary and open membership, democratic member control, member economic participation, autonomy and independence, continuous education, cooperation amongst cooperatives and concern for community. These principles set us apart in the financial industry.

SERVICE EXCELLENCE

- We are committed to providing the highest quality service that enhances our value to our members
- We provide financial solutions that meet members needs

Co-operative Principles

As a true co-operative financial institution, Radius Credit Union acts in accordance with internationally recognized principles of co-operation:

Voluntary and Open Membership
Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control
Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

Member Economic Participation
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Autonomy and Independence
Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Education, Training and Information
Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

Co-operation among Co-operatives
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community
Co-operatives work for the sustainable development of their communities through policies approved by their members.

Annual General Meeting Agenda

Location: Ogema Museum Hall, Ogema SK

Date: Wednesday April 10, 2019

Agenda details:

1. Call the meeting to order
2. Confirmation of Quorum & Notice of Meeting
3. Appointment of Secretary
4. Approval of Agenda
5. Minutes of 2017 Annual General Meeting
6. Annual Report
7. Nomination Committee Report
8. Audit Committee Report and Appointment of Auditors
9. Auditors Report and Financial Statement
10. New or Other Business
    a. Service Awards
    b. Other/New Business
    c. Door Prizes
11. Adjournment of the Business Meeting

RADIUS CREDIT UNION

Minutes of the 12th Annual Meeting Radius Credit Union

Location: Prairie Pride Community Centre, Ceylon SK

Date: Tuesday April 17, 2018

Chairman Ray Barbarin welcomed everyone to the twelfth annual meeting of Radius Credit Union.

Ray called the meeting to order at 7:30 p.m.

Ray thanked kitchen staff for an excellent supper.

Ted Struthers presented confirmation of Quorum with 77 members and 1 Guest in attendance. He also gave proof of notice of meeting with the meeting being advertised in multiple avenues such as in branches and on the RCU Website more than 20 days in advance of the meeting.

Ted Struthers was appointed as Secretary of the meeting.

Motion: by Mark Mellon and Mara Barbarin to accept the agenda as presented. Carried.

Motion: by James McGregor and Blair Kotz to accept the minutes from the April 11th, 2017 annual meeting. Carried.

Ray Barbarin & Ted Struthers proceeded to present the Board of Directors & CEO report to the membership. Highlights are as follows:

Highlights of the reports presented were as follows:

- Vision Mission and Values & Co-operative Principles were reviewed.
- Strategic Initiatives were discussed
- 2017 Growth, Margin and Capital were discussed.
- ERM process and focus on risk areas were presented
- Regulatory environment & Capital Standards were discussed
- Market Code & Privacy Code reports were given
- Board focus and responsibilities were presented
- Board Attendance, Remuneration and Expenses reviewed
- Committees of the board and who is on them was presented
- All Board members are actively participating in Director training
- List of Board members, Terms and Years of Service were reported
- A listing of all the staff, positions, years of service, as well as the locations they work.
- Corp and Social Responsibility report included branch locations, number of staff and how much payroll income was injected into our local economies.
- Environmental Initiatives were presented along with a listing of Donations and Contributions the Credit Union and staff did in 2017. Over 2,100 volunteer hours were completed.

- A summary of special community events Radius hosted in 2017.

Nominating Committee Report
Presented by Ken Bourassa:

Ken provided a brief report on the composition and role of the Nomination Committee. He also spoke to the structure of the board and on the representation by district. Election of Director Report was presented.

- Keith Bacon - District 1
- Mark Mellon - District 1

Audit & Committee Report:

Blair Kotz Chairman of the Audit committee gave a detailed report on role and activity of the Audit & Risk Committee in 2017. Blair expressed the audit committee satisfaction with our External Auditor and recommended that we appoint MNP as our Auditor for 2018.

Motion: By Ken Bourassa and Robert Vermeulen to appoint MNP to be the external auditor for 2018. Carried

Auditors Report and Financial Statement
Presented by Rod Sieffert, MNP:

- Rod reviewed the Manager's responsibility note in the statement
- Also reviewed the Auditors Report to the membership
- Balance sheet and Financial Statement were presented in detail
- Rod pointed out that the Financial Statement in the report was the short form; however the full length report was available at the registration desk as well as on the Radius CU Website for anyone wishing to review or receive a copy.
- Closed with thanking staff, board and management for their assistance in conducting the 2017 audit.

Motion: By Rob Vermeulen & Mark Mellon to accept all above reports as presented. Carried.

Ray gave special thanks to all the Audit & Risk Committee for all the extra work they do in attending extra meetings, reviewing and approving all the Financial Reports, and Risk Reporting, as well as presenting back to the full board. Their role in the Credit Union has increased significantly over the past few years and this is truly a large commitment and the work they do is greatly appreciated.

New & Other Business:

Bylaw Review. Ted Struthers explained to the Radius Membership the content of the proposed Bylaw Changes. The proposed change is reducing the number of Board Members required from 13 to 11. This was a reduction of one in each of District 1 and District 2.

Motion by Mark Mellon and Tim Forer to rescind the existing Bylaw. Carried

Motion by Robert Vermeulen and Rick Williams to approve the proposed new Bylaw. Carried.

Service Awards:

Mark Mellon & Ray Barbarin presented the Service Awards

Staff Service Awards were as follows:

15 Year Award
Nicki Berg – Torquay Branch

10 – Year Award
Travis Leonard – Ogema, Avonlea & Pangman Branches
Adele Terrett – Torquay Branch
Dianna Weed – Avonlea Branch
Erin Kessler – Radville Branch

5 Year Award
Michelle Leonard – HR/Marketing Dept.
Roseanna Stendall – Tribune Branch
Sherry Hansen – Torquay Branch
Taylor Kaufmann – Radville Branch

45 Year Award
Larry Lillejord – Tech Dept.

Board Awards were as follows:

Tim Forer – 5 years of service
Blair Kotz – 15 years of service
Mark Mellon – 20 years of service

Door Prize winners were as follows: Lynnette Kotz, Ava Hansen, Leila McClarty, Joyce Carlson, Edwin Rowland, Melvin Gust, Gary Gerlle, Brad Mohr, Max Johnson, & John Fiechter.

Meeting was adjourned by James McGregor @ 8:25 p.m.

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Chairman Secretary

Board President and CEO Report

Another year has come and gone, on behalf of the Board of Directors, executive management and employees, we are pleased to present the 2018 Annual Report for Radius Credit Union.

We are extremely pleased with the accomplishments and leadership provided from Radius Credit Union throughout the past year. I would like to start by thanking my fellow Directors for their leadership, knowledge and commitment to Radius Credit Union. I would also like to thank our management and staff for your ongoing dedication to make Radius the great organization we are today. And to our members, thank you for your continued business and support.

As the Board of Directors, our priority is to provide sound governance and risk oversight to our credit union. We receive regular reporting from Management. We receive an annual report from our internal and external auditor and our regulators at Credit Union Deposit Guarantee Corporation (CUDGC) who monitor credit union activity on an ongoing basis. Your Board of Directors are completely satisfied that Management provides sound financial and risk management over your credit union.

Our board and employees value our place in our communities of Avonlea, Ceylon, Ogema, Pangman, Radville, Torquay and Tribune. Radius Credit Union's commitment of over 2300 volunteer hours to local communities, which does not include the volunteer work of the directors, goes a long way in supporting our members and nonmembers. This is our commitment to the organizational value of "Community" – leadership, involvement and support to promote community development.

Radius Credit Union works hard to be your first choice of financial service providers by consistently offering quality member service, competitive service offerings, and access to knowledgeable advisors and continuous investment in technology – so you can access service when you want. We look forward to another year of building relationships with the people of the communities we serve and again, thank you for your belief in credit unions and the co-operative principles. Thank you for your faithfulness to and confidence in Radius Credit Union.

Board of Directors

The board is responsible for the strategic oversight, business direction and supervision of management of Radius Credit Union. In acting in the best interests of the credit union and its members, the board's actions adhere to the standards set out in *The Credit Union Act 1998*, the Standards of Sound Business Practice and other applicable legislation. The key roles of the Board include formulation of strategic business plans; setting goals, evaluating the performance of the CEO; approving corporate mission, vision and values; monitoring corporate performance against strategic business plans; oversight of operations; ensuring compliance with laws and regulations; keeping members informed regarding plans, strategies and performance of the Credit Union; and other important matters.

Radius Credit Union 2018 Board of Directors

Director & Occupation	District	Years on Board	Regular Meeting Attendance	Special Meeting Attendance	All Day Meeting Attendance
Keith Bacon, Farmer	1	20	10	1	1
Ray Barbarin, Farm Labourer	2	30	8	5	1
Steven Berg, Farmer	3	17	8	2	1
Ken Bourassa, Sales Manager	2	28	8	5	1
Tim Forer, Farmer	1	6	9	2	1
Blair Kotz, Accountant	2	16	10	5	1
Brenda Mazer, Bookkeeper	1	12	9	4	1
Mark Mellon, Farmer	1	21	7	1	1
Rob Vermeulen, Farmer	2	3	3	1	1
Rick Williams, Farmer	3	23	8	5	1

District 1 – Ogema, Avonlea & Pangman

District 2 – Radville & Ceylon

District 3 – Torquay & Tribune

The directors are remunerated a per diem for board meetings, committee meetings and planning sessions. In 2018 the total remuneration paid was $25,877.50. Total travel paid to the board was $2,659.72, Officials Insurance was $4,202.81, Officials development & other was $3,780.00. With the total cost incurred of $36,520.03.

GOVERNANCE PRACTICES

Promoting a successful, healthy credit union is accomplished through processes of good governance. Corporate governance involves a set of relationships between a credit union's board, executive management, members and other stakeholders. Effective corporate governance practices are essential to achieving and maintaining the trust and confidence of credit union members, the public and other stakeholders. Radius Credit Union's governance practices are assessed periodically by internal and external auditors and the credit union system regulator (CUDGC). Reviews in 2018 by internal and external audit confirmed that our Board is using effective governance practices that comply with emerging regulatory guidelines.

TRAINING AND EVALUATION

Each director completed a self-assessment in 2018, and based on these results were assigned individual training plans in order to work through various training courses and improve knowledge in strategic thinking and planning, human resources oversight, financial and risk oversight and legal and regulatory oversight. Through 2018 the directors invested 128 hours into training in order to continue to be a well-informed advocate for the members of Radius Credit Union.

COMMITTEES

The responsibilities of the board of a financial services organization encompass an ever growing list of duties under regulatory oversight. Radius Credit Union maintains a number of committees comprised of directors. This partitioning of responsibilities enables a clear focus on specific areas of activity vital to the effective operation of our credit union. The board determines the skills and abilities needed on each committee and chooses its members accordingly. The board also determines each committee's terms of reference, guidelines and requirements. The President serves as an ex-officio of all committees.

Executive Committee

The Executive Committee acts in the capacity of, and on behalf of the board of directors between regular or special board meetings on all board matters except those, which the board may not delegate due to legislative requirements. The 2018 members of this committee were:

- Ray Barbarin (President)
- Keith Bacon (Vice-President)
- Ted Struthers (Secretary/Treasurer)
- Ken Bourassa
- Steven Berg

Audit & Risk Committee

The Audit and Risk Committee which met each quarter of 2018, oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators and reviews internal control procedures. In addition, the committee oversees the identification, understanding and management of risks that may affect Radius Credit Union. The 2018 members of this committee were:

- Blair Kotz
- Brenda Mazer
- Rob Vermeulen (observer)
- Rick Williams
- Ken Bourassa

Credit & Conduct Review Committee
The purpose of the Conduct Review Committee is to ensure that all proposed related party transactions with the Credit Union are fair to the Credit Union and that best judgement is exercised in all matters of related party relationships. The CRC met eight times in 2018, ensuring that the directors and employees act with integrity and objectivity by having policies, processes and practices in place that protect people and the organization from claims and the perception of unfair benefit or conflict of interest. The 2018 members of this committee were:

- Rob Vermeulen
- Tim Forer
- Mark Mellon

Building Committee
The Building & Property Committee works with management to develop policies and plans relevant to credit union service facilities. There was one position vacant in 2018 and the other members of this committee were:

- Steven Berg
- Ray Barbarin
- Tim Forer

Nominating Committee
The nominating committee oversees the nomination and election processes for credit union directors. The 2018 members of this committee were:

- Mark Mellon
- Keith Bacon
- Tim Forer
- Brenda Mazer

Workplace Violence and Harassment Committee
The 2018 members of this committee were:

- Ted Struthers
- Kimberley Olfert
- Ray Barbarin

The full Board of Directors participates in the annual strategic planning session. Steven Berg is the delegate to SaskCentral for Radius Credit Union.

The Annual Meeting allows your board of directors and your management team to report on the activities and results of the year. The 2018 Annual Report is provided to our members as a highlight of our past year's performance. We are pleased to share these highlights with the Radius Credit Union communities.

2018 Financial Operation Summary

(in thousands)	2018	2017	2016
Net Income	1,854	1,560	1,639
Assets	351,609	342,696	322,121
Equity	24,101	22,247	20,686
Equity as % of Assets	6.85	6.49	6.42
Delinquency over 90 Days	0.11	1.06	.07
Operating Expenses	5,453	5,537	5,414

As part of the mission of Radius Credit Union we work hard to be a community minded, financially strong and viable financial service provider. In order to achieve being your first choice for financial services, the Board establishes the strategic direction and management develops action plans to meet all of the objectives of the credit union. The planning process encompasses the development of the strategic plan, the business plan and the operating and long term budgets. Through these plans, the board determines the key drivers for the financial results. The chart above highlights a few of the key financial performance results.

Asset growth

Asset growth is not possible without growth in member deposits. Member deposits provide the credit union with funds to lend to members or funds to invest, thereby increasing our assets. Just like any other business, growth is seen as a positive. In 2018 Radius Credit Union has grown to almost $352 million in managed assets, up from $343 million in 2017. This establishes our Credit Union's reserves at $24.1 million - all belonging to you, our 4,732 members. We continue to strive for growth in our equity in these challenging interest rate markets.

Despite being a financial co-operative, we are still a business. While our primary focus is not profit, we do have to generate a sufficient operating surplus to meet operating expenses, build capital and return something to members if possible. The credit union generated revenue through interest margin, which is still our largest source of income, service charges and commissions. On the other side of our income statement, we work to manage our operating costs where we saw a slight decrease in 2018. Profitability was again strong with over $1,854,000 in income after payment of patronage and taxes. The board approved a $395,000 patronage refund this year. This is a 3.50% refund and bonus paid to members based on the amount of loan interest paid and deposit interest earned. In addition to this RCU is also paying a 3.50% dividend return on all members held equity. The remainder of the profitability was moved to our capital to ensure a strong base for future growth and opportunities.

Loan growth
The local loan demand combined with strategically purchased loans allowed Radius Credit Union to exceed the growth target established for 2018. RCU grew the loans by 13.9% in 2018 as compared to 5% growth in 2017. RCU ended the year just over 65% lent out with a net increase of over $28 million. Participation loans are strategically purchased credit from other credit unions and Concentra Bank. Achieving loan growth allows the credit union to generate revenue to cover operating expenses.

Delinquency
As a credit granting organization, credit quality is a key risk management area. The credit union's standard for credit quality measures continue to remain strong. Delinquency greater than 90 days decreased to .11% of loans at December 31, 2018. This level compares favourably to levels experienced by our peer credit union group in Saskatchewan and is stronger than the Saskatchewan credit union system average. Radius Credit Union monitors its exposure to potential credit losses and maintains both a general and specific loan allowances accordingly. The quality of the credit portfolio was also reviewed by both internal and external audit processes conducted in 2018.

Foreclosed Property
At year end Radius Credit Union held four foreclosed properties, as compared to two at the end of 2017. In 2018 RCU was forced to foreclose on a condo development project in Moose Jaw as well as a residential property in Benson, SK. We are pleased to report the Benson property has been sold and we have recaptured all of our loan proceeds through the CMHC guarantee. Unfortunately, in Moose Jaw we have not been able to attract another developer to purchase and complete this property. We are now in the process of completing five units that are at various stages of completion and will then market them individually. Due to the uncertainty of recovery, we set up a provision for loss on this project of $900 thousand at year end.

Of the other two residential properties, we have tenants with a longer term lease on the Radville property and the Torquay property is listed for sale.

Summary
At Radius Credit Union, our vision is to work together to strengthen our communities and provide the best options for our members to meet their financial needs. As we reflect on the year past, we are proud of the accomplishments of Radius Credit Union. While we continue to focus on serving the needs of our members, the economic and business conditions we face have an impact to our Credit Union. Despite the challenges we encountered throughout the past year, we were still able to grow our organization, expand the service delivery provided to our members, and find efficiencies that could be reinvested back into our organization for the benefit of our members, and owners.

We are always proud of our staff as they align with our credit union values and making a difference – once again volunteering more than 2300 hours of their time to projects and initiatives that make the communities we live in even better. Initiatives that we are involved in and invest in are those that members of our communities come to us and say there is a need for.

As we look to 2019, our mission continues to be building relationships with you, supporting our communities and providing financial solutions so that Radius Credit Union is the first and best option to meet your financial needs.

Thank you for attending tonight and for your continued support of your local credit union!

Enterprise Risk Management (ERM)

Each year Radius Credit Union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our members and communities now and in the future. This process is called Enterprise Risk Management (ERM) and is mandated by CUDGC as a requirement of all credit unions in Saskatchewan.

As a financial institution, Radius Credit Union is exposed to a variety of risk. Risk is the downside that exists in almost every component of the Credit Union's activities. Risk represents the potential negative impact to the Credit Union's ability to achieve important goals. Risk can also cause financial loss and harm to a credit union's reputation. Managing or appropriately balancing, risk with business opportunities is the top priority for the Board of Directors and Management at Radius Credit Union. Building sound policies and operational processes, risk based audit practices and capital and liquidity management strategies, all supported by strong human resources, is the heart of our strategic objectives.

The fundamental strength of a credit union is the level of capital it holds to protect against normal, anticipated and unexpected business events. An adequate capital position allows the Credit Union to absorb unexpected losses, implement long term strategic plans and signal financial strength. Our main objective remains to preserve and build capital while growing our business.

When considering risks, Radius Credit Union determines the appropriate levels of control over all risks using an ERM approach for the identification, measurement and monitoring of risks. The Credit Union's operations undergo regular independent assessment through external audit, internal audit and regulatory reviews to ensure that key risks are being mitigated and any potential impacts to capital are reported accordingly.

Our enterprise risk management framework manages risks in the following categories:

Strategic Risk

Strategic risk is the risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, member preferences, obsolete products or resource allocation, will impact our ability to meet our objectives. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals and the quality of implementation.

Radius Credit Union has formal planning processes which result in a strategic business plan focused on strategic objectives as outlined earlier. The credit union uses a comprehensive reporting process to monitor performance relative to plans and provides regular updates to the Board. The Enterprise Risk Management process further identifies emerging risks and formulates plans as risks are identified. In addition, directors attend training as well as system meetings and conferences to hear other perspectives and learn from other credit unions.

Credit Risk
Credit risk is the risk of financial loss arising from a borrower or counterparty's inability to meet its obligations. Radius Credit Union is affected primarily by its direct lending activities. In addition to lending to its members, Radius Credit Union assumes risks related to loans purchased from other credit unions and affiliates, leases financed through leasing corporations and to a lesser extent, by holdings within its investment portfolio. Some key individual credit risks are: default risk, portfolio concentration risk, inadequate allowance risk and policy exceptions risk.

Lending practices are set by the Board of Directors in policy and put into practice through procedures established by management. Review and revision of lending policies and procedures are completed on a regular basis.

Credit granting is performed in accordance with approved policies, procedures and applicable legislation. This includes credit analysis, pricing, terms and documentation for lending. Loan pricing structures are in place to support lenders in pricing decisions and to ensure risk is offset by rates. Concentration limits in regard to industry and size of loans have been designed to reflect our risk tolerance. Credit risk is further mitigated through training of loans personnel.

The credit union's credit portfolio and lending practices undergo regular and ongoing independent assessment through external audit, internal audit and regulatory reviews. Reports are provided to management and to the Board of Directors through the Audit and Risk Committee (ARCO).

Market Risk
Market risk is the exposure to potential loss from changes in market prices or rates and foreign exchange risk. Losses can occur when values of assets and liabilities or revenues are adversely affected by changes in market conditions, such as interest rate or foreign exchange movement.

The credit union's market risk is impacted primarily by movements in interest rates specifically from the timing differences that exist between the re-pricing of loans, investments and deposits.

Foreign exchange risk occurs when members change Canadian funds for another currency; which in our case are predominantly US dollars. This risk is offset by the credit union maintaining a US Dollar Account with SaskCentral in a similar amount to funds held in member US Dollar accounts. When members exchange currency, we complete a similar transaction to offset any risk exposure. Foreign exchange risk is monitored at least quarterly and adjustments to the account at SaskCentral are made as required.

The credit union's exposure to changes in interest rate is monitored by management and reviewed by the Management Asset & Liability Committee (ALCO) who in turn reports to the Audit & Risk Committee.

Liquidity Risk and Management
Liquidity is required to meet the day to day cash needs and loan demands of our members. Liquidity risk arises from general funding activities and through management of our assets and liabilities. It is the risk of having insufficient cash resources, or equivalents, to meet members' demand for loans or drawdown of deposits.

One of Radius's primary objectives as a financial institution is to prudently manage liquidity to ensure we can generate or obtain sufficient cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they become due, even under stressed conditions. Radius's liquidity management framework, targets and strategies are established and documented in a Liquidity Plan as well as our financial plan which is approved by the board on an annual basis.

The principles of Radius's liquidity management framework are:

- Maintaining a strategy and policies for managing liquidity risk;
- Maintaining a stock of liquid assets;
- Measuring and monitoring funding requirements;
- Managing market access to funding sources;
- Contingency planning and
- Ensuring internal controls over liquidity risk management process.

Radius has established policy with respect to liquidity and has processes and practices with respect to the management of funding requirements. We have built and maintain access to a number of funding sources. The primary source of funding, being our deposit portfolio which was almost $325 million as at 2018 year-end.

In addition to deposits, Radius has a $6.8 million line of credit at SaskCentral, the ability to borrow additional demand credit at SaskCentral, approved access to market investments by way of brokerage, and also the ability to syndicate credit with other credit unions and organizations.

Utilizing these various funding sources achieves funding diversification as required to meet overall funding assurance to the organization.

Liquidity risk continues to be measured by analyzing the structure of the balance sheet.

Asset Composition

			Change	
	2018	**2017**	$	%
Cash and Investments	120,088,823	139,965,265	-19,876,442	-14.2
Loans	229,799,311	201,089,989	28,709,322	14.28
All Other Assets	1,721,111	1,640,878	80,233	4.89
Total Assets	351,609,245	342,696,132	8,913,113	2.60

Asset Composition as a percentage of all assets:

	2014	**2015**	**2016**	**2017**	**2018**
Cash and Investments	36.35	39.92	40.36	40.84	34.15
Loans	62.91	59.39	59.12	58.68	65.36
All Other Assets	0.74	0.69	0.53	0.48	0.49

Balance sheet composition is important from a liquidity management perspective as the organization must ensure it carries an appropriate level of high-quality liquid assets, while at the same time attempting to get the best return possible on these investments. These assets are reported on the balance sheet as cash or cash equivalents as well as in the investment portfolio.

An important measure of liquidity risk Radius employs is the Liquidity Coverage Ratio (LCR). The objective of the LCR is to ensure that a credit union has an adequate stock of unencumbered high-quality assets (HQLA) that:

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

Liquidity Coverage Ratios			**Change**	
	2018	**2017**	**$**	**%**
Level 1A Weighted Assets	21,080,832	42,359,919	-21,279,087	-50.23%
Level 2A Weighted Assets	1,858,424	1,046,414	812,010	77.60%
Level 2B Weighted Assets	1,813,290	1,157,147	656,143	56.70%
High Quality Liquid Assets (HQLA)	**24,752,546**	**44,563,480**	**-19,810,934**	**-44.46%**
Retail and Small Business Deposit Run-Off	6,320,781	6,397,962	-77,181	-1.21%
Unsecured Wholesale Funding Run-Off	13,156,471	13,789,544	-633,073	-4.59%
Secured Funding Run-Off				
Additional Requirements	1,312,761	1,477,099	-164,338	-11.13%
Total Prescribed Outflows	20,790,013	21,664,605	-874,592	-4.04%
Total Prescribed Cash Inflows	11,296,336	6,437,359	4,858,977	75.48%
Net Prescribed Cash Outflows	**9,493,677**	**15,227,246**	**-5,733,569**	**-37.65%**
Liquidity Coverage Ratio (LCR)	**260.73%**	**292.66%**		

Under the current provincial regulatory environment, Credit Union Deposit Guarantee Corporation has established minimum LCR requirements of 80% (2017), 90% (2018) and 100% (2019).
Radius has set an internal acceptable target at a minimum LCR result of 100% as of 2017. We are pleased to advise we have well surpassed this level.

In addition, we continue to conduct multiple different stress testing; we model different scenarios and calculate the resulting impact on organizational liquidity. The results of this stress testing are reported quarterly to the Audit and Risk Committee.

Legal and Regulatory Risk

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

Policies, procedures and controls are designed to ensure Radius Credit Union is compliant. Our Chief Financial & Risk Officer oversees our processes related to certain pieces of legislation and reports quarterly to the Audit & Risk Committee and in turn to the board. We continue to contract Internal

Audit from SaskCentral to review our processes and controls on an annual basis. In addition our external auditors and regulatory bodies examine processes and controls to ensure compliance.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Exposures to this risk arise from increasing efficiency ratios, the impact of shrinking margins, and the potential of increased cost to retain staff, deficiencies in internal controls, technology failures, human error, employee integrity or natural disasters. Operational risk is managed through the use of policies and procedures, controls and monitoring. Control and monitoring involves segregation of duties, employee training, performance management and structured internal and external audit functions. Other mitigating factors include changes made to increase revenues and decrease expenses, monitoring human resource changes and practices in the marketplace, business continuity planning, appropriate insurance coverage and secure technology solutions. Our banking platform is maintained offsite and includes a very complicated back up and disaster recovery process.

Residential Mortgage Portfolio

In accordance with regulatory guidelines, Radius Credit Union is required to provide additional credit disclosures regarding our residential mortgage portfolio.

Radius is limited to providing residential mortgages of no more that 80% of the collateral value. Lending at a higher loan-to-value (LTV) is permitted but requires default insurance. The insurance is contractual coverage that protects Radius's real estate secured lending portfolio against potential losses caused by borrower default. Default insurance can be provided by either government backed entities or other approved private mortgage insurers. Currently Radius uses Canada Mortgage and Housing Corporation (CMHC) and Genworth to provide mortgage default insurance.

A Home Equity Line of Credit (HELOC) is a form of non-amortizing (revolving) credit that is secured by a residential property. Unlike a traditional residential mortgage, most HELOCs are not structured to fit a predetermined amortization, although regular, minimum periodic payments are required. Radius Credit Union is limited to providing HELOCs of no more that 65% of the collateral value.

To determine the potential impact of an economic downturn, which may result in an increase in defaults and a decrease in housing prices, Radius performs stress tests. The stress testing uses historical delinquency and write-off information over the past 5 years. Our results show that in an economic downturn, Radius's capital position would be sufficient to absorb residential mortgage and HELOC losses.

Residential Mortgage Loan Portfolio

	2018	%	2017	%	Change	%
Insured	37,511,154	53.4%	39,363,347	54.0%	-1,852,192	-2.5%
Uninsured	32,678,357	46.6%	33,528,962	46.0%	-850,605	-1.2%
HELOC	0	0	0	0	0	0.0%
Total Loans	70,189,512	100.0%	72,892,309	100.0%	-2,702,797	-3.7%

Residential Mortgage Term Loan Portfolio by Amortization

Amortization Range	Number	Mortgage Balance	% of Portfolio	Average Balance
Less than 10 years	691	29,554,341.78	42.1%	42,770.39
10-15 years	64	13,550,428.01	19.3%	211,725.44
15-20 years	84	11,907,169.29	17.0%	141,752.02
20-25 years	142	14,577,644.86	20.8%	102,659.47
greater than 25 years	7	599,927.59	0.9%	85,703.94
	988	70,189,511.53	100.0%	71,042.02

Residential Mortgage Portfolio by Province

Amortization Range	Number	Mortgage Balance	% of Portfolio	Average Balance
Saskatchewan	425	63,694,561.59	90.7%	149,869.56
Alberta	75	1,097,445.32	1.6%	14,632.60
British Columbia	60	844,181.53	1.2%	14,069.69
Ontario	379	3,900,570.52	5.6%	10,291.74
Manitoba	5	34,849.84	0.0%	6,969.97
Newfoundland	1	5,170.92	0.0%	5,170.92
New Brunswick	33	439,785.55	0.6%	13,326.83
Nova Scotia	10	172,946.24	0.2%	17,294.62
	988	70,189,511.53	100%	71,042.02

Capital Management

The fundamental strength of a credit union is the level of capital it holds to protect against normal, anticipated, and unexpected business events. Credit Union Deposit Guarantee Corporation (CUDGC), regulator of Saskatchewan credit unions, prescribes capital adequacy measures and minimum capital requirements to ensure the strength of the system as a whole.

Radius Credit Union recognizes the importance and significance of capital management and has worked to ensure strength in this area. In this regard a Capital Plan is approved annually for the purpose of identifying the optimal capital ranges for our credit union and our plans to attain the identified goal. Too much capital would indicate that the credit union is not generating sufficient return on its capital; too little capital restricts the ability to grow and generate returns, it also increases the risk of having insufficient funds to protect against unexpected losses or liquidity needs. The Credit Union relies on profitability to grow its capital position and holds its total capital in retained earnings. Both balance sheet growth and profitability affect the Credit Union's capital ratios. The Credit Union retains a portion of its annual earnings in order to meet its capital objectives.

We manage capital in accordance with our capital management plan and board approved capital policies with a goal to achieve and exceed regulatory minimums, maintain an optimal level of capital, meet operational requirements, absorb unexpected losses, implement long term strategic plans and signal financial strength. The capital plan is developed in accordance with the regulatory capital framework and is regularly reviewed and approved by the Board of Directors. Risks are assessed annually through our Risk Management process as well our portfolio is stress tested quarterly. Regular reporting to the Board of Directors and the regulator are monitored through our audit process.

Changes in capital are due to the growth in assets as well as the increase in our loan portfolio. Radius Credit Union has historically focused on traditional financial services and managed a moderate level of risk in its loan and investment portfolio. Based on the aggressive planned approach to loan growth taken in 2018, the near term equity percentages have reduced slightly. The 2018 capital strategy will support and accelerate our future capital growth even with continued loan and overall asset growth. The Common Tier 1 Equity at the end of the year was 12.24% from 13.13% in 2017. Risk Weighted Capital was 13.78% compared to 14.82% in the prior year; and the Capital Leverage Ratio has improved slightly from 7.11% to 7.59% at the end of 2018.

The Capital Plan outlines strategies to ensure the minimum target levels are met. There are several key measures of capital which value both the amount and the quality of capital holdings. Radius Credit Union met all regulatory requirements in 2018.

Market Code

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

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

Privacy Code

Credit unions in Canada have a long history of respecting the privacy of their members. As a co-operative financial institution, we are committed to developing policies, procedures and service offerings that address privacy concerns. We continue to protect your privacy and your right to control the collection, use and disclosure of your personal information. We have procedures in place that guide our employees and directors in maintaining confidentiality.

We are committed to keeping your personal information accurate, confidential, secure and private. Your credit union board of directors has adopted the Credit Union Code for the Protection of Personal Information. Our employees understand the importance of this Privacy Code based on ten interrelated principals of accountability, identifying purposes, consent, limiting collection, limiting use, disclosure, retention, accuracy, safeguards, openness, individual access, and compliance and follow them carefully.

Our Management Team & Staff

It is through our employees that we are able to build an organization that offers strong financial products and service with competency, courtesy and concern for you, our members.

Radius Credit Union has an experienced management team. Executive Management is responsible to oversee the operations of the credit union within the context of strategies and policies approved by the Board, and for developing processes that identify, measure, monitor and control risks.

Our Executive Management team consists of four positions:

- Chief Executive Officer (CEO) – Ted Struthers – responsible for the oversight of all areas of the operation, reports monthly to the board of directors and annually to the members at the AGM. Ted fills this position with 38 years of experience.
- Manager of Retail Operations – James McGregor – responsible for all lending, collections, investment and deposit services. James fills this position with 30 years of financial services experience.
- Chief Finance & Risk Officer (CFO/CRO) – Ann Favreau – responsible for finance, risk management, compliance & technology functions. Ann fills this position with 35 years of experience and a Master's degree through St. Mary's University, Master of Management Cooperatives and Credit Unions (MMCCU).
- Manager of Governance & Communications – Kimberley Olfert– responsible for governance, communications, human resources and organizational development. Kimberley fills this position with 21 years of experience and a Bachelor of Commerce from the University of Saskatchewan.

We continue to seek ways to make service delivery more seamless for members and offer the services in the methods you want. The department managers report to the CEO who in turn reports to the Board of Directors. The entire staff team is listed here:

Name	Position	Years of CU Service
	ADMINISTRATION	
Ted Struthers	Chief Executive Officer (CEO)	38
James McGregor	Manager of Retail Operations	22
Ann Favreau	Chief Finance & Risk Officer	35
Kimberley Olfert	Manager of Governance & Communications	7
Janet Murray	Administrative Assistant	39
Lorna Lillejord	Administrative Assistant	30
Michelle Leonard	HR & Marketing Coordinator	6
Carri Henheffer	Loan Clerk	12
Denise Kaufmann	Loan Clerk	8
Larry Lillejord	Technology Consultant	46

Name	Position	Years of CU Service
	AVONLEA BRANCH	
Denise Mohr	Lending Service Representative Trainee	3
Dianna Weed	Member Service Representative	11
Adele Hicks	Member Service Representative	3
	CEYLON BRANCH	
Cheryl Rowland	Lending Service Representative	24
Svitlana Lagun	Member Service Representative	7
Jeannie Scott	Member Service Representative	4
	OGEMA BRANCH	
Travis Leonard	Business Development Manager (Ogema & Avonlea)	10
Krista Klemenz	Lending Service Representative	14
Cheryl Dixon	Lending Service Representative	8
Meagan Metke	Member Service Supervisor	7 (leave)
Cara Olafson	Member Service Representative	3
Jaime Roncin	Member Service Representative	1 (leave)
Jenna Peterson	Member Service Representative	<1
Jacquie Mallory	Member Service Representative	<1
Kathy Nagy	Statement Services	19
	PANGMAN BRANCH	
Lindsay Johnson	Member Service Representative	1
Erin Kessler	Member Service Representative	10
	RADVILLE BRANCH	
Roxanne Wiles	Business Development Manager	30
Sandra Scott	Manager of Wealth & Investment Services	38
Emile Mazenc	Lending Service Representative	41
Charmaine Wudrick	Lending Service Representative Trainee	2
Holly Frischholz	Lending Service Representative Trainee	1
Brenna Scott	Member Service Supervisor	6 (leave)
Candace Schindel	Member Service Representative	10
Taylor Kaufmann	Member Service Representative	6
Justin Neufeldt	Member Service Representative	2
Chelsey Lillejord	Member Service Representative	4
Elaine McLeod	Member Service Representative	1

Name	Position	Years of CU Service
	TORQUAY BRANCH	
Adele Terrett	Business Development Manager	11
Pamela Groshong	Lending Service Representative	14
Michelle Marchand	Member Service Representative	9
Sherry Hansen	Member Service Representative	5
Nicki Berg	Member Service Representative	16
Jessica Young	Member Service Representative	1
	TRIBUNE BRANCH	
Dianne Chapman	Business Development Manager	39
Roseanna Stendall	Lending Service Representative	6 (leave)
Velvette Suteau	Lending Service Representative	11
Sarah Peters	Member Service Representative	1
Shannon Hilker	Member Service Representative	<1

Corporate Social Responsibility

As part of our mandate of working together to build better communities the credit union has maintained a local presence, engaged in environmentally friendly initiatives, contributed to various organizations and been involved in various events as listed below.

Local presence:

- ✓ The credit union has physical branches located in Avonlea, Ceylon, Ogema, Pangman, Radville, Torquay and Tribune.
- ✓ We have employed 51 local people; this contributed $2,840,798 in payroll to our local communities.
- ✓ Our staff and our board commit many hours of their own time to local government, service clubs, sports teams, churches and committees; many are in executive positions with these organizations. Our staff contributed over 2,300 hours of volunteer time into our local communities and many more to our extended communities.

Environmental Initiatives:

- ✓ We recycled our cans and bottles and donated the proceeds to Minor Ball, Minor Hockey and the local Libraries
- ✓ We have moved towards a paperless retention system where possible and work towards reducing our footprint on the environment.
- ✓ Energy efficient lighting and heating are being utilized where possible.

Donations and Contributions:

- ✓ Over the past year Radius Credit Union made cash and prize donations totaling over $65,000
- ✓ The following is a list of the clubs, organizations and events that have benefited over the past year:

- ✓ Canadian Cancer Society
- ✓ High School Scholarships
- ✓ Avonlea Masons
- ✓ Telemiracle
- ✓ Avonlea, Radville, Pangman & Ogema Ladies Night Out Fundraisers
- ✓ Ogema Community Auction
- ✓ Local SADD Groups
- ✓ Community Calendars
- ✓ Hockey teams and tournaments
- ✓ Avonlea Community Fundraiser
- ✓ Avonlea Lions Club
- ✓ Local schools/school groups
- ✓ Local Daycare committees
- ✓ Claybank Brick Plant
- ✓ Seniors Centers/clubs
- ✓ Numerous Golf Tournaments
- ✓ Dance Clubs
- ✓ Minor Ball
- ✓ Royal Canadian Legion local branches
- ✓ Skating Clubs
- ✓ Local Regional Parks
- ✓ Local Recreational Committees
- ✓ Deep South Super League
- ✓ Numerous Curling Bonspiels & Clubs
- ✓ Local Regional Libraries
- ✓ Borderland Music Festival
- ✓ Local Agriculture Societies
- ✓ Juvenile Diabetes Research Fund
- ✓ CU's Sask Young Leaders
- ✓ Local 4H groups
- ✓ Deep South Personal Care Home
- ✓ Local Swimming Pools
- ✓ Saskatchewan Co-op Youth Camp
- ✓ Radville Rodeo
- ✓ Local Second Hand Stores
- ✓ Torquay Community Center
- ✓ High School Athletics
- ✓ Rink Boards
- ✓ Ogema Fair
- ✓ Dr. Brown Memorial Fundraiser
- ✓ Fishing Derbies
- ✓ SJHL Assistance Fund
- ✓ Meals on Wheels
- ✓ Town Councils
- ✓ School Community Councils
- ✓ Numerous community & school councils
- ✓ PLUS numerous other donor & volunteer recipients

Community Involvement:

- ✓ In 2018 we hosted a free Estate and Trust Seminar for our membership. Neil Tulloch & Lisa Horvath of TTH Law Firm provided a presentation on estate planning and wills. The seminar was hosted in Radville with nearly 40 members in attendance.
- ✓ FAT CAT attended an Easter Egg Hunt, the Long Creek Rodeo, his birthday party and other kids' events & parades in our communities. The events were well received by our young members, with games, treats and lots of fun!
- ✓ We sold Telemiracle Helping hands in each of our branches raising over $3,200, Daffodils for the Canadian Cancer Society and collected donations for the SJHL Assistance Fund.
- ✓ The Meals in the Field Program was once again a success with one lucky member from each branch receiving a meal delivered to the field for them and their harvest crew!
- ✓ We hosted our fourth Member Appreciation Golf Tournament at Long Creek Golf & Country Club (Avonlea) with 144 golfers attending for a fun filled day of golf, and a delicious meal served by the staff at the Long Creek Clubhouse.
- ✓ We supported three young community members in their post-secondary educational pursuits through our scholarship program, totaling $3000.

GOOD FOR YOU,
GOOD FOR YOUR
COMMUNITY!

RADIUS
CREDIT UNION

Nomination Committee Report

The Nomination Committee for 2018 was Tim Forer, Brenda Mazer, Mark Mellon and Keith Bacon. The purpose of the Nomination Committee is to oversee the annual nomination and election of directors for the Radius Credit Union. The Committee's role is to ensure there are sufficient qualified nominees to fill each vacancy on the board.

There are three terms expiring in April 2019, namely Raymond Barbarin, Rob Vermeulen and Steven Berg. All three directors have agreed to let their name stand for another term and since there were no further nominations received all directors were re-elected by acclamation. We would also like to announce a new director from the Avonlea area filling a vacant spot from district one – welcome to Gloria Kirkpatrick; we are pleased to have you represent the RCU membership.

Name in Full	**Place of Residence**	**Expiry of Term**
Tim Forer	Avonlea, SK (D1)	2020
Brenda Mazer	Ogema, SK (D1)	2020
Gloria Kirkpatrick	Avonlea, SK (D1)	2022
Mark Mellon	Ogema, SK (D1)	2021
Keith Bacon	Ogema, SK (D1)	2021
Ken Bourassa	Radville, SK (D2)	2020
Blair Kotz	Radville, SK (D2)	2020
Raymond Barbarin	Radville, SK (D2)	2022
Rob Vermeulen	Radville, SK (D2)	2022
Steven Berg	Bromhead, SK (D3)	2022
Rick Williams	Tribune, SK (D3)	2020

Keith Bacon, Chairman
Nominating Committee

Audit Committee Report

The Audit Committee for 2018 was Blair Kotz, Brenda Mazer, Rick Williams and Ken Bourassa. Part way through 2018, Rob Vermeulen joined the ARCO as an observer in order to better our succession plan for this committee.

The Audit Committee's purpose is to ensure an independent review of the credit union's operation in the areas deemed necessary to maintain the integrity of financial data, adequacy of internal controls and adherence to *The Credit Union Act, 1998* and our policies.

The committee directs, reviews and approves the letter of engagement for the external auditor (MNP) and internal audit (SaskCentral), annual audit fees, audit plans and scope of the audits before the auditors commence work for the current year. The committee reviews the performance of the internal and external auditors and makes a recommendation to the Board of Directors and the membership at the Annual General Meeting on the appointment of the external auditor for the ensuing year.

MNP (External Audit) and SaskCentral (Internal Audit) have all acknowledged that Radius Credit Union meets or exceeds the audit results for credit unions of similar size.

The audit committee was pleased with the reporting provided by MNP for the 2018 year. The committee would recommend to the membership that we appoint MNP as our auditors for the 2019 fiscal year.

Blair Kotz, Chairman
Audit Committee

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

ANNUAL REPORT MESSAGE 2018

January 2019

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral) (together, Provincially Regulated Financial Institutions or "PRFIs").

The Corporation is charged through provincial legislation, *The Credit Union Act, 1998,* with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

For more information about deposit protection, the Corporation's regulatory responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, talk to a representative at the credit union or visit the Corporation's web site at www.cudgc.sk.ca.

Credit Union Quick Facts

(as of December 31, 2018, unless otherwise indicated)

- Today there are 40 credit unions in Saskatchewan serving 218 communities through 247 service outlets.
- Credit unions offer financial products and services to more than 481,000 members.
- Saskatchewan credit union assets reached close to $23.8 billion with revenue of over $1.07 billion.
- Credit union lending amounts were close to $19.2 billion.
- Over 380 board members are locally elected by members of each credit union to provide strategic direction to their management teams.
- As independent financial institutions owned and controlled by their members, credit unions are shaped by community needs. Saskatchewan credit unions range in asset size from $19 million to more than $6 billion.
- In 2018, Saskatchewan credit unions returned over $10.3 million to their members in the form of patronage equity contribution and dividends.
- Credit unions are a major contributor to Saskatchewan's economy, employing over 3,300 people.
- In 2017, Saskatchewan credit unions contributed more than $8.95 million to growing communities. Our fundraising efforts brought in more than $182,000 for causes like the Jim Pattison Children's Hospital Foundation of Saskatchewan, Red Cross Disaster Relief and Telemiracle. Our employees logged more than 86,000 hours of volunteer time for community organizations during paid work hours and non-paid time. In-kind donations were nearly $574,000. We awarded 311 scholarships/bursaries worth $231,950.
  (2018 numbers are not yet available.)

Funds held on deposit in Saskatchewan credit unions are fully guaranteed through the Credit Union Deposit Guarantee Corporation. The full guarantee is made possible through a comprehensive deposit protection regime that is focused on prevention. Read more about the **guarantee**.

Radius Credit Union Limited
Financial Statements
December 31, 2018

Contents

For the year ended December 31, 2018

Management's Responsibility

To the Members of Radius Credit Union Limited:

Management is responsible for the preparation and fair presentation of the accompanying 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 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 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 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 27, 2019

General Manager

Independent Auditor's Report

To the Members of Radius Credit Union Limited:

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2018, and its financial performance and its 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 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 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Regina, Saskatchewan

MNP LLP

March 27, 2019

Chartered Professional Accountants

MNP

Radius Credit Union Limited
Statement of Financial Position
As at December 31, 2018

	2018	*2017*
Assets		
Cash and cash equivalents *(Note 5)*	**21,401,848**	37,771,286
Investments *(Note 6)*	**98,686,975**	102,193,979
Member loans receivable *(Note 7)*	**229,799,311**	201,089,989
Other assets *(Note 8)*	**548,341**	391,232
Property and equipment *(Note 9)*	**1,172,770**	1,249,646
	351,609,245	342,696,132
Liabilities		
Member deposits *(Note 11)*	**324,561,460**	317,864,881
Current tax payable	**134,848**	40,782
Other liabilities *(Note 12)*	**415,665**	324,093
Membership shares and equity accounts *(Note 14)*	**2,396,170**	2,219,157
	327,508,143	320,448,913
Commitments *(Note 21)*		
Members' equity		
Retained earnings	**20,117,560**	18,263,677
Contributed surplus	**3,983,542**	3,983,542
	24,101,102	22,247,219
	351,609,245	342,696,132

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Radius Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2018

	2018	*2017*
Interest income		
Member loans	**8,947,237**	7,625,830
Investments	**2,730,084**	2,490,393
	11,677,321	10,116,223
Interest expense		
Member deposits	**3,933,916**	3,319,138
Borrowed money	**5,110**	7,764
	3,939,026	3,326,902
Gross financial margin	**7,738,295**	6,789,321
Other income	**1,314,880**	1,212,904
	9,053,175	8,002,225
Operating expenses		
Administration	**1,423,910**	1,605,228
Member security	**289,583**	273,495
Occupancy	**237,748**	222,229
Organizational	**114,385**	137,376
Personnel	**3,387,230**	3,298,319
	5,452,856	5,536,647
Income before provision for impaired loans, patronage refund, and provision for (recovery of) income taxes	**3,600,319**	2,465,578
Provision for impaired loans *(Note 7)*	**857,534**	493,123
Patronage refund *(Note 15)*	**395,000**	59,400
Income before provision for (recovery of) income taxes	**2,347,785**	1,913,055
Provision for (recovery of) income taxes *(Note 13)*		
Current	**513,088**	376,542
Deferred	**(19,186)**	(23,827)
	493,902	352,715
Comprehensive income	**1,853,883**	1,560,340

The accompanying notes are an integral part of these financial statements

	Contributed surplus	*Retained earnings*	*Total equity*
Balance December 31, 2016	**3,983,542**	**16,703,337**	**20,686,879**
Comprehensive income	**-**	**1,560,340**	**1,560,340**
Balance December 31, 2017	**3,983,542**	**18,263,677**	**22,247,219**
Comprehensive income	**-**	**1,853,883**	**1,853,883**
Balance December 31, 2018	**3,983,542**	**20,117,560**	**24,101,102**

The accompanying notes are an integral part of these financial statements

Radius Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2018

	2018	*2017*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**8,919,718**	7,429,829
Interest and dividends received from investments	**2,765,448**	2,542,513
Other income received	**1,314,880**	1,212,904
Payments to suppliers and employees	**(5,314,652)**	(5,859,358)
Interest paid on deposits	**(3,475,173)**	(3,276,215)
Interest paid on borrowed money	**(5,110)**	(7,764)
Income taxes paid	**(419,022)**	(325,728)
	3,786,089	1,716,181
Financing activities		
Net change in member deposits	**6,237,835**	19,390,607
Net change in membership shares and equity	**177,013**	610
Patronage paid out	**(395,000)**	(71,309)
	6,019,848	19,319,908
Investing activities		
Net change in member loans receivable	**(29,539,337)**	(10,962,122)
Purchases of property and equipment *(Note 9)*	**(107,678)**	(60,619)
Net change in investments	**3,471,640**	(4,039,073)
	(26,175,375)	(15,061,814)
(Decrease) increase in cash and cash equivalents	**(16,369,438)**	5,974,275
Cash and cash equivalents, beginning of year	**37,771,286**	31,797,011
Cash and cash equivalents, end of year	**21,401,848**	37,771,286

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Radius Credit Union Limited (the "Credit Union") was formed pursuant to the *Credit Union Act, 1998* of Saskatchewan ("the Act") and operates seven Credit Union branches.

The Credit Union serves members and non-members in Ogema, Radville, Ceylon, Avonlea, Pangman, Torquay, and Tribune, Saskatchewan and their surrounding communities. The address of the Credit Union's registered office is 313 Main Street, Ogema, Saskatchewan.

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

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

Statement of compliance

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

The financial statements were approved by the Board of Directors and authorized for issue on March 27, 2019.

2. Change in accounting policies

The Credit Union adopted the following new and/or revised standards, effective January 1, 2018. As indicated, adoption of the following new and/or revised standards, had a material impact on the Credit Union's financial statements.

IFRS 9 Financial instruments

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Credit Union adopted IFRS 9 *Financial instruments* as issued in July 2014. The requirements of IFRS 9 are substantially different from those of IAS 39 *Financial instruments: recognition and measurement*. The new standard fundamentally alters the classification and measurement of financial assets subsequent to initial recognition, including impairment and incorporates a new hedge accounting model.

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

Classification of financial assets and financial liabilities

IFRS 9 requires financial assets be classified into one of three subsequent measurement categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss. Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. IFRS 9 eliminates the following IAS 39 classification categories: available-for-sale, held-to-maturity, and loans and receivables.

Derivatives embedded within host contracts that are financial assets in the scope of IFRS 9 are no longer separated from the host contract. Instead, the whole hybrid contract is assessed for classification in accordance with the above requirements.

The classification and measurement of financial liabilities is largely retained from IAS 39.

2. Change in accounting policies *(Continued from previous page)*

Impairment of financial assets

IFRS 9 replaces the methodology under IAS 39 and IAS 37 *Provisions, contingent liabilities and contingent assets* of recognizing impairment losses when incurred with a forward-looking expected credit loss model which requires a more timely recognition of losses expected to occur over the contractual life of the financial asset. IFRS 9 uses a single model for recognizing impairment losses on financial assets. This model also applies to certain loan commitments, financial guarantee contracts, trade receivables and contract assets. Application of the IFRS 9 model results in earlier recognition of impairment losses than under IAS 39. Equity investments are no longer assessed for impairment as all equity investments are measured at fair value.

Transition

In accordance with the transitional provisions provided in IFRS 9, the Credit Union has applied the changes in accounting policies resulting from the adoption of IFRS 9 retrospectively but has elected not to restate comparative figures. All comparative information presented and disclosed for the prior year reflects the requirements of IAS 39. The comparative information related to the carrying amounts of loans commitments and financial guarantee contracts reflects the requirements of IAS 37 *Provisions, contingent liabilities and contingent assets*. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized directly in retained earnings and reserves as at January 1, 2018. Additional transitional provisions applied are described below.

Classification and measurement

For the purposes of determining the classification of financial assets, the business model test has been applied on the basis of facts and circumstances existing at the date of initial application with the resulting classification applied retrospectively.

In assessing the contractual cash flow characteristics, it was impracticable to assess the modified time value of money element of certain financial assets on the basis of facts and circumstances existing at initial recognition of the assets. Accordingly, the contractual cash flows of those financial assets were assessed at the date of initial application without taking into account the requirements of IFRS 9.

Impairment

The credit risk at the date that a financial asset was initially recognized or, for loan commitments and financial guarantee contracts, the date that the entity became a party to the irrevocable commitment, has been determined on the basis of reasonable and supportable information available without undue cost or effort. This has been compared to the credit risk at the date of initial application for the purpose of determining whether there has been a significant increase in credit risk.

For the purposes of this assessment, the Credit Union has assumed that for low credit risk financial assets, credit risk has not increased significantly since initial recognition.

Notwithstanding the above, the Credit Union has applied the rebuttable presumption that there has been a significant increase in credit risk if contractual payments on a financial asset are more than 30 days past due.

For certain financial assets, the Credit Union was unable to determine whether there has been a significant increase in the credit risk since initial recognition without undue cost or effort. As a result, the loss allowance for these financial assets will be recognized at an amount equal to lifetime expected credit losses at each reporting date until those assets are derecognized unless the credit risk is considered low at a future reporting date.

2. Change in accounting policies *(Continued from previous page)*

Initial application of IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following tables present the measurement categories and carrying amounts under IAS 39 as at December 31, 2017 and the new measurement categories and carrying amounts under IFRS 9 for the Credit Union's financial assets and financial liabilities as at January 1, 2018.

In thousands	Sub-note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets					
Cash		FVTPL (designated)	FVTPL (mandatory)	**24,771**	**24,771**
Cash equivalents	1	FVTPL (designated)	Amortized cost	**13,000**	**13,000**
Portfolio bonds	1	FVTPL (designated)	Amortized cost	**31,628**	**31,628**
SaskCentral liquidity and Concentra Bank term deposits		Held-to-maturity	Amortized cost	**65,505**	**65,505**
Concentra Bank shares	2	Available-for-sale	FVTPL (mandatory)	**1,515**	**1,515**
SaskCentral shares	2	Available-for-sale	FVTPL (mandatory)	**3,253**	**3,253**
Other equity investments	2	Available-for-sale	FVTPL (mandatory)	**293**	**293**
Member loans receivable		Loans and receivables	Amortized cost	**201,090**	**201,090**
Accounts receivable		Loans and receivables	Amortized cost	**182**	**182**
Total financial assets				**341,237**	**341,237**
Financial liabilities					
Member deposits		Amortized cost	Amortized cost	**317,865**	**317,865**
Accounts payable		Amortized cost	Amortized cost	**324**	**324**
Membership shares and equity accounts		Amortized cost	Amortized cost	**2,219**	**2,219**
Total financial liabilities				**320,408**	**320,408**

2. Change in accounting policies *(Continued from previous page)*

Application of the accounting policies adopted on the date of initial application of IFRS 9 resulted in the reclassifications as set out in the table above and explained below:

1 – As a result of the adoption of IFRS 9, cash equivalents and portfolio bonds were reclassified out of the fair value through profit or loss category and into amortized cost category. This reclassification occurred because the cash equivalents and portfolio bonds consist solely of payments of of principal and interest and the Credit Union has determined that they are held within a business model for which the objective is to hold assets for contractual cash flows. However, since fair values under IAS 39 approximate the amortized cost, no remeasurement is required.

2 – SaskCentral shares, Concentra Bank shares, and other equity investments were reclassified out of the available-for-sale category and into fair value through profit and loss. These investments were reclassified because they were held for trading and the Credit Union has not elected to designate these investments as fair value through other comprehensive income.

The following table reconciles carrying amounts previously reported under IAS 39 on December 31, 2017 to the carrying amounts under IFRS 9 on January 1, 2018.

In thousands	IAS 39	Reclassification	Remeasurement	IFRS 9
Financial assets				
Amortized cost				
Cash equivalents				
Opening balance	-			
From FVTPL		13,000		
Closing balance				13,000
SaskCentral and Concentra Bank deposits				
Opening balance	65,505			
Closing balance				65,505
Portfolio bonds				
Opening balance	-			
From fair value through profit or loss		31,628		
Closing balance				31,628
Member loans receivable				
Opening balance	201,090			
Closing balance				201,090
Accounts receivable				
Opening balance	182			
Closing balance				182
Total amortized cost	266,777	44,628	-	311,405

2. Change in accounting policies *(Continued from previous page)*

FVTPL				
Cash and cash equivalents				
Opening balance	**37,771**			
To amortized cost		**(13,000)**		
Closing balance				**24,771**
Concentra Bank shares				
Opening balance	**-**			
From available-for-sale		**1,515**		
Closing balance				**1,515**
SaskCentral shares				
Opening balance	**-**			
From available-for-sale		**3,253**		
Closing balance				**3,253**
Other equity investments				
Opening balance	**-**			
From available-for-sale		**293**		
Closing balance				**293**
Total FVTPL	**37,771**	**(7,939)**	**-**	**29,832**
Total financial assets	**304,548**	**36,689**	**-**	**341,237**
Financial liabilities				
Amortized cost				
Member deposits				
Opening balance	**317,865**			
Closing balance				**317,865**
Accounts payable				
Opening balance	**324**			
Closing balance				**324**
Membership shares and equity accounts				
Opening balance	**2,219**			
Closing balance				**2,219**
Total liabilities	**320,408**	**-**	**-**	**320,408**

2. Change in accounting policies *(Continued from previous page)*

IFRS 15 Revenue from contracts with customers

Effective January 1, 2018 (hereafter referred to as the “initial date of application”), the Credit Union adopted IFRS 15 *Revenue from contracts with customers* as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and SIC 31 *Revenue – barter transactions involving advertising services*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 15 using modified retrospective application method. The impact of the net changes was deemed to be insignificant. Hence, no adjustment was made to the opening balance of retained earnings at January 1, 2018. The comparative information contained within these financial statements has not been restated and continues to be reported under previous revenue standards.

The application of the standard has resulted in a change in the Credit Union’s accounting policy for revenue recognition. See Note 4 for details of the Credit Union's revenue recognition policies.

Initial application of IFRS 15

There was no material impact on the financial statements from the retrospective application of IFRS 15.

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

These 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 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.

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.

Allowance for impaired loans - applicable before January 1, 2018 (IAS 39)

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgments about the borrower’s financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Member loans receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on member loans receivable is disclosed in more detail in Note 7.

Key assumptions in determining the allowance for impaired loans collective provision - applicable before January 1, 2018 (IAS 39)

The Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For purposes of the collective provision loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

Classification of financial assets – applicable from January 1, 2018 (IFRS 9)

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 customers 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 – applicable from January 1, 2018 (IFRS 9)

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, interest rates and other economic circumstances
- 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.

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

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

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.

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 financial statements from changes in such estimates in future years could be material. Further details are in Note 13.

Type of joint arrangement

The Credit Union determined that Credit Union Electronic Account Management Services Association ("CEAMS") is a joint venture because the venturers have rights to the net assets of the arrangement if the venture were liquidated. Effective December 31, 2017, the CEAMS joint venture has been dissolved.

Useful lives of property and equipment

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

Financial instruments not traded in active markets - applicable before January 1, 2018 (IAS 39)

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

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

Fair value of unquoted equity instruments - applicable from January 1, 2018 (IFRS 9)

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

Impairment of available-for-sale financial assets - applicable before January 1, 2018 (IAS 39)

Management determines when an available-for-sale financial asset is impaired in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. This determination requires significant judgment. Management evaluates the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

When the fair value declines, management makes assumptions about the decline in value to determine if it is an impairment to be recognized in net income.

At December 31, 2017, no impairment losses have been recognized for available-for-sale assets. The carrying amount of available-for-sale assets at December 31, 2017 was $5,060,595.

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.

4. Summary of significant accounting policies

The principle accounting policies adopted in the preparation of the 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 financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these 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.

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 net 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 net income.

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

Revenue recognition - policy applicable before January 1, 2018 (comparative year)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income is recognized in net income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Interest penalties received as a result of loan prepayments by members are recognized as income in the year in which the prepayment is made, unless only minor modifications (based on a present value of future cash flows test) were made to the loan in which case they are deferred and amortized using the effective interest method.

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are recognized using the effective interest method over the estimated repayment term of the related loan.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Investment security gains and losses are recognized in accordance with the requirements of their classification as outlined further under the *Financial Instruments* policy note.

Loan syndication fees are recognized on completion of the syndication arrangement. Incremental direct costs for originating or acquiring a loan are netted against origination fees.

Commission revenue is recognized net of broker commission expense as earned on the effective date of each policy.

Other revenue is recognized as services are provided to members.

Revenue recognition - Policy applicable from January 1, 2018 under IFRS 15 Revenue from contracts with customers

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

Service charge fees, commissions, 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.

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

Financial instruments - policy applicable before January 1, 2018 (IAS 39)

Classification and measurement

All financial instruments are initially recognized at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below. Transactions to purchase or sell these items are recorded on the settlement date. During the year, there has been no reclassification of financial instruments.

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Credit Union's financial instruments classified as fair value through profit or loss include cash, cash equivalents, and portfolio bonds.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. The Credit Union's shares in SaskCentral, Concentra Bank, and other equity investments have been classified as available-for-sale.

Financial assets classified as held-to-maturity are subsequently measured at amortized cost using the effective interest rate method. The Credit Union's financial instruments classified as held-to-maturity include specific SaskCentral and Concentra Bank deposits.

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all member loans receivable and accrued interest thereon, and accounts receivable balances.

Financial instruments classified as other financial liabilities include all member deposits and accrued interest thereon, borrowings, accounts payable, membership shares and equity accounts. Other financial liabilities are subsequently carried at amortized cost.

Derecognition of financial assets

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through" arrangement; and either:
    - The Credit Union has transferred substantially all the risks and rewards of the asset, or
    - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union’s continuing involvement in the asset. In that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income.

The Credit Union designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments in this category are the embedded derivatives.

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

Derivative financial instruments

Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in comprehensive income.

Financial instruments – Policy applicable from January 1, 2018 (IFRS 9)

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.

The Credit Union recognizes and derecognizes purchases and sales of financial assets on the trade date, which is the date that the Credit Union commits to selling or purchasing the financial asset. Interest is not accrued on the asset and corresponding liability until the settlement date when title of the financial asset passes.

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 and Concentra Bank deposits, portfolio bonds, 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 assets mandatorily measured at fair value through profit or loss include cash.

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

- 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, Concentra Bank shares, and other equity investments.

Refer to Note 18 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

Business model assessment

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

Contractual cash flow assessment

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

Reclassifications

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

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. 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.

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

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 and breaches of borrowing contracts such as default events or breaches of borrowing covenants, requests to restructure loan payment schedules, etc. 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 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 18 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

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

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

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

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

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.

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

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 transactions resulting in transfers qualifying for derecognition.

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.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Dividend income

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

Interest

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

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

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

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

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

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

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 changes in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Credit Union’s cash management system.

Investments

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

Policy applicable from January 1, 2018

SaskCentral and Concentra Bank deposits and shares

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

Portfolio investments

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

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

Policy applicable before January 1, 2018 (IAS 39)

SaskCentral and Concentra Bank deposits and shares

SaskCentral and Concentra Bank deposits are accounted for as held-to-maturity, adjusted to recognize other than a temporary impairment in the underlying value, or as available-for-sale, based on management's intent. Shares are accounted for as available-for-sale at cost, as no market exists for these investments.

Portfolio Investments

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

Investments in equity instruments that do not have a quoted market price in an active market are classified as available-for-sale and measured at cost.

Member loans receivable - Policy applicable before January 1, 2018 (IAS 39)

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Allowance for loan impairment - Policy applicable before January 1, 2018 (IAS 39)

Allowance for loan impairment represents specific and collective provisions established as a result of reviews of individual loans and groups of loans. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Credit Union makes judgments about the credit worthiness of the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Member loans receivable that have been assessed individually and found not to be impaired are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision takes account of data from the loan portfolio and based on analysis of historical data, such as credit quality, levels of arrears, historical performance and economic outlook.

Individual allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan. Collective allowances are established by reviewing specific arrears and current economic conditions.

Restructured loans are not considered impaired where reasonable assurance exists that the borrower will meet the terms of the modified debt agreement. Restructured loans are defined as loans greater than 90 days delinquent that have been restructured outside the Credit Union's normal lending practices as it relates to extensions, amendments and consolidations.

Loans are classified as impaired, and a provision for loss is established, when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. It is the Credit Union's policy that whenever a payment is 90 days past due, loans are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of the debt.

In such cases, a specific provision is established to write down the loan to the estimated future net cash flows from the loan discounted at the loans' original effective interest rate. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its fair value calculated based on an observable market price. Any previously accrued but unpaid interest on the loan is charged to the allowance for loan impairment. Interest income after the impairment is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Impairment of financial assets - Policy applicable before January 1, 2018 (IAS 39)

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in net income.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible 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 net 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 net 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 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.

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

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 costs to sell. Foreclosed assets are recorded in member loans receivable.

Property and equipment

Property 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 and equipment have different useful lives, they are accounted for as separate items of property and equipment.

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

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

	Rate
Buildings	4 - 10 %
Computer software	25 - 33 %
Furniture and equipment	10 - 33 %

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

Income taxes

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

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

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

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

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

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

Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified as a finance lease. At the inception of a finance lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair market value at inception of the lease. Assets under finance leases are amortized on a straight-line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

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 $174,231 (2017 – $171,546) were paid to the defined contribution retirement plan during the year.

Membership shares and equity accounts

Membership shares and equity accounts 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, 2018 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 9 Financial instruments (Amendments)

In October 2017, the International Accounting Standards Board ("IASB") issued amendments to IFRS 9 *Financial instruments*, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board ("AcSB") in November 2017, to address the classification of certain prepayable financial assets.

The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held as well as consideration of whether certain eligibility conditions are met.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Credit Union has not yet determined the impact of these amendments on its financial statements.

IFRS 16 Leases

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating leases - incentives* and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union does not expect this standard to have a material impact on its financial statements.

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

IFRIC 23 Uncertainty over income tax treatments

In June 2017, the International Accounting Standards Board ("IASB") issued a new International Financial Reporting Interpretations Committee ("IFRIC") interpretation, to specify how to reflect the effects of uncertainty in accounting for income taxes. The interpretation aims to reduce the diversity in how entities recognise and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The new interpretation is effective for annual periods beginning on or after January 1, 2019. The Credit Union has not yet determined the impact of this standard on its financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to IAS 28 *Investments in associates and joint ventures*, incorporated into Part I of the CPA Canada Handbook – Accounting by the AcSB in November 2017, to clarify the accounting for long term interests in associates or joint ventures.

The amendments clarify that IFRS 9 *Financial Instruments*, including its impairment requirements, apply to long-term interests in an associate or joint venture to which the equity method is not applied. The amendments are effective for annual periods beginning on or after January 1, 2019. The Credit Union has not yet determined the impact of this standard on its financial statements.

5. Cash and cash equivalents

	2018	*2017*
Cash	**5,901,848**	24,771,286
Cash equivalents	**15,500,000**	13,000,000
	21,401,848	37,771,286

6. Investments

	2018	2017
Measured at amortized cost (2017 - Held-to-maturity)		
SaskCentral liquidity and Concentra Bank term deposits	**69,162,219**	65,179,769
Accrued interest	**316,652**	325,546
	69,478,871	65,505,315
Measured at fair value through profit or loss (2017 - Available-for-sale)		
Concentra Bank shares	**1,500,000**	1,500,000
SaskCentral shares	**3,252,791**	3,252,792
Other equity investments	**74,978**	293,248
	4,827,769	5,046,040
Accrued interest	**11,531**	14,556
	4,839,300	5,060,596
Measured at amortized cost (2017 - fair value through profit or loss)		
Portfolio bonds	**24,167,189**	31,403,009
Accrued interest	**201,615**	225,059
	24,368,804	31,628,068
Total	**98,686,975**	102,193,979

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

	2018	2017
Investment portfolio rating		
AA-	**24,368,803**	31,628,068
A	**1,500,000**	1,500,000
R1	**3,252,791**	3,252,792
Unrated	**74,978**	293,248
	29,196,572	36,674,108

SaskCentral shares are included in the R1 category above and Concentra Bank shares are included in the A 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, 2018 the Credit Union met the requirement.

6. Investments *(Continued from previous page)*

Liquidity Coverage Ratio (LCR)

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 rises 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, 2018, the Credit Union is in compliance with regulatory requirements.

7. Member loans receivable

Principal and allowance by loan type:

					2018
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance for expected credit losses**	**Net carrying value**
Government guaranteed	40,182,331	-	-	-	**40,182,331**
Conventional mortgages	125,576,675	-	-	-	**125,576,675**
Personal loans	13,452,181	-	-	(40,000)	**13,412,181**
Non-personal loans	36,850,766	-	-	(569,294)	**36,281,472**
Leases	11,398,133	-	-	-	**11,398,133**
	227,460,086	-	-	(609,294)	**226,850,792**
Foreclosed assets	1,949,153	-	-	-	**1,949,153**
Accrued interest	999,366	-	-	-	**999,366**
Total	230,408,605	-	-	(609,294)	**229,799,311**

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

	Principal performing	Principal impaired	Allowance specific	Allowance collective	*2017* Net carrying value
Government guaranteed	47,369,567	-	-	-	47,369,567
Conventional mortgages	101,322,902	-	-	-	101,322,902
Personal loans	12,069,179	33,113	(33,113)	(40,000)	12,029,179
Non-personal loans	32,473,684	-	-	(569,294)	31,904,390
Leases	7,273,585	-	-	-	7,273,585
	200,508,917	33,113	(33,113)	(609,294)	199,899,623
Foreclosed assets	218,519	-	-	-	218,519
Accrued interest	970,622	1,225	-	-	971,847
Total	201,698,058	34,338	(33,113)	(609,294)	201,089,989

The allowance for loan impairment changed as follows:

	2018	*2017*
Balance, beginning of year	**642,407**	617,294
Provision for loans impaired	**857,534**	493,123
	1,499,941	1,110,417
Accounts written off, net of recoveries	**890,647**	468,010
Balance, end of year	**609,294**	642,407

8. Other assets

	2018	*2017*
Accounts receivable	**310,706**	181,679
Prepaid expenses and deposits	**205,970**	197,074
Deferred tax asset	**31,665**	12,479
	548,341	391,232

9. Property and equipment

	Land	*Buildings*	*Computer software*	*Furniture and equipment*	*Total*
Cost					
Balance at December 31, 2016	**39,487**	**2,373,286**	**1,003,739**	**1,043,714**	**4,460,226**
Additions	**-**	**38,205**	**1,712**	**20,702**	**60,619**
Balance at December 31, 2017	**39,487**	**2,411,491**	**1,005,451**	**1,064,416**	**4,520,845**
Additions	**-**	**-**	**38,118**	**69,560**	**107,678**
Disposals	**-**	**-**	**-**	**(1,130)**	**(1,130)**
Balance at December 31, 2018	**39,487**	**2,411,491**	**1,043,569**	**1,132,846**	**4,627,393**
Accumulated depreciation					
Balance at December 31, 2016	**-**	**1,538,547**	**739,238**	**794,630**	**3,072,415**
Depreciation	**-**	**58,732**	**66,827**	**73,225**	**198,784**
Balance at December 31, 2017	**-**	**1,597,279**	**806,065**	**867,855**	**3,271,199**
Depreciation	**-**	**56,515**	**64,521**	**62,388**	**183,424**
Balance at December 31, 2018	**-**	**1,653,794**	**870,586**	**930,243**	**3,454,623**
Net book value					
At December 31, 2017	39,487	814,212	199,386	196,561	1,249,646
At December 31, 2018	**39,487**	**757,697**	**172,983**	**202,603**	**1,172,770**

10. Line of credit

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at SaskCentral's prime minus 0.5% (2017 - prime minus 0.5%) in the amount of $6,800,000 (2017 - $4,000,000) from SaskCentral. At December 31, 2018, the Credit Union has utilized $151,518 (2017 - $nil) of its line of credit and has included this balance in cash and cash equivalents.

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

11. Member deposits

	2018	2017
Chequing, Savings, Plan 24	**168,514,452**	181,638,507
Term deposits	**129,336,129**	111,239,033
Registered savings plans	**24,785,229**	23,520,435
Accrued interest	**1,925,650**	1,466,906
	324,561,460	317,864,881

Member deposits are subject to the following terms:

- Chequing, savings and plan 24 products are due on demand and bear interest at rates up to 1.15% (2017 - 1.00%).
- Registered savings plans are subject to fixed and variable rates of interest up to 3.15% (2017 - 3.00%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 3.15% (2017 - 3.00%), with interest payments due monthly, annually or on maturity.

12. Other liabilities

	2018	2017
Accounts payable	**415,665**	324,093

13. Income tax

Income tax expense recognized in net income

The applicable tax rate is the aggregate of the federal income tax rate 15% (2017 - 15%), and the provincial tax rate of 7% (2017 - 4.44%).

Deferred income tax recovery recognized in net income

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

	2018	2017
Deferred tax asset		
Property and equipment	**15,214**	(4,867)
Allowance for impaired loans	**16,451**	17,346
Net deferred tax asset	**31,665**	12,479
Net deferred tax asset is reflected in the statement of financial position as follows:		
Deferred tax asset	**31,665**	12,479

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

Reconciliation between average effective tax rate and the applicable tax rate

	2018	2017
Applicable tax rate	**27.00 %**	26.75 %
Reduction for Credit Unions	**(5.00)%**	(7.31)%
Non-deductible and other items	**(0.96)%**	(1.00)%
Average effective tax rate (tax expense divided by profit before tax)	**21.04 %**	18.44 %

In March 2017, the provincial government announced a decrease in the provincial tax rate to 11% in half-point increments effective July 1, 2017 and July 1, 2019. This proposal was subsequently reversed with the tax rate reverting to the previous 12% rate effective January 1, 2018. The resulting general corporate income tax rate is 12.00% (2017 - 11.75%).

The provincial government also announced a phase-out of the credit union tax reduction over a four year period commencing in 2017. Provincially the result is 50% of the Credit Union's taxable income will be taxed at a rate of 12.00% with the remaining income that is eligible for the deduction continuing to be taxed at a rate of 2% for 2018. By 2020, 100% of the Credit Union's taxable income will be taxed at a rate of 12%.

14. Membership shares and equity accounts

Authorized:

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

Issued:

	2018	2017
4,099 Common shares (2017 - 4,117)	**20,495**	20,585
2,375,675 Equity shares (2017 - 2,198,572)	**2,375,675**	2,198,572
Total	**2,396,170**	2,219,157

All common shares and equity accounts are classified as liabilities.

When an individual becomes a member of the Credit Union, they are issued a common share at $5 per share. Equity accounts are established as a means of returning excess earnings to the members while maintaining the Credit Union's equity base. Each member of the Credit Union has one vote, regardless of the number of common shares held.

During the year, the Credit Union issued 228 (2017 - 312) and redeemed 246 (2017 - 190) shares, and also issued 292,296 (2017 - 261,537) and redeemed 115,193 (2017 - 273,446) equity shares.

15. Patronage

The Board of Directors authorized a patronage refund of $395,000 (2017 - $59,400) as at December 31, 2018. The patronage refund approved by the Board of Directors was based on the amount of loan interest paid and deposit interest earned by each member during the fiscal year (excluding credit cards and unauthorized overdrafts).

The patronage refund has been reflected in the statement of financial position as deposits with related tax savings of approximately $86,900 (2017 - $11,583) being reflected in the provision for income taxes.

16. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") of the Credit Union are the CEO, CFO/CRO, Manager of Governance and Communications, Manager of Retail Services, and members of the Board of Directors.

KMP remuneration includes the following expenses:

	2018	*2017*
Salaries and short-term benefits	**745,373**	658,249
Other long-term benefits	**42,941**	39,295
Total remuneration	**788,314**	697,544

Transactions with key management personnel

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

Loans made to KMP are approved under the same lending criteria applicable to members and are included in member loans on the 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 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.

	2018	*2017*
Aggregate loans to KMP	**7,189,848**	6,768,591
The total value of revolving credit facilities to KMP	**1,306,500**	1,071,500
Less: Approved and undrawn lines of credit	**(371,070)**	(235,420)
Less: membership shares and equity accounts	**(53,386)**	(53,817)
	8,071,892	7,550,854

	2018	*2017*
During the year the aggregate value of loans approved to KMP amounted to:		
Line of credit	**-**	10,000
Mortgages	**825,625**	612,000
Loans	**481,649**	543,748
	1,307,274	1,165,748

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

	2018	*2017*
Income and expense transactions with KMP consisted of:		
Interest and other revenue earned on loans and revolving credit facilities to KMP	**208,540**	204,223
Total interest paid on deposits to KMP	**41,754**	37,074

	2018	*2017*
The total value of member deposits from KMP as at the year-end:		
Chequing, Savings, Plan 24	**4,341,309**	3,383,741
Term deposits	**1,698,240**	1,171,145
Registered plans	**453,021**	378,936
Total value of member deposits due to KMP	**6,492,570**	4,933,822

Directors' fees and expenses

	2018	*2017*
Honoraria and per diems	**25,878**	24,010
Reimbursement of expenses	**2,889**	3,064
Meeting, training and conference costs	**19,000**	31,990

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 earned on investments during the year ended December 31, 2018 amounted to $2,162,916 (2017 - $1,656,005).

Interest paid on borrowings during the year ended December 31, 2018 amounted to $5,110 (2017 - $7,764).

Payments made for affiliation dues, liquidity assessments, research and development assessment, cheque clearing and data processing for the year ended December 31, 2018 amounted to $641,611 (2017 - $667,854).

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.

17. 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.

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

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

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

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

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

The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2018:

	Regulatory standards	***Board standards (Minimum of target range)***
Total eligible capital to risk-weighted assets	**10.50 %**	**12.00 %**
Tier 1 capital to risk-weighted assets	**8.50 %**	**12.00 %**
Common equity tier 1 capital to risk-weighted assets	**7.00 %**	**12.00 %**
Leverage ratio	**5.00 %**	**6.50 %**

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

The following table summarizes key capital information:

	2018	***2017***
Eligible capital		
Common equity tier 1 capital	**24,101,102**	22,247,219
Deductions from tier 1 capital	**(172,983)**	(199,386)
Total tier 1 capital	**23,928,119**	22,047,833
Total tier 2 capital	**3,005,464**	2,828,451
Total eligible capital	**26,933,583**	24,876,284
Risk-weighted assets		
Total eligible capital to risk-weighted assets	**13.78 %**	14.82 %
Total tier 1 capital to risk-weighted assets	**12.24 %**	13.13 %
Common equity tier 1 capital to risk-weighted assets	**12.24 %**	13.13 %
Leverage ratio	**7.59 %**	7.11 %

18. 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.

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
- 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, access and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans

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

- 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 fairl 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
- 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.

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

	2018	*2017*
Unadvanced lines of credit	**32,332,370**	33,760,345
Guarantees and standby letters of credit	**120,000**	386,000
Commitments to extend credit	**3,482,705**	6,936,749
	35,935,075	41,083,094

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 loans and advances 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.

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

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. When a financial instrument is considered to have low credit risk, it is assumed that there has not been a significant increase in credit risk since initial recognition.

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

Measurement of expected credit losses

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

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

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 they have exhausted all attempts to obtain some of the loan back, including realizing on the security, if any, and disposing of related security. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value. The contractual amount outstanding on financial assets which were written off during the year and continue to be subject to enforcement activity is $890,647 (2017 – $468,000).

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments* (2018) and IAS 39 *Financial instruments: recognition and measurement* (2017). 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.

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

in thousands	*12-month ECL*	*2018 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial loans				
Low risk	**24,486**	**-**	**-**	**24,486**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**24,486**	**-**	**-**	**24,486**
Less: loss allowance	**40**	**-**	**-**	**40**
Total carrying amount	**24,446**	**-**	**-**	**24,446**
Consumer loans				
Low risk	**13,409**	**-**	**-**	**13,409**
Medium risk	**-**	**15**	**-**	**15**
Default	**-**	**-**	**2**	**2**
Total gross carrying amount	**13,409**	**15**	**2**	**13,426**
Less: loss allowance	**569**	**-**	**-**	**569**
Total carrying amount	**12,840**	**15**	**2**	**12,857**
Residential mortgages				
Low risk	**50,084**	**-**	**-**	**50,084**
Medium risk	**-**	**341**	**-**	**341**
Default	**-**	**-**	**243**	**243**
Total gross carrying amount	**50,084**	**341**	**243**	**50,668**
Less: loss allowance	**-**	**-**	**-**	**-**
Total carrying amount	**50,084**	**341**	**243**	**50,668**
Agricultural loans				
Low risk	**59,146**	**-**	**-**	**59,146**
Medium risk	**-**	**435**	**-**	**435**
Default	**-**	**-**	**51**	**51**
Total gross carrying amount	**59,146**	**435**	**51**	**59,632**
Less: loss allowance	**-**	**-**	**-**	**-**
Total carrying amount	**59,146**	**435**	**51**	**59,632**
Syndicated Loans				
Low Risk	**55,184**	**-**	**-**	**55,184**
Medium Risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**55,184**	**-**	**-**	**55,184**
Less: loss allowance	**-**	**-**	**-**	**-**
Total carrying amount	**55,184**	**-**	**-**	**55,184**

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

in thousands	*12-month ECL*	*2018 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Leases				
Low risk	**11,398**	**-**	**-**	**11,398**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**11,398**	**-**	**-**	**11,398**
Less: loss allowance	**-**	**-**	**-**	**-**
Total carrying amount	**11,398**	**-**	**-**	**11,398**
Lines of credit				
Low risk	**12,666**	**-**	**-**	**12,666**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**12,666**	**-**	**-**	**12,666**
Less: loss allowance	**-**	**-**	**-**	**-**
Total carrying amount	**12,666**	**-**	**-**	**12,666**
TOTAL				
Low risk	**226,373**	**-**	**-**	**226,373**
Medium risk	**-**	**791**	**-**	**791**
Default	**-**	**-**	**296**	**296**
Total gross carrying amount	**226,373**	**791**	**296**	**227,460**
Less: loss allowance	**609**	**-**	**-**	**609**
Total carrying amount	**225,764**	**791**	**296**	**226,851**

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

	2017 *Total*
Conventional mortgages	
Total gross carrying amount	101,322,902
Less: loss allowance	-
Total carrying amount	101,322,902
Government Guaranteed	
Total gross carrying amount	47,369,567
Less: loss allowance	-
Total carrying amount	47,369,567
Non-personal loans	
Total gross carrying amount	32,473,684
Less: loss allowance	569,294
Total carrying amount	31,904,390
Personal loans	
Total gross carrying amount	12,102,292
Less: loss allowance	73,113
Total carrying amount	12,029,179
Leases	
Total gross carrying amount	7,273,585
Less: loss allowance	-
Total carrying amount	7,273,585
TOTAL	
Total gross carrying amount	200,542,030
Less: loss allowance	642,407
Total carrying amount	199,899,623

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

Concentrations of credit risk

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

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses measured under the requirements of IAS 39 *Financial instruments: recognition and measurement*.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial Loans				
Balance at December 31, 2017	**40,000**	**-**	**33,113**	**73,113**
Transfer to (from) lifetime ECL (credit impaired)	**-**	**-**	**(33,113)**	**(33,113)**
Balance at December 31, 2018	**40,000**	**-**	**-**	**40,000**
Consumer Loans				
Balance at December 31, 2017	**284,647**	**284,647**	**-**	**569,294**
Balance at December 31, 2018	**284,647**	**284,647**	**-**	**569,294**
TOTAL				
Balance at December 31, 2017	**324,647**	**284,647**	**33,113**	**642,407**
Transfer to (from) lifetime ECL (credit impaired)	**-**	**-**	**(33,113)**	**(33,113)**
Balance at December 31, 2018	**324,647**	**284,647**	**-**	**609,294**

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

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

Market risk

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

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

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

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.

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 net 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 decrease net interest income by $202,000 (2017 - $223,000) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $202,000 (2017 - $223,000) 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 characteristic; 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 statement of financial position, such as non-interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive in the table below.

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

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

Interest rate sensitivity

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

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

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	2018 Total	2017 Total
Assets							
Cash and cash equivalents	8,315	8,000	-	-	5,086	**21,401**	37,771
Average yield %	*1.40*	*1.90*	-	-	-	*0.71*	*0.38*
Accounts receivable	-	-	-	-	311	**311**	182
Investments	4,965	12,519	19,000	58,578	3,625	**98,687**	102,194
Average yield %	*2.15*	*2.48*	*2.06*	*2.26*	-	*2.62*	*1.91*
Member loans receivable	49,392	8,675	34,245	136,489	998	**229,799**	201,090
Average yield %	*5.17*	*4.39*	*3.75*	*4.07*	-	*4.26*	*4.04*
Interest rate swap	10,000	-	-	-	-	**10,000**	25,000
Average yield %	*1.10*	-	-	-	-	*1.10*	*1.00*
	72,672	**29,194**	**53,245**	**195,067**	**10,020**	**360,198**	366,237
Liabilities							
Member deposits and accrued interest	107,287	20,084	39,477	104,968	52,745	**324,561**	317,865
Average yield %	*6.65*	*1.77*	*1.87*	*2.54*	-	*3.36*	*1.11*
Accounts payable	-	-	-	-	416	**416**	324
Membership shares	-	-	-	-	20	**20**	21
Member equity accounts	-	-	-	-	2,376	**2,376**	2,199
Interest rate swap	-	-	10,000	-	-	**10,000**	25,000
Average yield %	-	-	*1.10*	-	-	*1.10*	*1.00*
	107,287	**20,084**	**49,477**	**104,968**	**55,557**	**337,373**	345,409
Net sensitivity	**(34,615)**	**9,110**	**3,768**	**90,099**	**(45,537)**	**22,825**	20,828

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.

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

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

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

The primary liquidity risk policies and procedures include the following:

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

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, 2018:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	**219,593**	**23,827**	**81,141**	**324,561**
Accounts payable	**416**	**-**	**-**	**416**
Membership shares and equity	**-**	**-**	**2,396**	**2,396**
Total	**220,009**	**23,827**	**83,537**	**327,373**

As at December 31, 2017:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	227,622	25,767	64,476	317,865
Accounts payable	324	-	-	324
Membership shares and equity	-	-	2,220	2,220
Total	227,946	25,767	66,696	320,409

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

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

As at December 31, 2018:

(In thousands)

	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	**21,401**	**-**	**-**	**21,401**
Investments	**40,109**	**24,400**	**34,178**	**98,687**
Member loans receivable	**93,310**	**35,324**	**101,165**	**229,799**
Accounts receivable	**311**	**-**	**-**	**311**
Total	**155,131**	**59,724**	**135,343**	**350,198**

As at December 31, 2017:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	37,771	-	-	37,771
Investments	39,694	11,600	50,900	102,194
Member loans receivable	81,166	31,610	88,314	201,090
Accounts receivable	182	-	-	182
Total	158,813	43,210	139,214	341,237

19. Fair value measurements

The Credit Union classifies fair value measurements recognized in the 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 date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses the net present value technique. The Credit Union uses assumptions and estimates in determining actual balances, actual rates, market rates (for similar instruments) and payment frequency.

19. Fair value measurement *(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 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***	***2018 Level 3***
Financial assets				
Cash	**5,902**	**5,902**	**-**	**-**
Other equity investments	**75**	**-**	**75**	**-**
Concentra Bank shares	**1,500**	**-**	**-**	**1,500**
SaskCentral shares	**3,253**	**-**	**-**	**3,253**
Total financial assets	**10,730**	**5,902**	**75**	**4,753**

In thousands	*Fair Value*	*Level 1*	*Level 2*	*2017 Level 3*
Financial assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	37,771	37,771	-	-
Investments	31,403	31,403	-	-
Available-for-sale financial assets				
SaskCentral and Concentra Bank shares	4,753	-	-	4,753
Other equity instruments	293	-	293	-
Total financial assets	74,220	69,174	293	4,753

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

For fair value measurements of Level 3 SaskCentral and Concentra bank shares for 2018, 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.

19. Fair value measurement *(Continued from previous page)*

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 statement of financial position are as follows:

In thousands	***Carrying amount***	***Fair Value***	***Level 1***	***Level 2***	***Level 3***
					2018
Financial assets measured at amortized cost					
Cash equivalents	**15,500**	**15,500**	**-**	**15,500**	**-**
Investments	**93,859**	**94,611**	**-**	**94,611**	**-**
Member loans receivable	**229,799**	**227,195**	**-**	**227,195**	**-**
Accounts receivable	**311**	**311**	**-**	**311**	**-**
Total financial assets	**339,469**	**337,617**	**-**	**337,617**	**-**
Financial liabilities measured at amortized cost					
Member deposits	**324,561**	**328,039**	**-**	**328,039**	**-**
Accounts payable	**416**	**416**	**-**	**416**	**-**
Membership shares	**20**	**20**	**-**	**-**	**20**
Equity accounts	**2,376**	**2,376**	**-**	**-**	**2,376**
Total financial liabilities	**327,373**	**330,851**	**-**	**328,455**	**2,396**

In thousands	*Carrying amount*	*Fair Value*	*Level 1*	*Level 2*	*Level 3*
					2017
Financial assets					
Investments	65,180	66,567	-	66,567	-
Member loans receivable	201,090	199,957	-	199,957	-
Accounts receivable	182	182	-	182	-
Total financial assets	266,452	266,706	-	266,706	-
Financial liabilities					
Member deposits	317,865	320,689	-	320,689	-
Accounts payable	324	324	-	324	-
Membership shares	21	21	-	-	21
Equity accounts	2,199	2,199	-	-	2,199
Total financial liabilities	320,409	323,233	-	321,013	2,220

19. Fair value measurement *(Continued from previous page)*

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

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

All level 2 fair values disclosed and categorized within Level 2 of the hierarchy 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.

20. Summary information about financial assets and financial liabilities

The following tables provide a reconciliation between line items in the statement of financial position and the categories of financial instruments.

In thousands	***As at December 31, 2018*** Mandatorily at FVTPL	***Amortized cost***	***Total carrying amount***
Financial assets			
Cash and cash equivalents	**5,902**	**15,500**	**21,402**
Investments	**4,839**	**93,848**	**98,687**
Member loans receivable	**-**	**229,799**	**229,799**
Accounts receivable	**-**	**311**	**311**
Total financial assets	**10,741**	**339,458**	**350,199**
Financial liabilities			
Member deposits	**-**	**324,561**	**324,561**
Accounts payable	**-**	**416**	**416**
Membership shares and equity accounts	**-**	**2,396**	**2,396**
Total financial liabilities	**-**	**327,373**	**327,373**

In thousands	*Held-to-maturity*	*Loans and receivables*	*As at December 31, 2017* Available-for-sale	*Designated at FVTPL*	*Other amortized cost*	*Total carrying amount*
Financial assets						
Cash and cash equivalents	-	-	-	37,771		37,771
Investments	65,505	-	5,061	31,628		102,194
Member loans receivable	-	201,090	-	-		201,090
Other assets	-	182	-	-		182
Total financial assets	65,505	201,272	5,061	69,399		341,237
Financial liabilities						
Member deposits				-	317,865	317,865
Accounts payable				-	324	324
Membership shares and equity accounts				-	2,219	2,219
Total financial liabilities				-	320,408	320,408

21. Commitments

In 2016, the Credit Union entered into a seven year commitment with an option to automatically renew for an additional three years with Celero for the provision of retail banking services. The annual operating fee is calculated as a percentage of the aggregate fees paid by all Credit Unions using the banking system. The annual operating fees for the year ended December 31, 2018 were $459,138 (2017 - $452,527) and recorded as an expense.

The Credit Union participates in a guaranteed credit card program with its provider, CUETS Financial (a division of TD Canada Trust). The Credit Union has guaranteed the amount of $951,500 (2017 - $1,067,000) in relation to these credit cards.

22. 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.