TURTLEFORD CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2019

Vantage
CHARTERED PROFESSIONAL ACCOUNTANTS

TURTLEFORD CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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MANAGEMENT REPORT

Turtleford Credit Union Limited
Report of Management

Management has the responsibility for preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles in making objective judgements and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained.

Ultimate responsibility for the financial statements to members lies with the board of directors.

Vantage, an independent firm of Chartered Professional Accountants, is appointed by the board as external auditors to audit the financial statements. The external auditors report directly to the board and their report follows. The external auditors have full and free access to the board of directors to discuss their audit and their findings as to the integrity of the credit union's financial reporting and the adequacy of the system of internal controls.

General Manager

March 17, 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Turtleford Credit Union Limited
Turtleford, Saskatchewan

Opinion

We have audited the accompanying financial statements of the Turtleford Credit Union Limited, which comprise the statement of financial position as at December 31, 2019, the statements of profit and comprehensive income, retained earnings 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 Turtleford Credit Union Limited as at December 31, 2019, 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Turtleford Credit Union Limited 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 Turtleford Credit Union Limited'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 organization or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 judgement 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 organization‘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 organization‘s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the organization 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.

Vantage

Chartered Professional Accountants

North Battleford, Saskatchewan
March 17, 2020

TURTLEFORD CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	2019	2018
ASSETS		
Cash and cash equivalents (Note 8)	$ 2,108,375	$ 1,967,491
Investments (Note 9)	25,498,325	23,604,464
Loans (Note 10)	58,101,384	59,140,446
Other assets (Note 11)	55,505	81,105
Income taxes recoverable		4,584
Future income taxes	14,413	14,413
Property, plant and equipment (Note 12)	732,759	798,434
	$ 86,510,761	$ 85,610,937
LIABILITIES		
Deposits (Note 13)	$ 78,521,978	$ 78,254,055
Current income taxes payable	71,756	
Other liabilities	30,072	28,195
Membership shares and equity (Note 15)	561,299	587,405
TOTAL LIABILITIES	79,185,105	78,869,655
EQUITY		
Retained earnings	7,325,656	6,741,282
	$ 86,510,761	$ 85,610,937

APPROVED ON BEHALF OF THE BOARD

Director

Director

See accompanying notes

TURTLEFORD CREDIT UNION LIMITED

STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
INTEREST INCOME		
Loan and lease interest	$ 2,823,622	$ 2,644,492
Investments	459,254	552,935
	3,282,876	3,197,427
INTEREST EXPENSE		
Borrowed money	3,325	4,701
Deposits	696,982	579,749
	700,307	584,450
NET INTEREST INCOME	2,582,569	2,612,977
Provision for credit losses	(248,773)	(323,748)
NET INTEREST MARGIN	2,333,796	2,289,229
NON - INTEREST INCOME	418,544	379,557
OPERATING EXPENSES		
Personnel	922,780	1,079,016
Security	90,569	87,265
Organizational	60,167	61,933
Occupancy	127,964	122,801
General business	820,296	792,743
	2,021,776	2,143,758
PROFIT BEFORE PROVISION FOR INCOME TAX	730,564	525,028
PROVISION FOR INCOME TAXES		
Income tax expense (Note 22)	146,190	71,568
PROFIT AND COMPREHENSIVE INCOME FOR THE YEAR	$ 584,374	$ 453,460

See accompanying notes

TURTLEFORD CREDIT UNION LIMITED

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
RETAINED EARNINGS at beginning of year	$ 6,741,282	$ 6,287,822
Profit and comprehensive income for the year	584,374	453,460
RETAINED EARNINGS at end of year	$ 7,325,656	$ 6,741,282

See accompanying notes

TURTLEFORD CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Profit and comprehensive income for the year	$ 584,374	$ 453,460
Items not requiring cash		
Provision for credit losses	248,773	323,748
Amortization	116,315	79,567
Interest and dividend revenue	(3,282,876)	(3,197,427)
Interest expense	700,307	584,450
Loss on disposal of equipment		29,284
Income tax expense	146,190	71,568
	(1,486,917)	(1,655,350)
Net change in non-cash working capital		
Decrease in other assets	25,600	80,814
Increase in deposits	267,922	1,604,270
Increase (decrease) in other liabilities	1,879	(1,423)
Decrease (increase) in loans	790,288	(5,621,269)
	1,085,689	(3,937,608)
	(401,228)	(5,592,958)
Cash generated from operations		
Interest received	3,248,895	3,211,830
Interest paid	(657,160)	(580,242)
Income taxes paid	(79,018)	(44,712)
	2,111,489	(3,006,082)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Decrease (increase) in investments	(1,893,859)	3,047,409
Additions to property, plant and equipment	(50,640)	(79,567)
	(1,944,499)	2,967,842
CASH FLOWS USED BY FINANCING ACTIVITIES		
Decrease in membership shares and equity	(26,106)	(4,181)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	140,884	(42,421)
CASH AND CASH EQUIVALENTS at beginning of year	1,967,491	2,009,912
CASH AND CASH EQUIVALENTS at end of year	$ 2,108,375	$ 1,967,491

See accompanying notes

TURTLEFORD CREDIT UNION LIMITED

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
PERSONNEL		
Salaries	$ 751,208	$ 743,022
Employee benefits	132,745	141,881
Other	38,827	194,113
	922,780	1,079,016
SECURITY		
CUDGC assessment	62,363	61,128
Other	28,206	26,137
	90,569	87,265
ORGANIZATIONAL		
SaskCentral dues	16,999	17,511
Officials development and travel	35,894	31,603
Other	7,274	12,819
	60,167	61,933
OCCUPANCY		
Building amortization	53,168	53,168
Building maintenance and insurance	31,381	24,903
Other	43,415	44,730
	127,964	122,801
GENERAL BUSINESS		
Advertising and member education	46,558	39,535
ATM and MemberDirect	79,329	54,686
Audit fees	85,672	63,032
Card production and support	13,586	21,770
Cash services	9,323	8,932
Clearing fees and service charges	58,868	54,899
Compliance costs	35,371	20,652
Data processing	124,089	114,090
Equipment amortization	63,146	26,398
Equipment maintenance and insurance	444	435
Loan administration fees	52,428	52,024
Office supplies	20,720	24,478
Other	88,691	170,590
Research and development	18,108	16,526
Service contracts and consulting fees	89,628	90,745
Telephone and postage	34,335	33,951
	820,296	792,743
	$2,021,776	$2,143,758

See accompanying notes

TURTLEFORD CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. REPORTING ENTITY

Turtleford Credit Union Limited is a credit union domiciled in Canada. The address of the credit union's registered office is Turtleford, Saskatchewan. The credit union is a financial service provider.

The credit union was continued pursuant to *The Credit Union Act, 1998* of the Province of Saskatchewan. The credit union serves members in Turtleford and the surrounding area. In accordance with *The Credit Union Act, 1998,* Credit Union Deposit Guarantee Corporation (CUDGC), a provincial corporation, guarantees the repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

2. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements for the year ended December 31, 2019 were authorized for issue by the board of directors on March 17, 2020.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the credit union's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements include the following:

(i) Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.
(ii) Securitizations: determination of both the degree of transfer of risks and rewards/control on assets transferred to another entity.

(b) Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2019 include the following:

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

(b) Assumptions and Estimation Uncertainties (continued)

(i) Impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.
(ii) Determination of the fair value of financial instruments with significant unobservable inputs.
(iii) Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.
(iv) Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
(v) Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

4. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Canadian dollars, which is the credit union's functional currency.

5. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for the following material items.

Items	Measurement basis
Financial instruments at FVTPL	Fair value
Financial assets at FVOCI	Fair value
Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships (which otherwise would have been amortized cost)	Amortized cost adjusted for hedging gain or loss

6. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarized below. These accounting policies have been applied consistently to all years presented in these financial statements.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Interest

(i) Effective interest rate

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 or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the credit union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired assets, the credit union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(ii) Amortized cost and gross carrying amount

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, 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 loss allowance.

(iii) Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Interest (continued)

(iii) Calculation of interest income and expense (continued)

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(iv) Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(b) Fees and Commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognized using the effective interest method are included with loan balances in the consolidated statement of financial position.

Other fee and commission income – including account servicing fees, loan discharge and administration fees, and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Net Income from Other Financial Instruments at Fair Value through Profit or Loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL and from January 1, 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(d) Dividend Income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

(e) Financial Assets and Financial Liabilities

(i) Recognition and initial measurement

The credit union initially recognizes loans and advances, deposits and mortgage securitization liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the credit union becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

<u>Financial assets</u>

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

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

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(ii) Classification (continued)

Financial assets (continued)

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

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

On initial recognition of an equity investment that is not held for trading, the credit union may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the credit union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the credit union's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(ii) Classification (continued)

Business model assessment (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the credit union's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The credit union has established specific criteria for financial assets that are originated or acquired for the purpose of securitization in a subsequent period. If, at origination or acquisition, based on this established criteria the financial asset is expected to be securitized as part of a portfolio that:

- qualifies for derecognition as detailed in (iii) below, the business objective of holding the financial asset to collect contractual cash flows is not met. Such financial assets are measured at FVTPL; or
- does not qualify for derecognition, the credit union has elected, as its accounting policy, to determine the business model based on the accounting result of the securitization. As such, the held-to-collect business model is considered to be met.

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

For the purposes of this assessment, '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 and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(ii) Classification (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the credit union's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the credit union changes its business model for managing financial assets. There we no changes to any of the credit union business models during the current year (prior year: Nil).

Financial liabilities

The credit union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

(iii) Derecognition

Financial assets

The credit union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the credit union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(iii) Derecognition (continued)

Financial assets (continued)

From January 1, 2018 any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the credit union is recognized as a separate asset or liability.

In transactions in which the credit union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the credit union continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the credit union retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The credit union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage Housing Corporation that issue bonds to third party investors. This includes securitization of insured residential mortgages by participating in the National Housing Act (NHA) mortgage-backed securities (MBS) program. Through the program, the credit union issues securities backed by residential mortgages that are insured against borrower's default. All securitization transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the credit union's securitizations do not qualify for derecognition based on the above criteria, the credit union does not derecognize the transferred financial assets but records a secured borrowing with respect to any consideration received.

For securitizations that result in derecognition, interests in the securities financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognized as investment securities and carried at FVOCI. Gains or losses on securitizations are recorded in other revenue.

Before January 1, 2018, retained interests were primarily classified as available-for-sale investment securities and carried at FVTOCI.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(iii) Derecognition (continued)

Financial liabilities

The credit union derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

The credit union derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the credit union currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a credit union of similar transactions.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(vi) Fair value measurement

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair values are determined where possible by reference to quoted bid or asking prices in an active market. In the absence of an active market, the credit union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The credit union classifies fair value measurements of financial instruments recognized in the statement of financial position using the following three tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

Level 1: Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities;

Level 2: Fair value measurements are derived from inputs other than quoted prices that are included within level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Fair value measurements derived from valuation techniques that include significant unobservable inputs.

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

(vii) Impairment

The credit union recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (loans and advances and certain investment securities);
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(vii) Impairment (continued)

No impairment loss is recognized on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 18(A)(iii)).

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the credit union in accordance with the contract and the cash flows that the credit union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the credit union if the commitment is drawn down and the cash flows that the credit union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the credit union expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(vii) Impairment (continued)

Restructured financial assets (continued)

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the credit union assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(vii) Impairment (continued)

Credit impaired financial assets (continued)

In making an assessment of whether an investment in debt securities is credit-impaired, the credit union considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL are presented in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the credit union cannot identify the ECL on the loan commitment component separately from those on the drawn component: the credit union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write off

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

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Assets and Financial Liabilities (continued)

(viii) Designation of fair value through profit or loss

Financial assets

At initial recognition, the credit union has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The credit union has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(f) Derivatives Held for Risk Management Purposes and Hedge Accounting

Management does not employ the use of derivatives or non-derivative hedging instruments for risk management purposes.

(g) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with centrals and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the credit union in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(h) Loans and Advances

Loans and advances captions in the statement of financial position include:

- loans and advances measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Loans and Advances (continued)

Loans and advances captions in the statement of financial position include: (continued)

- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognized immediately in profit or loss; and
- finance lease receivables.

When the credit union purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the credit union's financial statements.

(i) Investment Securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognized immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

The credit union elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Borrowings and Deposits, Mortgage Securitization Liabilities and Membership Shares

Borrowings and deposits, mortgage securitization liabilities and membership shares are the credit union's sources of funding.

When the credit union sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and repurchase agreement), the arrangement is accounted for as a borrowing and deposit, and the underlying asset continues to be recognized in the credit union's financial statements.

The credit union classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The credit union's redeemable shares are redeemable at the option of the holder, and are therefore included within liabilities.

Borrowings and deposits and membership shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the credit union designates liabilities at FVTPL.

When the credit union designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the credit union assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognized, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

(k) Financial Guarantees and Loan Commitments

Financial guarantees' are contracts that require the credit union to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from January 1, 2018: at the higher of this amortized amount and the amount of loss allowance; and

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial Guarantees and Loan Commitments (continued)

- before January 1, 2018: at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The credit union has issued no loan commitment that are measured at FVTPL.

For other loan commitments the credit union recognizes loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(l) Assets Held for Sale

Assets are considered held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

(m) Property, Plant and Equipment

Property, plant and equipment are reported at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight line method over the estimated useful life of the related asset as follows, with the exception of land which is not amortized:

Buildings	5 - 25	years
Equipment	3 - 10	years

The estimated useful lives, residual values and amortization methods are reviewed at each year end and adjusted if appropriate.

Gains and losses on the disposal or retirement of property, plant and equipment are determined as the difference between the sale proceeds and the carrying amount of the asset and are recorded in profit or loss in the year of disposal.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income Taxes

Income tax expense comprises current and future tax. Current tax and future tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date and any adjustments to tax payable in respect of previous year.

Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes.

Future income tax assets are recognized for the benefit of deductions available to be carried forward to future years for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Future 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. Any effect of the re-measurement or re-assessment is recognized in the year of change except when they relate to items recognized directly in other comprehensive income.

Future taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but the credit union intends to settle its current tax assets and liabilities on a net basis or simultaneously.

(o) Revenue from Contracts with Customers

A customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Recognition of revenue depicts the transfer of goods or services to customers in the amounts that reflect the consideration to which the entity expects to be entitled in the exchange for those goods or services.

Specifically, a five-step approach is utilized to recognize revenue:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue from Contracts with Customers (continued)

The credit union recognizes revenue when (or as) a performance obligation is satisfied) i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

(p) Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities that are measured in terms of historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined.

Translation gains and losses are included in profit or loss, except for available-for-sale equity instruments which are recognized in other comprehensive income.

(q) Employee Future Benefits

The credit union's employee future benefit program consists of a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the credit union pays fixed contributions into a separate entity. The credit union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Credit union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $48,644 (2018 - $43,983) were paid to defined contribution retirement plans during the year.

(r) New Standards and Interpretations not yet Adopted

At December 31, 2019 a number of standards and interpretations and amendments thereto have been issued by the IASB, which are not effective for these financial statements. Those which could have an impact on the credit union's financial statements are discussed below.

The following amended standards are not expected to have a significant impact on the credit union's financial statements.

- Definition of a business - Amendments to IFRS 3
- Definition of material - Amendments to IAS 1 and IAS 8
- Conceptual framework for financial reporting
- IFRS 17 Insurance Contracts

The credit union did not early adopt any new or amended standards.

TURTLEFORD CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Classification of Financial Assets and Financial Liabilities

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

	December 31, 2019 In thousands of Canadian dollars				
	FVTPL	FVOCI debt instruments	FVOCI equity instruments	Amortized cost	Total carrying amount
Cash and cash equivalents				$ 2,108	$ 2,108
Loans and advances to members:					
Measured at amortized cost				58,101	58,101
Investment securities:					
Measured at fair value	$ 17,446				17,446
Measured at amortized cost				8,052	8,052
Other assets				56	56
Total Financial Assets	$ 17,446	$ NIL	$ NIL	$ 68,317	$ 85,763
Payables and other liabilities				$ 30	$ 30
Deposits from members:					
Measured at amortized cost				78,522	78,522
Total Financial Liabilities	$ NIL	$ NIL	$ NIL	$ 78,552	$ 78,552

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Classification of Financial Assets and Financial Liabilities (continued)

December 31, 2018
In thousands of Canadian dollars

	FVTPL	FVOCI debt instruments	FVOCI equity instruments	Amortized cost	Total carrying amount
Cash and cash equivalents				$ 1,967	$ 1,967
Loans and advances to members:					
Measured at amortized cost				59,140	59,140
Investment securities:					
Measured at fair value	$ 15,552				15,552
Measured at amortized cost				8,052	8,052
Other assets				81	81
Total Financial Assets	$ 15,552	$ NIL	$ NIL	$ 69,240	$ 84,792
Payables and other liabilities				$ 28	$ 28
Deposits from members:					
Measured at amortized cost				78,254	78,254
Total Financial Liabilities	$ NIL	$ NIL	$ NIL	$ 78,282	$ 78,282

8. CASH AND CASH EQUIVALENTS

	2019	2018
Cash and clearing accounts with SaskCentral	$ 2,108,375	$ 1,967,491

TURTLEFORD CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

9. INVESTMENTS

	2019	2018
Fair value through profit or loss		
Concentra - Short-term, non-redeemable	$ 11,250,000	$ 8,300,000
Concentra - Overnight	4,112,866	4,160,471
Concentra - Short-term, redeemable	1,000,000	2,000,000
SaskCentral - membership shares	760,000	760,000
Concentra - 1 Common share	10	10
Concentra - 10,000 Class D - Series shares	250,000	250,000
Other	4,197	4,134
Accrued interest	47,097	55,661
	17,424,170	15,530,276
Amortized cost		
SaskCentral liquidity	8,051,993	8,051,992
Accrued interest	22,162	22,196
	8,074,155	8,074,188
Total investments	$ 25,498,325	$ 23,604,464

Pursuant to regulation 18(1)(a), Credit Union Central of Saskatchewan (SaskCentral) requires that the credit union maintain 10% of its total liabilities using a prescribed formula in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan credit unions, CUDGC, requires that the credit union adhere to these prescribed limits and restrictions. As of December 31, 2019 the credit union met the requirement.

At December 31, 2019, $3,855,199 (2018 - $3,605,199) of investments are expected to mature more than twelve months after the reporting date.

10. LOANS AND ADVANCES TO MEMBERS

(a) Loans and Advances to Members at Amortized Cost

	2019		
	Gross carrying amount	ECL allowance	Carrying amount
Mortgages			
- residential and farm	$ 23,812,288	$ 92,000	$ 23,720,288
- commercial	1,856,344	463,273	1,393,071
- government guaranteed	4,300,232		4,300,232
Loans			
- residential and farm	7,699,041		7,699,041
- commercial	1,206,117		1,206,117
- government guaranteed	1,194,294		1,194,294
Finance leases	5,098,424		5,098,424
Receivables	2,740,251		2,740,251
Participation	10,421,240		10,421,240
Accrued interest	328,426		328,426
	$ 58,656,657	$ 555,273	$ 58,101,384

10. LOANS AND ADVANCES TO MEMBERS (continued)

(a) Loans and Advances to Members at Amortized Cost (continued)

	2018		
	Gross carrying amount	**ECL allowance**	**Carrying amount**
Mortgages			
- residential and farm	$ 22,049,765		$ 22,049,765
- commercial	2,132,823		2,132,823
- government guaranteed	6,102,917	$ 306,500	5,796,417
Loans			
- residential and farm	5,237,953		5,237,953
- commercial	1,560,330		1,560,330
Finance leases	7,387,333		7,387,333
Receivables	2,285,645		2,285,645
Participation	12,308,558		12,308,558
Accrued interest	381,622		381,622
	$ 59,446,946	$ 306,500	$ 59,140,446

At December 31, 2019, $26,863,091 (2018 - $26,871,473) of loans are expected to be recovered more than twelve months after the reporting date.

11. OTHER ASSETS

	2019	**2018**
Prepaid expenses	$ 55,505	$ 81,105

12. PROPERTY, PLANT AND EQUIPMENT

	2019			2018
	Cost	**Accumulated amortization**	**Net**	**Net**
Land	$ 44,553		$ 44,553	$ 44,553
Buildings	1,442,607	$ 810,840	631,767	684,935
Equipment	513,757	457,318	56,439	68,946
	$ 2,000,917	$ 1,268,158	$ 732,759	$ 798,434

13. DEPOSITS

	2019	2018
Chequing	$ 34,539,345	$ 38,694,217
Savings	13,137,469	14,124,781
Term deposits	18,546,803	13,279,227
RRSP/RRIF	8,485,923	8,521,074
US dollar	127,134	217,394
AgriInvest	3,398,561	3,173,767
Accrued interest	286,743	243,595
	$ 78,521,978	$ 78,254,055

At December 31, 2019, $13,934,615 (2018 - $8,552,016) of deposits are expected to be settled more than twelve months after the reporting date.

14. LOANS PAYABLE

The credit union has an authorized line of credit bearing interest at prime minus a half percent in the amount of $1,500,000 from SaskCentral. At December 31, 2019, the credit union had not drawn on the line of credit (2018 - $Nil). The line of credit is secured by the statutory liquidity held at SaskCentral.

15. MEMBERSHIP SHARES AND EQUITY

Membership shares are as provided for by the Credit Union Act and administered according to the terms of the credit union bylaws which set out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

Membership equity consists of:

	2019	2018
Issued at January 1	$ 587,405	$ 591,586
Redeemed	(26,106)	(4,181)
Issued at December 31	$ 561,299	$ 587,405

A patronage allocation has not been declared on member shares in this or the preceding period.

16. CAPITAL MANAGEMENT

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. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

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 total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital. In addition to the minimum capital ratios, the credit union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

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 of 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. All items deducted from capital are excluded from total assets. The credit union may also exclude from total assets mortgages securitized through Canada Mortgage and Housing Corporate (CMHC) programs up to and including March 31, 2010 and all existing and future reinvestments related to Canada Mortgage Bonds (CMB) Insured Mortgage Purchase Program transactions completed up to and including March 31, 2010.

16. CAPITAL MANAGEMENT (continued)

The credit union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the board of directors. The following table compares CUDGC regulatory standards to the credit union's board policy for 2019.

	Regulatory Standards	Board Limits
Total eligible capital to risk-weighted assets	10.5%	12-15%
Total tier 1 capital to risk-weighted assets	8.5%	12-15%
Common equity tier 1 capital to risk-weighted assets	7%	10%
Minimum leverage ratio	5%	7-9%

During the year, the credit union complied with all internal and external capital requirements.

The following table summarizes key capital information:

	2019	**2018**
Eligible capital		
Total tier 1 capital	$ 6,737,060	$ 6,737,060
Total tier 2 capital	587,405	587,405
Total eligible capital	$ 7,324,465	$ 7,324,465
Risk-weighted assets	$ 50,831,004	$ 51,484,954

	2019	**2018**
Total eligible capital to risk-weighted assets	15.57%	14.23%
Total tier 1 capital to risk-weighted assets	14.47%	13.09%

17. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the credit union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. For the purposes of the below, key management personnel includes the General Manager.

(a) Loans Receivable

At December 31, 2019, members of the board of directors and key management personnel, their spouses, dependents or companies that they control were indebted to the credit union for amounts totaling $5,859,950 (2018 - $5,005,010). These loans were granted under the same lending policies applicable to other members and are included in loans on the statement of financial position. There were no loans to related parties forgiven or written down during the year.

(b) Deposit Accounts

As of December 31, 2019, members of the board of directors, key management personnel and their spouses and dependents had deposits at the credit union for an amount totaling $717,068 (2017 - $648,603).

Directors and key management personnel, their spouses, dependents or companies that they control may hold deposit accounts. These accounts are maintained under the same terms and conditions applicable to other members and are included in deposits on the statement of financial position.

(c) Remuneration

Compensation provided to directors and key management personnel (consisting of salaries, honoraria and benefits) in 2019 totaled $178,451 (2018 - $320,982).

18. FINANCIAL RISK REVIEW

This note presents information about the credit union's exposure to financial risks and the credit union's management of capital.

(a) Credit Risk

i. Credit quality analysis
ii. Collateral held and other credit enhancements
iii. Amounts arising from ECL
iv. Concentrations of credit risk

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	2019 In thousands of Canadian dollars			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to members at amortized cost				
Consumer	$ 2,682			$ 2,682
Residential Mortgage	16,964			16,964
Commercial	15,600		$ 203	15,803
Agricultural	23,207			23,207
	58,453		203	58,656
Expected credit losses (ECL)	176		379	555
Carrying amount	$ 58,277	$ NIL	$ (176)	$ 58,101

	2018 In thousands of Canadian dollars			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to members at amortized cost				
Consumer	$ 3,582			$ 3,582
Residential Mortgage	16,279	$ 301	$ 58	16,638
Commercial	15,742			15,742
Agricultural	23,484			23,484
	59,087	301	58	59,446
Expected credit losses (ECL)	247	1	58	306
Carrying amount	$ 58,840	$ 300	$ NIL	$ 59,140

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(ii) Collateral held and other credit enhancement

Loans and advances to commercial customers

The general creditworthiness of a commercial customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the credit union generally requests that corporate borrowers provide it. The credit union may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the credit union's focus on commercial customers' creditworthiness, the credit union does not routinely update the valuation of collateral held against all loans to commercial customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the credit union obtains appraisals of collateral because it provides input into determining the management credit risk actions.

(iii) Amounts arising from ECL

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the credit union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the credit union's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The credit union allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Significant increase in credit risk (continued)

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Commercial Exposures	Retail Exposures	All Exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes	• Internally collected data on customer behaviour - e.g. utilization of credit card facilities • Affordability metrics	• Payment record - this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearanc
• Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• External data from credit reference agencies including industry - standard credit scores (e.g. beacon scores)	• Existing and forecast changes in business, financial and economic conditions

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Significant increase in credit risk (continued)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The credit union collects performance and default information about its credit risk exposures analyzed by region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The credit union employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the credit union's Credit Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the credit union formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The credit union then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the credit union's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage.

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

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Significant increase in credit risk (continued)

Determining whether credit risk has increased significantly (continued)

As a backstop, the credit union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The credit union monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

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

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

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

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Modified financial assets (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and commercial loans are subject to the forbearance policy. The credit union's Credit Risk Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the credit union's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the credit union's ability to collect interest and principal and the credit union's previous experience of similar forbearance action. As part of this process, the credit union evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

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

Definition of default

The credit union considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the credit union in full, without recourse by the credit union to actions such as realizing security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the credit union. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding;
- the credit union agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing;
- the credit union has filed for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Definition of default (continued)

In assessing whether a borrower is in default, the credit union considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the credit union; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the credit union for regulatory capital purposes.

Incorporation of forward-looking information

The credit union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the credit union's Credit Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the credit union formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the credit union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the credit union carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The credit union has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2019 included the following ranges of Canadian key indicators for the years ending December 31, 2019 and 2018.

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Incorporation of forward-looking information (continued)

	2019	2018
Unemployment (SK)	5.42%	6.05%
GDP growth (Canada)	1.57%	2.02%
Interest rates (Canada)	1.44%	2.00%
Housing starts (SK)	816	1,025
Oil Price/BBL (Canada)	$56.88	$67.16

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large commercial counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The credit union estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The credit union derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and future expectations. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the credit union measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the credit union considers a longer period. The maximum contractual period extends to the date at which the credit union has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the credit union measures ECL over a period longer than the maximum contractual period when the credit union's contractual ability to demand repayment and cancel the undrawn commitment does not limit the credit union's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The credit union can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the credit union becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the credit union expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

18. FINANCIAL RISK REVIEW (continued)

(a) Credit Risk (continued)

(iii) Amounts arising from ECL (continued)

Measurement of ECL (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition (vintage);
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

(iv) Impaired financial assets - comparative information under IAS 39

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the credit union has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the credit union had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans and investment debt securities that are past due but not impaired

Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the credit union believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the credit union. The amounts disclosed exclude assets measured at FVTPL.

19. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

The credit union has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risks;

The significance of risk is assessed within the context of the credit union as a whole and is measured based on allocation of the regulatory capital within the credit union.

This note presents information about the credit union's objectives, policies and processes for measuring and managing risk.

(b) Risk Management Framework

The credit union's Board of Directors has overall responsibility for the establishment and oversight of the credit union's risk management framework. The Board of Directors is responsible for developing and monitoring risk management policies.

The credit union's risk management policies are established to identify and analyze the risks faced by the credit union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the credit union's activities. The credit union, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the credit union's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the credit union. The Board of Directors is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(c) Credit Risk

Credit risk is the risk of financial loss to the credit union if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the credit union's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the credit union considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, regional and industry sector risk.

19. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

The market risk in respect of changes in value of financial assets measured at FVTPL arising from changes in market credit spreads applied to debt securities and derivatives is managed as a component of market risk.

The credit union's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transaction, the credit union mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty specific approvals from the credit union's Risk Department.

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for managing the credit union's credit risk, including the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit, the Head of Credit, the Credit Committee or the Board of Directors, as appropriate.

- Reviewing and assessing credit risk: Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band and market liquidity (for investment securities).

- Developing and maintaining the credit union's risk groupings to categorize exposures according to the degree of risk of default. The current risk grading framework consists of 3 stages reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the credit union's Risk Department.

19. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

- Developing and maintaining the credit union's processes for measuring ECL: This includes processes for:
  - initial approval, regular validation and back-testing of the models used; and
  - incorporation of forward-looking information.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, regional risk and product types. Regular reports on the credit quality of local portfolios are provided to Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the credit union in the management of credit risk.

Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Credit Risk Officer who reports on all credit-related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Credit processes are undertaken by Internal Audit.

Credit risk is the risk of loss to the credit union if a customer or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans and receivables and principal and interest amounts due on investments.

Credit risk is managed in accordance with policies and procedures established by the board of directors. In addition, CUDGC establishes standards with which the credit union must comply.

Except as otherwise noted below, the carrying amount of the financial assets recognized in the financial statements, which is net of impairment losses, represents the credit union's maximum exposure to credit risk, without taking into account collateral of other credit enhancements held.

19. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

The maximum exposure to credit risk for loans and receivables at the reporting date was:

	2019	2018
Consumer loans	33 %	31 %
Commercial loans	7 %	8 %
Agricultural loans	28 %	23 %
Overdrafts and lines of credit	5 %	4 %
Financial leases	9 %	13 %
Syndicated loans	18 %	21 %
	100 %	100 %

In addition, in the normal course of business, the credit union has entered into various commitments to extend credit that may not be reported on the statement of financial position, as well as guarantees and standby letters of credit. 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.

Guarantees and standby letters of credit represent irrevocable assurance that the credit union will make payments in the event that a members cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members. Documentary and commercial letters of credit are instruments issued on behalf of a members authorizing a third party to draw drafts on the credit union up to a stipulated amount subject to specific terms and conditions. The credit union is at risk for any drafts drawn that are not ultimately settled by the members and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The amounts reported below represent the maximum credit exposure to the credit union. Many of these contracts expire without being drawn upon, thereby reducing the credit union's credit risk from the maximum commitment. As many commitments will expire or terminate without being funded, the amounts shown on the table below do not necessarily represent future cash requirements.

19. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit Risk (continued)

	2019	2018
Undrawn lines of credit	$ 5,444,954	$ 5,747,228
Commitments to extend credit		
- quick loans, undrawn loans, letters of credit	1,937,968	2,262,011
	$ 7,382,922	$ 8,009,239

Credit risk also may arise from principal and interest amounts on investments. The credit union manages this credit risk through adherence to internal policies and procedures for the acquisition of investments which place the safety of principal and interest as the highest priority. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return ensuring that all investments purchased are reasonable and prudent.

The credit union's investment portfolio risk ratings excluding accrued interest are as follows:

	2019	2018
Investment Portfolio Rating		
Unrated	$ 25,179,067	$ 23,276,599

SaskCentral and Concentra investments, including shares, are unrated and total $ 25,179,067 (2018 - $23,276,599) excluding accrued interest.

(d) Liquidity Risk

Liquidity risk is the risk of financial loss to the credit union in the event that the credit union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

Liquidity risk is managed in accordance with policies and procedures established by the board of directors. In addition, CUDGC establishes standards to which the credit union must comply.

The credit union's primary liquidity risk policies and procedures include the following:

The credit union manages this credit risk through adherence to internal policies and procedures established by the board of directors to monitor, measure and control the exposure to liquidity risk. These include management of liquidity on a daily basis factoring in known and projected cash inflows and outflows, the requirement to maintain both sufficient liquid assets to meet normal operating requirements and excess liquid assets that can be converted to cash with minimal cost. In addition CUDGC establishes standards to which the credit union must comply.

19. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity Risk (continued)

The credit union enters into transactions to purchase goods and services on credit; borrow funds from SaskCentral or other creditors, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the credit union's future net cash flows for the possibility of a negative net cash flow.

The credit union manages the liquidity risk from these transactions by investing in liquid assets such as money market term deposits and by entering into agreements to access loans.

The following table details contractual maturities of financial assets and liabilities:

At December 31, 2019:

	(000's)			
	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	$ 2,108			$ 2,108
Investments	18,882	$ 1,904	$ 4,712	25,498
Member loans receivable	18,086	12,715	27,300	58,101
Member deposits	64,567	7,006	6,949	78,522
	$ 103,643	$ 21,625	$ 38,961	$ 164,229

At December 31, 2018:

	(000's)			
	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	$ 1,967			$ 1,967
Investments	17,988	$ 2,554	$ 3,062	23,604
Member loans receivable	18,012	13,356	27,772	59,140
Member deposits	69,569	6,099	2,586	78,254
	$ 107,536	$ 22,009	$ 33,420	$ 162,965

The credit union manages the liquidity risk by requiring collateral to be given if an adverse credit related event occurs.

(e) 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. The primary market risks that the credit union is exposed to are interest rate risk.

19. FINANCIAL RISK MANAGEMENT (continued)

(e) Market Risk (continued)

The credit union uses different risk management processes to manage market risk.

Market risk is managed in accordance with policies and procedures established by the board of directors. In addition, CUDGC establishes standards to which the credit union must comply.

The credit union's primary market risk policies and procedures include policies for maximum mismatched levels, monthly monitoring and adjusting product mix to address match position.

(i) Interest rate risk

Interest rate risk is the potential adverse impact on profit due to changes in interest rates. The credit union's exposure to interest rate risk arises due to timing differences in the repricing assets and liabilities as well as due to financial assets and liabilities with fixed and floating rates. The credit union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific years.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the credit union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The credit union did not use interest rate swaps in the current year.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing/maturity dates. Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield.

In thousands of Canadian dollars

	Assets	Liabilities	2019 Differential	2018 Differential
Repricing within 1 year	$ 54,520	$ 41,645	$ 12,875	$ 6,577
1 - 2 years	9,504	4,487	5,017	10,452
2 - 3 years	8,627	2,511	6,116	2,994
3 - 4 years	4,315	1,363	2,952	4,457
4 - 5 years	6,004	5,568	436	226
Over 5 years	2,265	7	2,258	3,797
Non interest bearing items	1,275	30,929	(29,654)	(28,503)
	$ 86,510	$ 86,510	$ NIL	$ NIL

19. FINANCIAL RISK MANAGEMENT (continued)

(e) Market Risk (continued)

(i) Interest rate risk (continued)

The above table does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

A plus or minus 1% change in interest rates with all other variables held constant would result in an increase/a decrease in the credit union's profit for the year ended December 31, 2019 of $62,673 (2018 - $4,190). The credit union uses static gap reports to simulate the effect of a change in the market rate of interest.

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The credit union's exposure to foreign currency risk arises due to members' U.S. dollar deposits. In seeking to manage the risks from foreign exchange rate fluctuations, the credit union maintains the same amount of foreign denominated assets as foreign denominated liabilities.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

(a) Methods and Assumptions

The following methods and assumptions were used to estimate fair values of financial instruments:

The fair values of short term financial instruments including cash, other assets, other liabilities, accrued income and expenses are approximately equal to their book values due to their short term nature.

Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.

For variable interest rate loans that reprice frequently, fair values approximate book values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.

Carrying values approximate fair values for deposits and membership shares without specified maturity terms. Fair values for other deposits and loans payable with specified maturity terms are estimated using discounted cash flow calculations at market rates for similar deposits with similar terms.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Methods and Assumptions (continued)

The interest rates used to discount estimated cash flows, when applicable, are based on the government treasury bill rates for investments with maturities less than a year and government bond rates for longer-term investments. Loan discount rates are based on the credit union's best consumer rate plus an adequate credit spread. These are as follows:

	2019	2018
Investments	1.35-2.13%	1.57-2.72%
Loans	2.55-7.11%	3.74-5.99%
Deposits	0.50-2.70%	0.25-2.75%

The following table provides an analysis of financial instruments measured at fair value at the end of the reporting period, by the fair value hierarchy into which the fair value measurement is categorized:

2019
In thousands of Canadian dollars

	STATED VALUE	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Financial Assets					
Investments	$ 27,410	$ 27,422		$ 27,422	
Loans	57,739	57,827		57,827	
	$ 85,149	$ 85,249	$ NIL	$ 85,249	$ NIL
Financial Liabilities					
Deposits	$ 78,108	$ 78,421	$ NIL	$ 78,421	$ NIL

2018
In thousands of Canadian dollars

	STATED VALUE	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Financial Assets					
Investments	$ 23,661	$ 23,619		$ 23,619	
Loans	58,759	58,239		58,239	
	$ 82,420	$ 81,858	$ NIL	$ 81,858	$ NIL
Financial Liabilities					
Deposits	$ 77,954	$ 77,991	$ NIL	$ 77,991	$ NIL

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Methods and Assumptions (continued)

There were no transfers between level 1 and level 2 in the period.

21. COMMITMENTS

The credit union entered into a ten year commitment for the provision of retail banking services provided by Celero Solutions with a five year contract renewal option. The annual operating fee is calculated as a percentage of the aggregate fees paid by all credit unions using the new banking system. The operating fees for 2019 were $76,653 (2018 - $75,042).

22. INCOME TAXES

Income tax expense is comprised of:

	2019	2018
Current tax expense		
Current year	$ 146,190	$ 71,568

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2019	2018
Profit before provision for income tax	$ 730,564	$ 525,028
Combined federal and provincial tax rate	40%	40%
Income tax at statutory rate	292,226	210,011
Adjusted for the effect of:		
- non-deductible expenses	8,964	(943)
- small business deduction	(155,000)	(137,500)
	(146,036)	(138,443)
	$ 146,190	$ 71,568