MNP LLP

Luseland Credit Union Limited
Financial Statements
December 31, 2014

Contents

Management's Responsibility

To the Members of Luseland Credit Union Limited:

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

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

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

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

February 17, 2015

General Manager

Marjorie J. Reiter

Director

Independent Auditors' Report

To the Members of Luseland Credit Union Limited:

We have audited the accompanying financial statements of Luseland Credit Union Limited which comprise the statement of financial position as at December 31, 2014, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Luseland Credit Union Limited as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Saskatoon, Saskatchewan

February 17, 2015

MNP LLP

Chartered Professional Accountants

Luseland Credit Union Limited
Statement of Financial Position
As at December 31, 2014

	2014	2013
Assets		
Cash and cash equivalents *(Note 5)*	**8,033,743**	7,500,207
Investments *(Note 6)*	**20,609,177**	24,210,099
Member loans receivable *(Note 7)*	**56,514,445**	49,175,692
Other assets *(Note 8)*	**10,057**	8,586
Property, plant and equipment *(Note 9)*	**220,640**	15,908
	85,388,062	80,910,492
Liabilities		
Member deposits *(Note 11)*	**78,277,315**	74,758,514
Other liabilities *(Note 13)*	**132,415**	49,194
Membership shares *(Note 14)*	**7,320**	7,130
	78,417,050	74,814,838
Commitments *(Note 20)*		
Members' equity		
Retained earnings	**6,971,012**	6,095,654
	85,388,062	80,910,492

Approved on behalf of the Board

Marjorie J. Reiter

Director

Director

The accompanying notes are an integral part of these financial statements

Luseland Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2014

	2014	*2013*
Interest income		
Member loans	**2,198,138**	1,688,891
Investments	**659,613**	825,977
	2,857,751	2,514,868
Interest expense		
Member deposits	**571,842**	573,305
Borrowed money	**2,270**	2,811
	574,112	576,116
Gross financial margin	**2,283,639**	1,938,752
Other income	**110,169**	106,856
	2,393,808	2,045,608
Operating Expenses		
Personnel	**537,127**	463,659
Security	**76,161**	70,867
Organizational	**53,950**	58,035
Occupancy	**34,913**	20,241
General business	**433,143**	427,186
	1,135,294	1,039,988
Income before patronage refund and provision for income taxes	**1,258,514**	1,005,620
Patronage refund *(Note 15)*	**150,000**	150,000
	1,108,514	855,620
Provision for income taxes *(Note 12)*		
Current	**233,156**	170,548
Comprehensive income	**875,358**	685,072

Luseland Credit Union Limited
Statement of Changes in Members' Equity
For the year ended December 31, 2014

	Retained earnings	*Total equity*
Balance December 31, 2012	**5,410,582**	**5,410,582**
Comprehensive income	**685,072**	**685,072**
Balance December 31, 2013	**6,095,654**	**6,095,654**
Comprehensive income	**875,358**	**875,358**
Balance December 31, 2014	**6,971,012**	**6,971,012**

The accompanying notes are an integral part of these financial statements

MNP

Luseland Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2014

	2014	*2013*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**2,116,833**	1,607,293
Interest received from investments	**630,271**	860,448
Other income	**110,169**	106,856
Cash paid to suppliers and employees	**(1,092,003)**	(1,053,495)
Interest paid on deposits	**(578,040)**	(565,498)
Interest paid to SaskCentral/Concentra Financial	**(2,270)**	(2,811)
Patronage refund	**(150,000)**	(150,000)
Income taxes paid	**(172,702)**	(246,695)
	862,258	556,098
Financing activities		
Net change in member deposits	**3,524,999**	5,595,362
Net change in membership shares *(Note 14)*	**190**	225
	3,525,189	5,595,587
Investing activities		
Net change in investments	**3,630,264**	6,822,112
Net change in member loans receivable	**(7,257,448)**	(12,545,854)
Purchases of property, plant and equipment *(Note 9)*	**(226,727)**	(19,384)
	(3,853,911)	(5,743,126)
Increase in cash and cash equivalents	**533,536**	408,559
Cash and cash equivalents, beginning of year	**7,500,207**	7,091,648
Cash and cash equivalents, end of year	**8,033,743**	7,500,207

1. Reporting entity

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

The Credit Union serves members and non-members in Luseland, Saskatchewan and the surrounding community. The address of the Credit Union's registered office is P.O. Box 518, 607 Grand Avenue, Luseland, Saskatchewan.

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

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

Statement of compliance

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

The financial statements were approved by the Board of Directors and authorized for issue on February 17, 2015.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The accounting policies adopted are consistent with those of the previous financial year except as follows:

IAS 32 Financial instruments: presentation

The amendments to IAS 32, issued in December 2011, clarify the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. These amendments had no impact on the Credit Union's financial results or disclosures.

IAS 36 Impairment of assets

The amendments to IAS 36, issued in May 2013, require:

- Disclosure of the recoverable amount of impaired assets; and
- Additional disclosures about the measurement of the recoverable amount when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

The amendments to IAS 36 did not have an impact on the measurement of the Credit Union's assets and liabilities but has resulted in additional disclosures where appropriate.

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

IFRIC 21 Levies

In May 2013, the IASB issued IFRIC 21, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board ("AcSB") in September 2013, which provides guidance on the accounting for levies within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The main features of IFRIC 21 are as follows:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation; and
- The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time.

These amendments had no impact on the Credit Union's financial results or disclosures.

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

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

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

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

Allowance for impaired loans

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

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

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

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

Key assumptions in determining the allowance for impaired loans collective provision

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

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

Financial instruments not traded on active markets

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

Impairment of non-financial assets

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

Income taxes

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

Impairment of available-for-sale financial assets

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

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

At December 31, 2014, no impairment losses have been recognized for available-for-sale assets (2013 - $nil). The carrying amount of available-for-sale assets is $8,345,179 (2013 - $15,335,443).

Deferred income taxes

The calculation of deferred income tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred income tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of financial statement preparation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future years could be material. Further details are in Note 12.

Type of joint arrangement

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

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

Useful lives of property, plant and equipment

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

4. Summary of significant accounting policies

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

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

Foreign currency translation

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

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

Revenue recognition

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

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

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

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

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

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

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

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

Other revenue is recognized as services are provided to members.

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

Financial instruments

Classification and measurement

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

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Credit Union's financial instruments classified as fair value through profit or loss include cash, derivative assets and liabilities, and line of credit.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. The Credit Union’s financial instruments classified as available for sale include Concentra Financial demand and liquidity accounts recorded as cash equivalents, SaskCentral and Concentra Financial shares, equity instruments and brokered investments, including premiums and discounts.

Financial assets classified as held-to-maturity are subsequently measured at amortized cost using the effective interest rate method. The Credit Union's financial instruments classified as held-to-maturity include Concentra Financial terms, debentures, and liquidity terms.

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

Financial instruments classified as other financial liabilities include member deposits, accounts payable and accruals, and membership shares. Other financial liabilities are subsequently carried at amortized cost.

Derecognition of financial assets

Derecognition of a financial asset occurs when:

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

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

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

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

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

Derivative financial instruments

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

Fair value measurements

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

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

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

Cash and cash equivalents

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

Investments

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

SaskCentral and Concentra Financial deposits and shares

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

Portfolio investments

Portfolio bonds are classified as available for sale or held to maturity, based on management's intent. Held to maturity investments are adjusted to recognize other than a temporary impairment in the underlying value.

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

Member loans receivable

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

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

Allowance for loan impairment

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

Impairment of non-financial assets

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

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

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

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

Syndication

The Credit Union syndicates individual assets with various other financial institutions primarily to manage credit risk, create liquidity and manage regulatory capital for the Credit Union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union’s statement of financial position. All loans syndicated by the Credit Union are on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets. Fee income is recognized in other income on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

Foreclosed assets

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

Property, plant and equipment

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

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

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

	Rate
Buildings	2.5-5 %
Computer software	33 %
Furniture and equipment	33 %

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

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

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

Income taxes

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

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

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

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

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

Leases

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

Employee benefits

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

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $29,367 (2013 – $26,315) were paid to the defined contribution retirement plan during the year.

Accounts payable

Accounts payable are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member deposits

Member deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

Membership shares

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

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

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2014 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 8 Operating segments

The amendments to IFRS 8, issued in December 2013, require an entity to disclose the judgements made by management in applying the aggregation criteria for reportable segments. The amendments only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 (2014) as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This Standard will replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted (subject to local endorsement requirements). IFRS 9 (2014) supersedes all previous versions including IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). However, an entity may elect to apply those earlier versions of IFRS 9 instead of applying IFRS 9 (2014) if, and only if, the entity's relevant date of initial application is before February 1, 2015. The Credit Union is currently assessing the impact of these amendments on its financial statements.

IFRS 13 Fair value measurement

The Credit Union applies the "portfolio exception". Accordingly, it measures the fair value of financial assets and liabilities, with offsetting positions in market or counterparty credit risk, consistently with how market participants would price the net risk exposure. The amendments to IFRS 13, issued in December 2013, clarify that the portfolio exception applies to all contracts within the scope of IFRS 9 *Financial instruments* or IAS 39 *Financial instruments: recognition and measurement*, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 *Financial instruments: presentation*. The amendments are effective for annual periods beginning on or after July 1, 2014. The Credit Union is currently assessing the impact of these amendments on its financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers* and SIC-31 *Revenue – barter transactions involving advertising services*. The standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The five steps are:

- Identify the contract(s) with the customer.
- Identify the performance obligation(s) in the contract.
- Determine the transaction price.
- Allocate the transaction price to each performance obligation in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Credit Union does not expect this standard to have a material impact on its financial statements.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets

The amendments to IAS 16 and IAS 38, issued in December 2013, clarify how an entity calculates the gross carrying amount and accumulated depreciation when a revaluation is performed. The amendments are effective for annual periods beginning on or after July 1, 2014. The Credit Union does not expect these amendments to have a material impact on its financial statements.

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

The amendments to IAS 16 and IAS 38, issued in May 2014, clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Amendments to IAS 38 specify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments are effective for annual periods beginning on or after January 1, 2016. The Credit Union does not expect these amendments to have a material impact on its financial statements.

IAS 19 Employee benefits

The amendments to IAS 19, issued in November 2013, revise the requirements for contributions from employers or third parties that are linked to service and are set out in formal terms of a defined benefit plan. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered. This is done instead of attributing the contributions to the periods of service. If the amount of the contributions is dependent on the number of years of service, an entity attributes those contributions to the periods of service. This is done by either using the plan's contribution formula or on a straight-line basis. The amendments are effective for annual periods beginning on or after July 1, 2014. The Credit Union does not expect these amendments to have a material impact on its financial statements.

IAS 24 Related party disclosures

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

5. Cash and cash equivalents

	2014	*2013*
Cash (bank indebtedness)	**1,480,651**	(319,565)
Cash equivalents	**6,553,092**	7,819,772
	8,033,743	7,500,207

6. Investments

	2014	*2013*
Available for sale		
Portfolio investments	**7,285,956**	14,166,323
SaskCentral and Concentra Financial shares	**610,442**	610,442
Other investments	**448,781**	558,678
	8,345,179	15,335,443
Held to maturity		
Concentra Financial	**12,000,000**	8,640,000
	20,345,179	23,975,443
Accrued interest	**263,998**	234,656
	20,609,177	24,210,099

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6. Investments *(Continued from previous page)*

Pursuant to Regulations, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Credit Union Deposit Guarantee Corporation ("CUDGC"), requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2014 the Credit Union met the requirement.

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

	2014	*2013*
Investment portfolio rating		
AA	**4,663,922**	10,359,590
AA-	**-**	500,000
A	**1,805,823**	2,833,483
A-	**195,211**	773,250
Unrated	**1,680,223**	869,120
	8,345,179	15,335,443

SaskCentral and Concentra Financial shares are included in the unrated category above.

7. Member loans receivable

Principal and allowance by loan type:

			2014
	Principal performing	**Allowance collective**	**Net carrying value**
Agriculture loans	6,875,794	-	**6,875,794**
Commercial loans	17,898,858	40,000	**17,858,858**
Consumer loans	1,705,462	-	**1,705,462**
Lines of credit	1,940,909	-	**1,940,909**
Mortgages	27,816,383	-	**27,816,383**
	56,237,406	40,000	**56,197,406**
Accrued interest	317,039	-	**317,039**
Total	56,554,445	40,000	**56,514,445**

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

			2013
	Principal performing	**Allowance collective**	**Net carrying value**
Agriculture loans	7,163,311	-	7,163,311
Commercial loans	17,197,026	40,000	17,157,026
Consumer loans	1,747,599	-	1,747,599
Lines of credit	1,958,527	-	1,958,527
Mortgages	20,913,495	-	20,913,495
	48,979,958	40,000	48,939,958
Accrued interest	235,734	-	235,734
Total	49,215,692	40,000	49,175,692

There was no change in the allowance for loan impairment from the prior year.

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

December 31, 2014	**1-30 days**	**31-60 days**	**61-90 days**	**91 days and greater**	**Total**
Consumer	11,789	-	-	-	11,789
Commercial	104,262	-	-	-	104,262
Total	116,051	-	-	-	116,051

December 31, 2013	1-30 days	31-60 days	61-90 days	91 days and greater	Total
Consumer	6,208	-	-	-	6,208
Commercial	371,729	-	-	-	371,729
Total	377,937	-	-	-	377,937

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

8. Other assets

	2014	*2013*
Prepaid expenses and deposits	**8,937**	7,466
Deferred tax asset	**1,120**	1,120
	10,057	8,586

9. Property, plant and equipment

	Land	*Buildings*	*Computer software*	*Furniture and equipment*	*Total*
Cost					
Balance at December 31, 2012	**2,984**	**151,613**	**113,162**	**126,004**	**393,763**
Additions	**-**	**-**	**19,384**	**-**	**19,384**
Balance at December 31, 2013	**2,984**	**151,613**	**132,546**	**126,004**	**413,147**
Additions	**-**	**210,000**	**2,328**	**14,399**	**226,727**
Balance at December 31, 2014	**2,984**	**361,613**	**134,874**	**140,403**	**639,874**
Accumulated depreciation					
Balance at December 31, 2012	**-**	**151,613**	**113,162**	**126,004**	**390,779**
Depreciation	**-**	**-**	**6,460**	**-**	**6,460**
Balance at December 31, 2013	**-**	**151,613**	**119,622**	**126,004**	**397,239**
Depreciation	**-**	**9,960**	**7,235**	**4,800**	**21,995**
Balance at December 31, 2014	**-**	**161,573**	**126,857**	**130,804**	**419,234**
Net book value					
At December 31, 2013	2,984	-	12,924	-	15,908
At December 31, 2014	**2,984**	**200,040**	**8,017**	**9,599**	**220,640**

10. Line of Credit

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at prime minus 0.5% in the amount of $1,600,000 (2013 - $2,000,000) from SaskCentral.

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

11. Member deposits

	2014	*2013*
Chequing, savings, plan 24	**65,002,123**	60,834,400
Registered savings plans	**4,068,155**	3,749,623
Term deposits	**9,097,837**	10,059,093
Accrued interest	**109,200**	115,398
	78,277,315	74,758,514

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11. Member deposits *(Continued from previous page)*

Member deposits are subject to the following terms:

Chequing, savings and plan 24 products are due on demand and bear interest at rates up to 1.25% (2013 - 1.25%).

Registered savings plans are subject to fixed and variable rates of interest up to 3.25% (2013 - 3.25%), with interest payments due monthly, annually or on maturity.

Term deposits are subject to fixed and variable rates of interest up to 3.25% (2013 - 4.10%), with interest payments due monthly, annually or on maturity.

12. Income tax

Income tax expense recognized in net income

The applicable tax rate is the aggregate of the federal income tax rate of 11% on income under $500,000 and 15% on income greater than $500,000 (2013 - 11% and 15%) and the provincial tax rate of 2% on income under $500,000 and 12% on income over $500,000 (2013 - 2% and 12%).

Deferred income tax expense recognized in net income

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

	2014	*2013*
Deferred tax asset		
Property, plant and equipment	**1,120**	1,120
Net deferred tax asset is reflected in the statement of financial position as follows:		
Deferred tax asset	**1,120**	1,120

Reconciliation between average effective tax rate and the applicable tax rate

	2014	*2013*
Applicable tax rate	**27.00 %**	27.00 %
Small business deduction	**(14.00)%**	(14.00)%
Income not eligible for deduction	**7.87 %**	5.74 %
Non-deductible and other items	**0.16 %**	1.19 %
Average effective tax rate (tax expense divided by profit before tax)	**21.03 %**	19.93 %

In October 2013, the government substantially enacted a change in the federal tax rate from 11% to 15% that was introduced in the March 2013 budget. This increase in tax rate will impact income within the Credit Union with a phase in over the five year period from 2013 to 2018. Federally, the result is 40% of the Credit Union’s taxable income will be taxed at a rate of 15%, with the remaining income continuing to be taxed at a rate of 11% for 2014. By 2018 100% of the Credit Union's taxable income will be taxed at a rate of 15%. No changes in provincial tax rates were substantially enacted in 2014.

13. Other liabilities

	2014	*2013*
Accounts payable	**59,009**	36,242
Corporate income tax payable	**73,406**	12,952
	132,415	49,194

14. Membership shares

Authorized:

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

Issued:

	2014	*2013*
1,464 Common shares (2013 - 1,426)	**7,320**	7,130

All common shares are classified as liabilities.

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

During the year, the Credit Union issued 108 (2013 - 84) and redeemed 70 (2013 - 39) common shares.

15. Patronage

The Credit Union declared a patronage refund payable in the amount of $150,000 on December 18, 2014 (2013 - $150,000), to be paid by cash to the members based on participation for the year ended December 31, 2014.

The patronage refund of $150,000 (2013 - $150,000) has been reflected in the statement of comprehensive income with related tax savings of approximately $31,545 (2013 - $29,895) being reflected in the current year's provision for income taxes.

16. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") of the Credit Union are the General Manager, Office Manager and members of the Board of Directors. KMP remuneration includes the following expenses:

	2014	*2013*
Salaries and short-term benefits	**288,954**	266,874

Transactions with joint ventures of the Credit Union

CEAMS is an unincorporated entity that provides electronic account management and financial services systems for its members. CEAMS was formed on June 1, 1997 and commenced operations immediately thereafter. The activities of CEAMS are transacted in accordance with the terms and conditions of the Memorandum of Association, dated June 1, 1997, as amended from time to time. The Credit Union owns a nominal interest in this joint venture.

Transactions with key management personnel

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

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

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

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

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

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

	2014	*2013*
Aggregate loans to KMP	**2,132,644**	833,393
Aggregate revolving credit facilities to KMP	**97,000**	54,000
Less: approved and undrawn lines of credit	**(65,727)**	(32,471)
	2,163,917	854,922

	2014	*2013*
During the year the aggregate value of loans approved to KMP amounted to:		
Mortgages	**442,468**	214,330
Loans	**69,738**	22,000
	512,206	236,330

	2014	*2013*
Interest earned on loans and revolving credit facilities to KMP	**63,957**	27,082
Interest paid on deposits to KMP	**24,349**	12,436

	2014	*2013*
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**1,919,071**	1,327,105
Term deposits	**265,361**	261,891
Registered plans	**217,734**	200,406
Total value of member deposits due to KMP	**2,402,166**	1,789,402

Directors' fees and expenses

	2014	*2013*
Directors' expenses	**5,038**	2,508
Meeting, training and conference costs	**8,233**	1,821

SaskCentral and Concentra Financial

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

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

Interest earned on investments during the year ended December 31, 2014 amounted to $326,928 (2013 - $408,384)

Interest paid on borrowings during the year ended December 31, 2014 amounted to $2,270 (2013 - $2,811).

Payments made for affiliation dues for the year ended December 31, 2014 amounted to $22,281 (2013 - $23,385).

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

Celero Solutions

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

17. Capital management

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

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

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

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 1,250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. 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 or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

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

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

The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2014:

	Regulatory standards	*Board standards*
Total eligible capital to risk-weighted assets	**8.00 %**	**12.00 %**
Tier 1 capital to risk-weighted assets	**6.00 %**	**12.00 %**
Common equity tier 1 capital to risk-weighted assets	**4.50 %**	**8.00 %**
Leverage ratio	**5.00 %**	**8.00 %**

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

The following table summarizes key capital information:

	2014	*2013*
Eligible capital		
Common equity tier 1 capital	**6,971,012**	6,095,654
Additional tier 1 capital	**-**	-
Total tier 1 capital	**6,971,012**	6,095,654
Total tier 2 capital	**47,320**	47,130
Total eligible capital	**7,018,332**	6,142,784
Risk-weighted assets		
Total eligible capital to risk-weighted assets	**13.36 %**	12.38 %
Total tier 1 capital to risk-weighted assets	**13.27 %**	12.28 %
Common equity tier 1 capital to risk-weighted assets	**13.27 %**	12.28 %
Leverage ratio	**8.10 %**	7.59 %

18. Financial instruments

The Credit Union as part of its operations carries a number of financial instruments. It is management's opinion that the Credit Union is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

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

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

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

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

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

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

There have been no significant changes from the previous year in the exposure to risk, policies, procedures or methods used to measure risk.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position with additional detail reported in Note 7. For investment securities and derivative instruments, the Credit Union is exposed to the risk of default by the counterparty for instruments reported in Note 6.

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

Credit risk management for loan portfolio

The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio and starts at the time of a member credit application and continues until the loan is fully repaid.

Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

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

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

Credit risk management for investments and derivative instruments

Management of risk in relation to investments and derivatives is performed as per board approved policies which set out eligible investment securities and limits on exposure to single entities, issuer groups and maximum terms of investment. Eligible derivatives are defined in policy which includes limits on approval for purchase and disposal of investments and derivatives. Credit risk within these portfolios is monitored and measured by reviewing exposure to individual counterparties and ensuring the Credit Union remains within policy limits by issuer weightings and by dollar amount. The quality of the counterparty is assessed through published credit ratings which is outlined in Note 6.

Credit commitments

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

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

(a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

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

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

	2014	*2013*
Unadvanced lines of credit	**3,692,520**	3,668,335
Guarantees and standby letters of credit	**5,000**	5,000
Commitments to extend credit	**1,305,078**	348,448
	5,002,598	4,021,783

Market risk

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

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

Risk measurement

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

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

Objectives, policies and processes

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

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

Interest rate risk

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

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

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a quarterly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $142,356 over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $142,356 over the next 12 months.

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

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

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

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

Interest rate sensitivity

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

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

Contractual repricing and maturity

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

(In thousands)

	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year	Non-Interest Sensitive	2014 Total	2013 Total
Assets							
Cash and cash equivalents	6,553	-	-	-	1,481	**8,034**	7,500
Average yield %	*0.91*	-	-	-	-	*0.74*	*1.11*
Investments	128	2,346	5,501	11,760	874	**20,609**	24,210
Average yield %	*0.91*	*3.31*	*2.32*	*2.13*	-	*2.22*	*2.39*
Member loans receivable	42,089	187	1,645	12,276	317	**56,514**	49,176
Average yield %	*3.79*	*4.21*	*3.95*	*4.24*	-	*3.87*	*3.97*
	48,770	**2,533**	**7,146**	**24,036**	**2,672**	**85,157**	80,886
Liabilities							
Member deposits	35,814	2,478	4,369	23,935	11,681	**78,277**	74,759
Average yield %	*0.74*	*1.17*	*1.38*	*1.02*	-	*0.77*	*0.80*
Membership shares	-	-	-	-	7	**7**	7
Accounts payable	-	-	-	-	59	**59**	36
	35,814	**2,478**	**4,369**	**23,935**	**11,747**	**78,343**	74,802
Net sensitivity	**12,956**	**55**	**2,777**	**101**	**(9,075)**	**6,814**	6,084

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, certain deposit accounts and investments held. The Credit Union does not hedge its fair value risk. See Note 19 for further information on fair value of financial instruments.

Liquidity risk

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

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

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

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

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

The primary liquidity risk policies and procedures include the following:

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

Provincially, SaskCentral manages a statutory liquidity pool on behalf of Saskatchewan Credit Unions. Nationally, Central 1 Credit Union maintains required levels of marketable investment securities to support national system liquidity needs. SaskCentral maintains bi-lateral credit union lines with the other participating centrals for the purpose of accessing funding in a liquidity event as a participant in the national liquidity program.

The following table details contractual maturities of financial liabilities:

As at December 31, 2014:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	**54,342**	**3,025**	**20,910**	**78,277**
Accounts payable	**59**	**-**	**-**	**59**
Membership shares	**7**	**-**	**-**	**7**
Total	**54,408**	**3,025**	**20,910**	**78,343**

As at December 31, 2013:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	70,163	2,531	2,065	74,759
Accounts payable	36	-	-	36
Membership shares	7	-	-	7
Total	70,206	2,531	2,065	74,802

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

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

As at December 31, 2014

(In thousands)

	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	**8,034**	**-**	**-**	**8,034**
Investments	**8,849**	**3,000**	**8,760**	**20,609**
Member loans receivable	**44,239**	**1,560**	**10,715**	**56,514**
Total	**61,122**	**4,560**	**19,475**	**85,157**

As at December 31, 2013

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	7,500	-	-	7,500
Investments	16,570	1,000	6,640	24,210
Member loans receivable	36,874	1,344	10,958	49,176
Total	60,944	2,344	17,598	80,886

The above tables were prepared using undiscounted contractual maturities of financial assets and liabilities including interest that will be earned or paid on these amounts.

19. Fair value measurements

Recurring fair value measurements

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

(In thousands)	***2014 Fair Value***	***Level 1***	***Level 2***	***Level 3***
Assets				
Financial assets at fair value through profit or loss				
Cash	**1,481**	**1,481**	**-**	**-**
Available-for-sale financial assets				
Cash equivalents	**6,553**	**6,553**	**-**	**-**
Investments	**7,425**	**7,425**	**-**	**-**
Total recurring fair value measurements	**15,459**	**15,459**	**-**	**-**

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

(In thousands)	*2013 Fair Value*	*Level 1*	*Level 2*	*Level 3*
Assets				
Available-for-sale financial assets				
Cash equivalents	7,820	7,820	-	-
Investments	14,466	14,466	-	-
Total assets	22,286	22,286	-	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Bank indebtedness	320	320	-	-
Total recurring fair value measurements	21,966	21,966	-	-

As outlined in Note 4 to the financial statements, the Credit Union's SaskCentral and Concentra Financial shares and investments in equity instruments that do not have a quoted market price in an active market are classified as available for sale and measured at cost, therefore are not included in the above table. Amortized cost of these items totalled $920,223 (2013 - $869,120).

Asset and liabilities for which fair value is only disclosed

The following table analyses within the fair value hierarchy the Credit Union’s assets and liabilities (by class) not measured at fair value at December 31, 2014 but for which fair value is disclosed:

(In thousands)	***2014 Fair Value***	***Level 1***	***Level 2***	***Level 3***
Assets				
Investments	**12,533**	**-**	**12,533**	**-**
Member loans receivable	**56,396**	**-**	**56,396**	**-**
Total assets	**68,929**	**-**	**68,929**	**-**
Liabilities				
Member deposits	**77,642**	**-**	**77,642**	**-**
Membership shares	**7**	**-**	**-**	**7**
Accounts payable	**59**	**-**	**59**	**-**
Total liabilities	**77,708**	**-**	**77,701**	**7**

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

(In thousands)	*2013 Fair Value*	*Level 1*	*Level 2*	*Level 3*
Assets				
Investments	9,062	-	9,062	-
Member loans receivable	49,015	-	49,015	-
Total assets	58,077	-	58,077	-
Liabilities				
Member deposits	74,858	-	74,858	-
Membership shares	7	-	-	7
Accounts payable	36	-	36	-
Total liabilities	74,901	-	74,894	7

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

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

20. Commitments

In 2009, the Credit Union entered into a ten year commitment through their CEAMS joint venture for the provision of retail banking services provided by Celero 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 banking system. The annual operating fees to December 31, 2014 were $46,024 and recorded as an expense (2015 estimate of operating fees - $49,625).

In prior years the Credit Union entered into an agreement to purchase units in the APEX Investment Fund. The Credit Union makes advances to the Fund when requested which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2014 the Credit Union has advanced $376,925 of their total commitment of $419,288 to the APEX Investment Fund.

In prior years the Credit Union entered into an agreement to purchase units in the APEX II Investment Fund. The Credit Union makes advances to the Fund when requested which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2014 the Credit Union has advanced $51,627 of their total commitment of $500,000 to the APEX II Investment Fund.

21. Other legal and regulatory risk

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