ANNUAL REPORT 2019

Community Partners For Over 50 Years!

AGENDA

Luseland Credit Union Ltd
Annual Meeting

March 24, 2020

- Registration
- Confirmation of Quorum
- Nomination of Chairperson and Secretary
- Adoption of Agenda
- Reading and Approval of lasts year's minutes
- Business Arising from Minutes
- Election of Officers (only members 16 years and over may vote)
- President's Report
- Manager's Report
- Report of Auditors and Financial Statements
- Adoption of Reports
- Appointment of Auditors
- Other Business
- Adjournment

Luseland Credit Union Limited

Incorporated: June 5, 1963 Credit Union Charter No. 347

OFFICERS

President:	Jan Edmonds
Vice President:	Deanne Campbell
Secretary:	Jean Halliday
Manager:	Adam Franko

STAFF

NAME	POSITION	YEARS OF SERVICE LCU	System
Mickayla Brandle	Loans Officer	2	2
Michelle Eurich	Documentation Clerk	14	14
Adam Franko	General Manager	12	17
Jean Halliday	Controller	40	43
Ryley Magnus	Junior Controller	2	2
Megan Meier	Member Service Representative	2.5	2.5
Angela Reiter	Loans Officer	22	22
Alyssa Underdahl	Office Manager	10.5	10.5

DIRECTORS

NAME	OCCUPATION	COMMITTEE	TERM
Deanne Campbell	Health Care	Executive/Governance	2020
Daniel Holman	Farmer	Policy/Scholarship	2020
Lyle Honeker	Farmer	Executive/Governance	2020
Jan Edmonds	Retired Farmer	Executive/Governance	2021
Brian Gottfried	Farmer	Audit & Risk/Conduct Review	2021
Debra Scholer	Photographer/ Receptionist	Audit & Risk/Conduct Review/ Governance	2021
Nona Holtz	Store Owner	Audit & Risk/Conduct Review/ Policy/Scholarship	2022
Shirley Knorr	Retired Banker	Policy/Scholarship	2022
Robert Prieston	Engineer	Audit & Risk/Conduct Review/ Governance	2022

Supporting Our Community

At LCU we love to support the community that we are so proud to be a part of. As a staff, we support a number of different community initiatives. Some of these activities include volunteering at the Museum Fall Fair, Canada Day celebrations, the Credit Union Member Appreciation BBQ, doing dishes at the Pioneer Club, hosting Christmas crafting for kids, delivering Meals on Wheels, creating snacks for Wellness Day at the Pioneer Club, taking the daycare children out for ice cream, making meals for the New Pool's landscaping workers, and working the BBQ at the Grand Opening for the Luseland Credit Union Community Swimming Pool.

Supporting Our Members

At LCU we stay up to date on the latest advancements in technology. This year members were introduced to Apple Pay, Google Pay, and Samsung Pay. Paying is made safe and convenient while leaving your wallet at home.

We also keep members up to date by organizing education opportunities. This year members learned about Agriculture markets, how to identify and avoid fraud, and making the best use of digital banking.

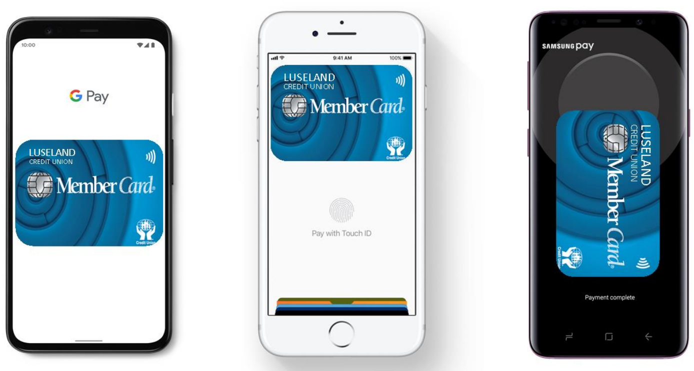
G Pay

NOW AT LCU

SAMSUNG pay
MORE THAN A WALLET

Luseland CREDIT UNION

* Apple Pay® and iPhone® are trademarks of Apple Inc.



Luseland
CREDIT UNION

701 Grand Ave.
P.O.Box 518
Luseland, SK
S0L 2A0

Minutes of the 55th Annual Meeting of the
Luseland Credit Union Ltd: March 19, 2019

General Manager Adam Franko opened the 55th Annual Meeting at 7:30 by welcoming everyone to the meeting. It was noted that a quorum was present and the meeting could proceed.

Franko called the annual meeting to order and opened the floor for nominations for chairman. Brad Scholer/Alyssa Underdahl nominated Jan Edmonds. Sheldon Reiter moved nominations cease. Jan Edmonds welcomed everyone to the annual meeting and encouraged them to take an active part in the meeting. Richard Bardick/Deb Scholer nominated Jean Halliday as Secretary. Deanne Campbell moved nominations cease.

Adoption of Agenda: Moved by Marj Reiter/Alyssa Underdahl the agenda be adopted as presented. Carried.

Minutes: The minutes of the March 13, 2018 meeting were read. Moved by the minutes be adopted as read. Carried.

Election of Officers: Marj Reiter and Deanne Campbell, on behalf of the nominating committee, presented the following names: Daniel Holman, Nona Holtz, Shirley Knorr, Bob Prieston, Sharon Stang and read their bios. Jan Edmonds reviewed the procedure for the election. Voting took place by all eligible members.

PRESENTATION OF REPORTS

President's Report: Jan Edmonds presented the President's Report.

Manager's Report: Adam Franko presented the Manager's Report reviewing the financial highlights for 2018. Sharon Stang asked how many members at LCU. Franko replied there were 1600 as at December 31, 2018. Max Magnus asked if traffic has increased at the ATM. Jean Halliday reported that traffic has increased significantly over the past year. Franko then discussed the current situation with the loss of the Global Payment Card. We offer Collabria Credit Cards in its place and have a strategy to help our members get the cards and limits they need.

Auditors Report: Adam Franko reviewed the Auditors Report.

Phone: (306) 372-4444 Fax: (306) 372 4446 www.luselandcu.com

Financial Statement: Franko also presented the Financial Statement for the year ended December 31, 2018 to the membership.

Adoption of Reports: Moved by Jim Meier/Matt Rumohr the reports be adopted as presented. Carried.

Appointment of Auditors: Moved by, Debra Scholer, Chair of the Audit and Risk Committee/ Nona Holtz, we appoint MNP LLP as Auditors for 2019. Carried.

Election Results: Marj Reiter announced the results of the election with the successful candidates being Daniel, Holman, Nona Holtz, Shirley Knorr, Bob Prieston. Moved by Steve Allen/Brad Scholer the ballots be destroyed. Carried.

Presentations: President, Jan Edmonds thanked Lyle Honeker for his 5 years of service to the Luseland Credit Union and presented Marj Reiter with a bouquet of flowers as a thank you for her years of service.

Adam Franko thanked Jan Edmonds for his 5 years of service to the board and Alyssa Underdahl for her 10 years of service as a valuable staff member.

Moved by Nona Holtz we adjourn at 8:45. Carried.

Attendance: 67

Door prize winners were:

Max Magnus	Kathy Bale
Jan Edmonds	Vern Poggemiller
Ron Cook	Deb Scholer

PRESIDENT'S REPORT

Welcome to the 56th Annual Meeting of the Luseland Credit Union Limited (LCU). The success of the annual meeting depends on the participation of our members. It is my pleasure to present my report to the membership.

Our assets finished this year at $126,194,736; an increase of $7.7 million from the 2018 results of $118,520,284. Given the tough economy in the local area, the province and world as a whole, the board was pleased with these results. We continue to be one of the few credit unions to offer no service charges on most items. Technological change continues to evolve and LCU strives to offer these enhanced products and services to its members. Being able to make purchases with your debit card on your mobile device through Apple Pay, Google Pay, and Samsung Pay are examples of new technologies adopted by Luseland Credit Union during the year.

The board is very proud of our new building and the opportunities it has created for the Credit Union. The usage of the upstairs community room continues to grow and we are pleased to offer this service to the community. In 2019, we completed the installation of an elevator to allow easy access to the second floor for everyone.

Once again we paid a patronage rebate and this time $175,000 was returned to our members. This patronage was paid on February 13th as a rebate on interest paid by members on loans and lines of credit, as well as a bonus on interest received by the members in Regular Savings, Plan 24, and Term Deposit accounts in 2019. This proves that we are in a profitable and sustainable financial position.

The board is very proud of our staff as they are what keep us successful and create the friendly atmosphere the members enjoy. This year Jackie Cook and Jason Murray moved onto other opportunities. On behalf of the board I would like to thank Jackie and Jason and all of the staff for their dedication through the years.

I would also like to mention Adam's leadership and dedication to LCU as he is heavily involved in the community while insuring our Credit Union offers new opportunities to our members and continues to grow.

It is important to give back to our community and this year we were pleased to donate $119,654 to numerous organizations and projects in our area. Our goal is to help reduce the financial stress typically associated with the operation of these groups and projects. They are a vital part of our community and keeping the entire area vibrant and growing.

Thank you to my fellow board members for their commitment to our Credit Union. Thank you for meeting each new challenge and keeping yourself educated about the overall operation of the Credit Union. On their retirement, I would also like to make a special mention of Deanne Campbell's 12 years and Lyle Honeker's 6 years of service and dedication to board.

I want each member to know that your support and loyalty is valued and appreciated. It is you who make us successful as well.

Thank you,

Jan Edmonds, President of the Board of Directors

Management Discussion and Analysis

Vision

Working together to create a strong community through the provision of excellent financial and member service.

Mission

Our knowledgeable, professional and caring people work together to enhance the economic and social well-being of our members and their communities by providing access to a wide range of excellent financial products and services.

Credit Union Market Code

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

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

Our Values

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

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

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

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

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

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

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

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

Who We Are

LCU is an independent Saskatchewan credit union owned by our members. Under the current credit union legislation, LCU is able to provide financial services to members and non-members. As at December 31, 2019, LCU had 1624 members and 0 non-members. Non-members do not participate in the democratic processes of the credit union nor the patronage program.

LCU serves the community of Luseland and surrounding area through a single branch. In this community and surrounding area we provide a range of financial services including personal, agricultural and commercial accounts, loans, mortgages, creditor insurance, and investment products.

Where Are We Going

The vision of LCU is to be the leading provider of a complete range of financial services in the town and surrounding area of Luseland, Saskatchewan. To monitor specific objectives throughout the year that support this vision, we have developed a strategic plan that outlines short and long term goals for LCU. Progress to the plan is measured by quarterly reporting back to the board by management on the completion of specific goals.

Our key strategic objectives in 2019, were:

1) Maintain profitability and sustainable growth,
2) Continue to build strong relationships with our members and community,
3) Ensure we have the products and services our members want and identify opportunities to collaborate with others to deliver those services, and
4) Continue to make sure we have effective people in place to deliver the best member service.

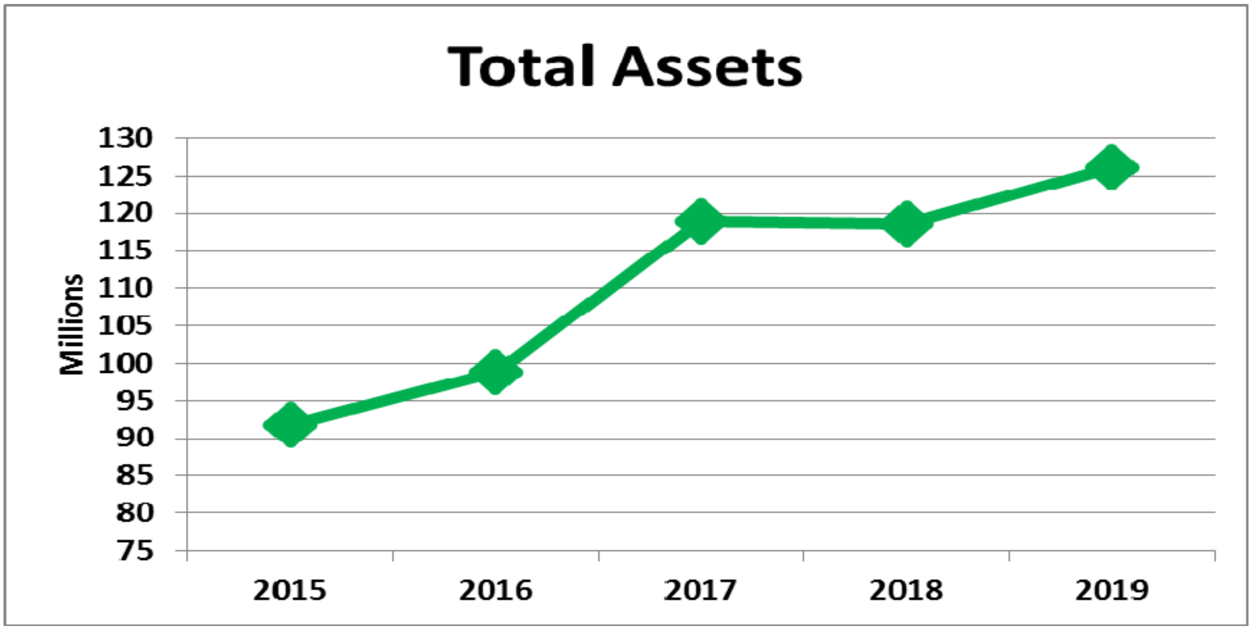
We, at LCU, are pleased to continue to meet and exceed our strategic objectives in 2019. We were able to generate a profit before patronage of $948,635 and grew our assets by 6.48% and equity by 7.70%. We continue to build strong relationships by welcoming over 100 new members to LCU, granting over 300 loans to our members, donating almost 120 thousand dollars to worthwhile causes, and being a leader at community events whenever we can. To be a fast-follower on new banking technologies LCU has adopted Apple Pay, Google Pay, and Samsung Pay. Now our members have the convenient and secure ability to make in-store purchases with their mobile devices. Jackie Cook and Jason Murray have moved onto new opportunities in their lives. To accommodate staff changes, you have been seeing Jean Halliday working the frontline full-time and we’ve completed our search for a new loans officer.

Building and maintaining strong relationships is at the core of our business. Meeting the goal of our vision requires LCU to always continue to focus on relationships; relationships with potential members, current members, other Credit Unions, our staff, our community and many more. We look forward to continuing to building, strengthening our relationships.

Financial Performance

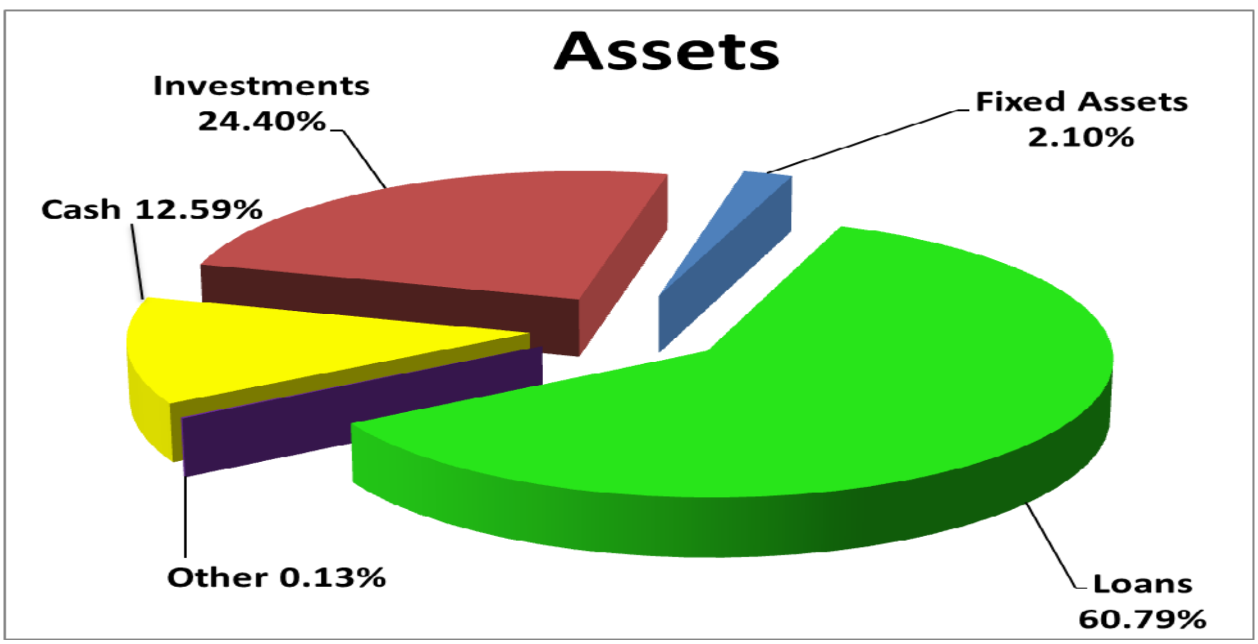
Statement of Financial Position

The total assets for LCU increased in 2019 6.48% or $7.67 million (2018 – decrease of 0.39% or $463 thousand). This increase resulted in a final value of $126.19 million in assets (2018 - $118.52 million).



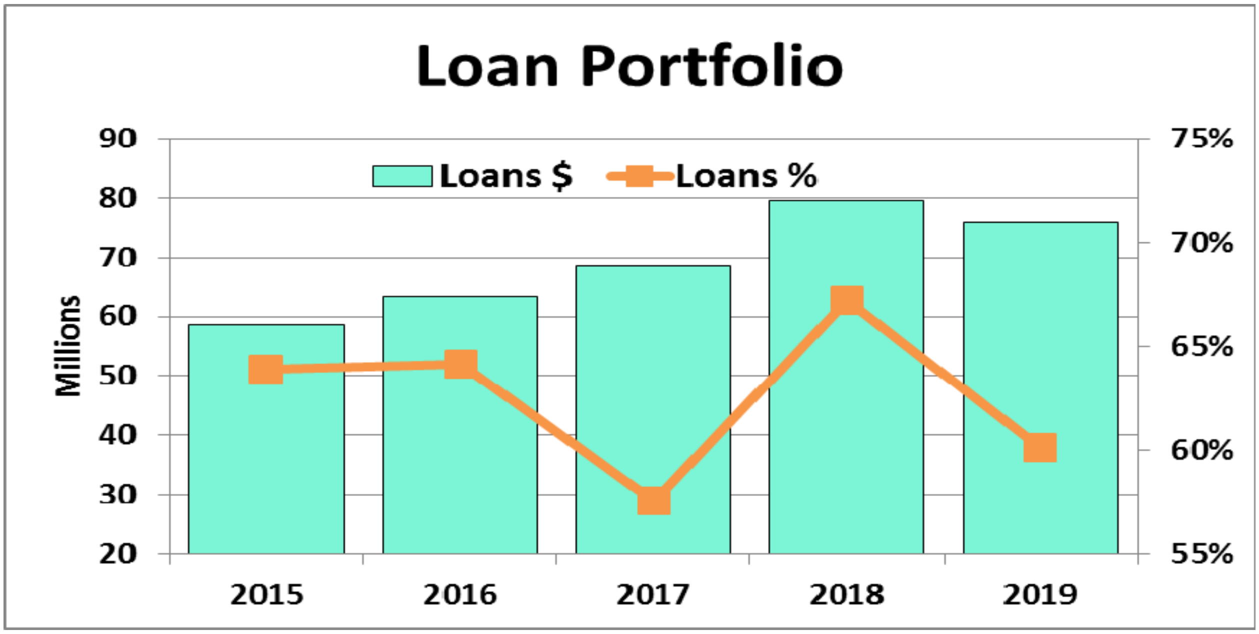
Assets

LCU's asset composition changed in 2019 compared to 2018. In 2019, the loan portfolio decreased to 60.79% of total assets (2018 – 67.42%). As asset growth was strong at 6.48% for the year, the amount of corporate investments held increased to 24.40% (2018 – 20.26%). LCU continues to look for opportunities to increase its loan portfolio as loans typically generates a higher rate of return compared to dollars in corporate investments.



Loan Portfolio

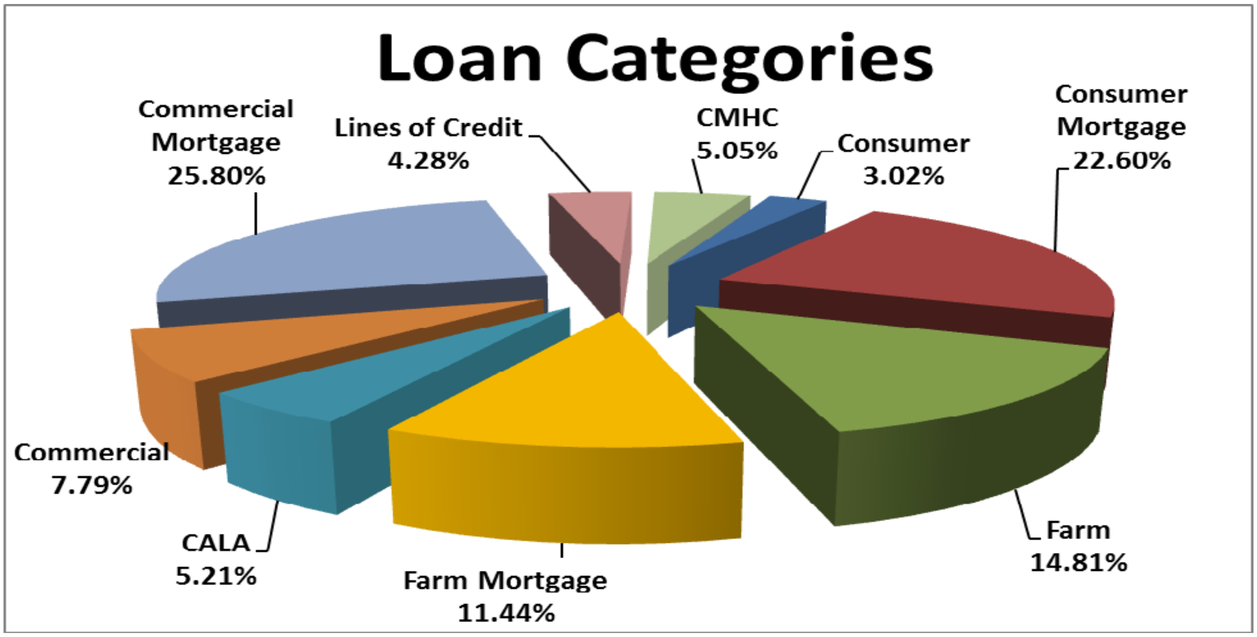
The loan portfolio decreased 3.99% in 2019 (2018 increase of – 16.07%) due to a reduction in line of credit utilization, syndicated loan repayments, normal repayments from members, and increased loan write offs. The total amount of loans outstanding at the end of the year was $76.71 million (2018 –$79.90 million). During the 2019 year, LCU's lenders approved 311 loans and lines of credit for just over $45 million dollars. In 2020, LCU looks to increase its loans to assets ratio by seeking out local opportunities and by purchasing loans from other Credit Unions.



The portfolio is well diversified, with relatively equal parts lent in the sectors of agriculture (32.87%), commercial (35.09%), and consumer (32.04%). Delinquency remains very low with 73.35% of the portfolio secured by mortgage collateral (2018 – 76.07%) and 0.02% delinquency over 90 days (2018 – 0.09%). LCU's staff work diligently and continue using strong credit granting policies that reduce the chance of credit losses.

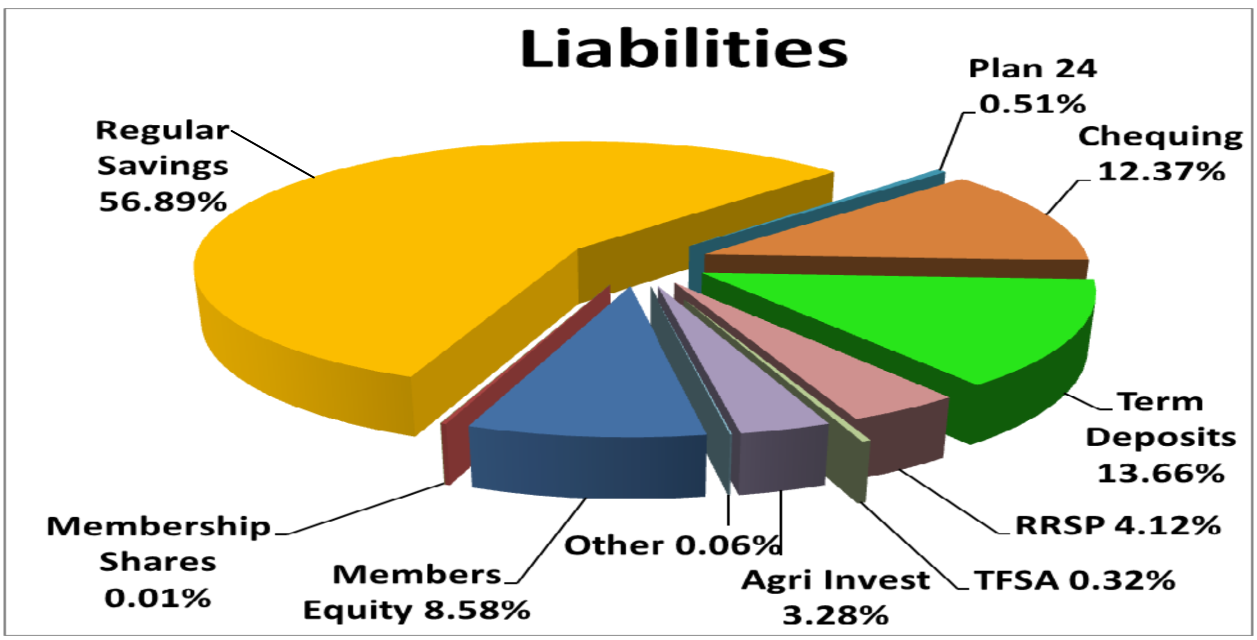
LCU has allowances for potential loan losses split into two categories, specific and general. There is one loan that makes up LCU's specific allowance of which total principal and interest impaired is $13,771. LCU does not anticipate a loss on that file as the security value of the collateral far exceeds the loan value. LCU's general allowance for 2019 remained unchanged from 2018 at $178,199.

At yearend, LCU had three foreclosed properties with an estimated combined value of $335,000. One of these properties had an agreement for sale completed, with a possession date of January 31, 2020. LCU continually evaluates opportunities to sell the other properties and reduce the future carrying costs associated with foreclosed properties. In the absence of a sale, LCU will also explore the potential of leasing these properties rather than leaving them vacant.



Liabilities

In 2019, member deposits increased 6.06% (2018 – decreased 1.31%). LCU's liability composition remained stable in 2019 compared to 2018. Year over year the majority of member deposits remained in regular savings at 56.89% (2018 – 55.90%).

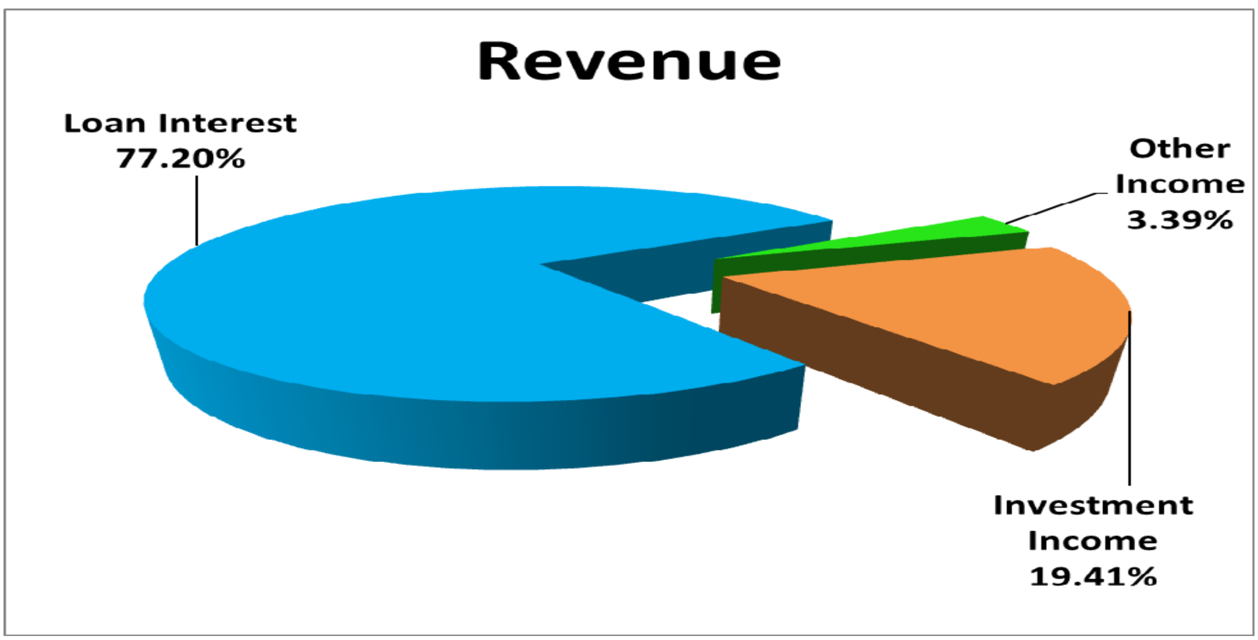


Statement of Comprehensive Income

For LCU 2019 was another busy year building strong relationships with current and new members; installing an in-branch elevator; launching our LCU Facebook page; navigating the removal of Global Payment Cards; implementing digital signatures for lending agreements; completing a member survey; educating our members on Agriculture markets, how to avoid fraud, and digital banking; and adopting new payment methods of Apple Pay, Google Pay, and Samsung Pay.

Revenue

The percentage of revenue generated from loans, investments, and other sources remained relatively stable in 2019 compared to 2018. In 2019, LCU had phenomenal deposit growth throughout the year and especially in late Q3 and early Q4. This deposit growth late in the year put downward pressure on LCU's loans to assets ratio which decreased to 60.79% (2018 – 67.42%). LCU continues to explore options to increase the loans to assets ratio to ensure long term profitability. The rate of return on the loan portfolio improved compared to the prior year at 4.67% (2018 – 4.56%) and LCU's rate of return on investment income improved to 2.32% in 2019 (2018 – 2.21%). These rates of return are primarily impacted by changes in the interest rate market and as a result of changes to the Bank of Canada prime rate. In 2019, the Bank of Canada's prime rate remained constant throughout LCU's fiscal year. Other income is typically service charges and commissions. It remains a small part of the total revenue for 2019 at 3.39% (2018 – 3.12%) and LCU is very proud of this fact. Our members still enjoy a virtually service charge free environment coupled with outstanding service.

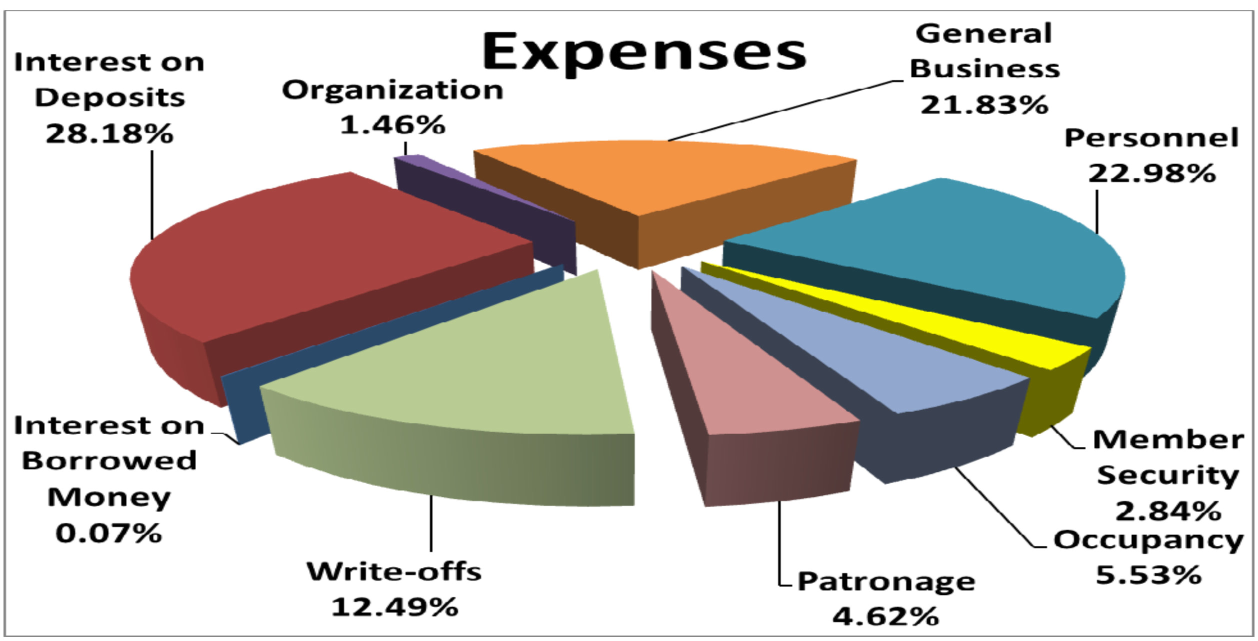


Expenses

Interest expense on member deposits remained the primary expense in 2019 and slightly increased to 28.18% (2018 – 27.55%) as a percentage of total expenses. In nominal dollars interest expense on member deposits increased $161,824 due to increased deposits from our members. Personnel expenses decreased to 22.98% in 2019 (2018 – 24.44%) as a percentage of total expenses; in nominal dollars personnel expenses increased in 2019, by $66,779, as a result of having a full complement of staff for the entire year. General business expenses as a percentage of total expenses decreased to 21.83% (2018 – 22.17%). In nominal dollars general business expenses increased $97,868 primarily due to an additional $50,000 donation to the Luseland Credit Union Community Swimming Pool, costs associated with collecting security on delinquent loans, and remaining one-time fees associated with adopting a new accounting standard in 2018.

2019 saw LCU record write-offs of $473,126 (2018 - $31,540). These write-offs are primarily losses associated with loans defaulting. LCU's policies and procedures are designed to minimize loss and mitigate risks and LCU's team strictly adheres to these policies and procedures. However, not all risks can be mitigated unfortunately and there are many factors outside our control that can cause a good credit file to become delinquent and potentially a write off. Historically LCU's write-offs have been significantly less than in 2019. This year was a good reminder that credit losses are a part of lending and the strength of our Credit Union has allowed us to weather these bumps in the road.

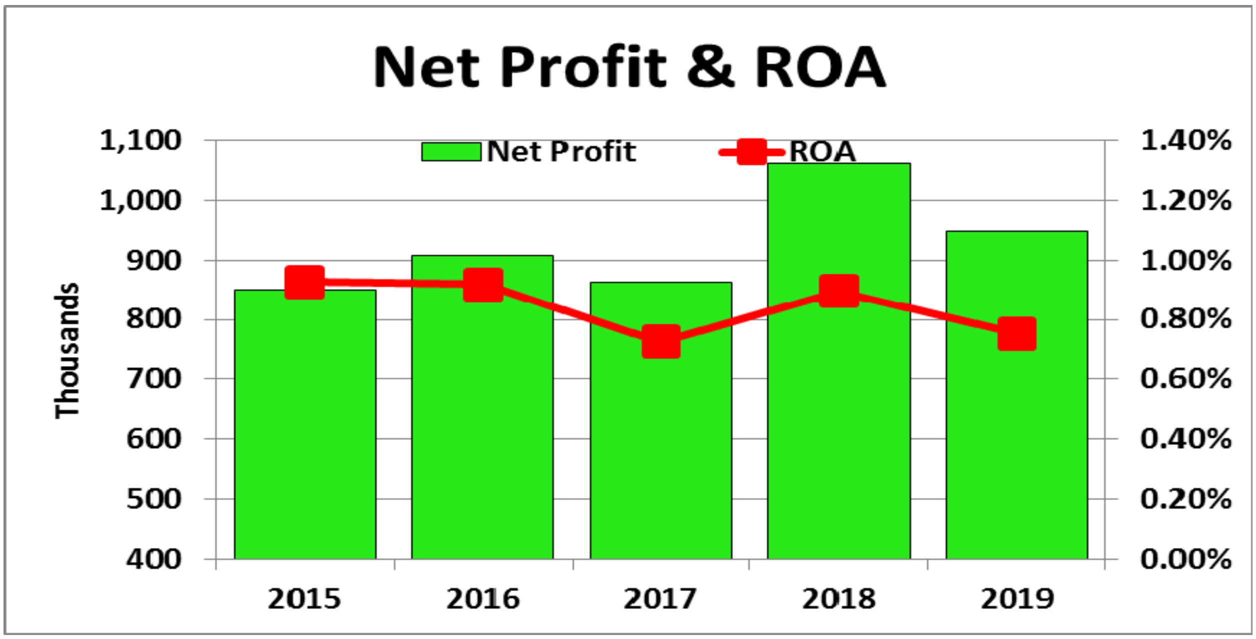
LCU continues to manage its expenses well and has one of the most efficient operations in the province. LCU continues to ward off fraud by proactively embracing new technologies that are proven to reduce fraud, by training staff in how best to protect member deposits, and by educating members on current fraud trends and tactics to avoid fraud. As a part of LCU's provision for impaired loans – write-offs for 2019 included $1,238 (net of recoveries) for losses that resulted from fraud (2018 - $9,807).



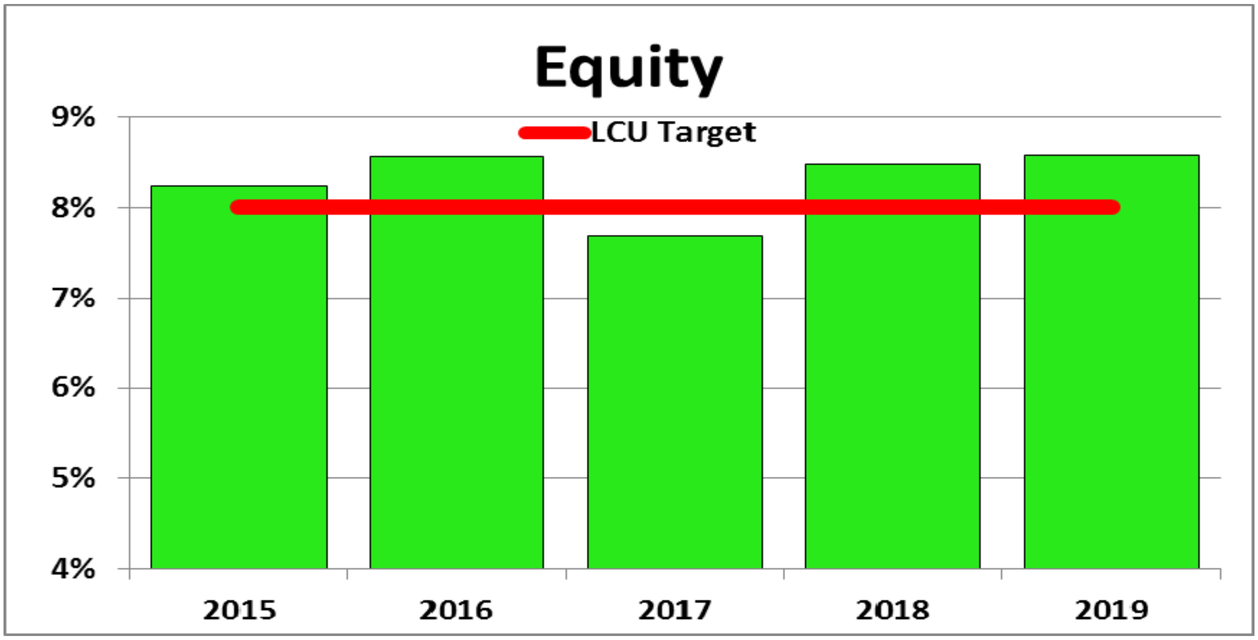
Comprehensive Income & Equity

Comprehensive income decreased 15.03% in 2019 (2018 – increased 27.69%). The main driver for this decrease was write-offs associated with loan defaults. Looking at income before impaired loans, patronage, and income taxes LCU's profitability was slightly better in 2019 than 2018 by $17,979. While the immediate effects of a loan write-off are easy to see on the bottom line, they are typically far less than the combined carry costs, administrative time, and future write-offs associated with delaying the process. This allows LCU to focus on the future and to continue to building lending relationships with our members to solidify a strong foundation for LCU's future.

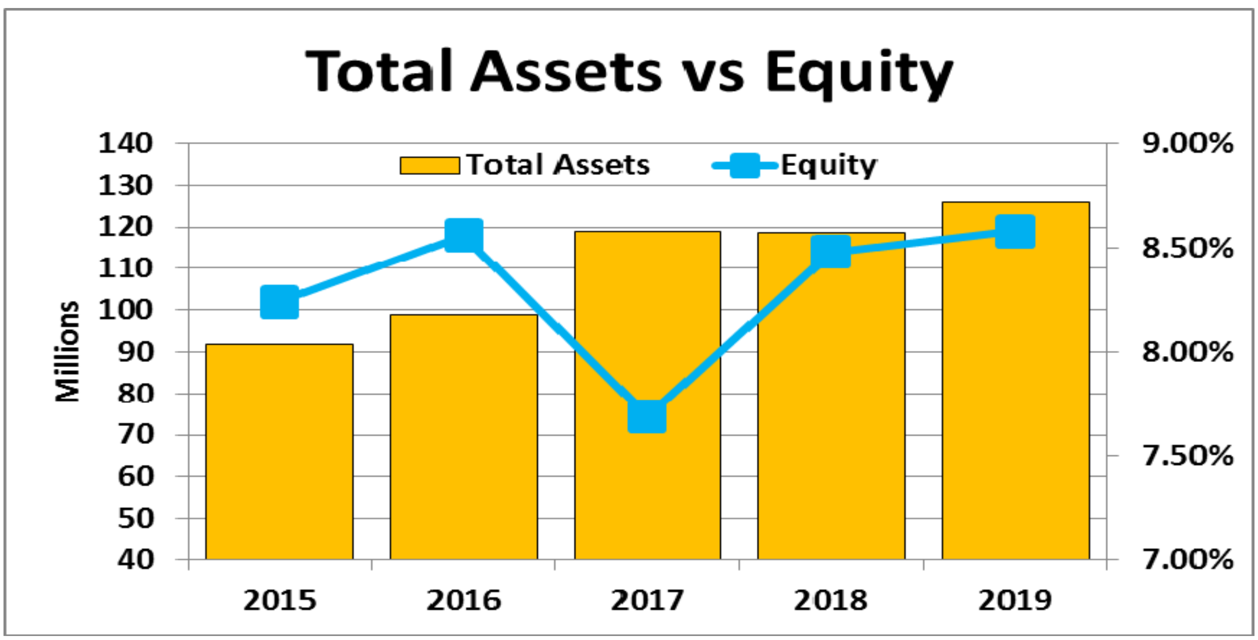
Looking at LCU's 5-year historic normalized net profit and normalized return on assets (ROA) we see that 2019 was within the 5-year historical average. Net profit and ROA have been normalized for this analysis by adding back patronage payments. LCU had a successful 2019 by achieving a normalized ROA of 0.75% and normalized net profit of $948,635 (2018 – ROA: 0.89%; net profit: $1,060,533).



LCU's regulatory equity (now called leverage) requirement is 5.00%. LCU aims to surpass its regulatory requirement by setting its own equity target at 8.00% and its policy minimum at 7.00%. LCU continues to build its equity position to ensure we can meet the growing needs of our growing membership. In 2019, LCU's equity ratio was 8.69% (2018 – 8.61%). LCU also monitors its Risk Weighted Capital (RWC) which is a measure of assets and their specific levels of riskiness compared to LCU's equity reserves. RWC for 2019 was 13.68% (2018 – 12.97%), which was ahead of our regulatory requirement of 10.50% and LCU's internal requirement of 12.00%. The increase in both of these measures is a result of LCU's strong financial comprehensive income.



When comparing LCU's equity to assets we can validate our success in 2019 by continuing to build our capital position. LCU's assets experienced significant growth at 6.48% and our equity growth at 7.70% was able to exceed our asset growth. This strong equity position allowed LCU to pay patronage of $175,000 to members on February 13, 2020 (February 21, 2019 - $150,000). This patronage represents members' participation in LCU's success through a bonus on deposit interest and a rebate on loan interest. The payment also serves as a thank you to members for their continued support and loyalty.



Enterprise Risk Management

Each year our credit union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our community now and in the future. This process is called Enterprise Risk Management or ERM for short, and is a requirement of credit unions in Saskatchewan as laid out by Credit Union Deposit Guarantee Corporation. The board and management are tasked with completing the ERM process on an annual basis by holding a special meeting in conjunction with the strategic planning session. Through this process, the following risks have been identified according to their potential impact on the Luseland Credit Union.

Strategic Risk

Strategic risk is the risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, customer preferences, product obsolescence or resource allocation will impact our ability to meet our objectives. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals and the quality of implementation. A specific strategic risk for LCU is that the current support systems may become too costly or non-existent. Management will continue to monitor events and strategic direction of system partners as well as maintain awareness of support alternatives.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error, employee integrity, or natural disasters. Specific risks include the inability to attract, retain, and develop employees, acquire, implement and sustain effective technology solutions, maintain continuity in business operations in the face of catastrophic events or other interruptions.

Specific operational risks and their action plans are outlined below:

- Above average growth will negatively affect capital.
    - Make informed decisions based on growth capital and profit.
    - Make prudent decisions, i.e. patronage allocations.

- Volatility in the oil and agricultural sectors will negatively affect capital.
    - Keep abreast of market and commodity prices.
    - Continue to work with members to resolve stress issues.

- Hijack/ransom of our website.
    - Maintain strong procedures and controls.
    - Carry insurance to protect against loss.
    - Communicate with members should an event occur.

- Financial loss from card skimming, fraud, wire transfer etc.
    - Maintain strong procedures and controls.
    - Carry insurance to protect against loss.
    - Communicate with members should an event occur.

- Being able to attract or retain staff in key positions.
    - Continue to recruit for positions.
    - Train staff interested in career advancement.
    - Contract temporary resources if necessary.

Liquidity Risk
Liquidity risk is the potential inability to meet obligations, such as liability maturities, deposit withdrawals, or funding loans without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

Our annual review did not identify any significant liquidity risks at this time. Our 2019 saw a significant increase in member deposits which continues to support LCU's historical trend of above average amounts of excess liquidity. LCU was successful in being able to meet all of its obligations while improving our Liquidity Coverage Ratio. As always, this is acknowledged to be something to monitor, particularly in the event loan demand should see an increase.

LCU cultivates a balanced, prudent approach to managing the exposure to liquidity risk. There is always a cost/benefit trade-off between holding lower levels of liquidity in an effort to maximize an optimal return, typically through funding member loans, and higher levels of liquid, low yielding assets such as term deposits, high interest savings accounts and bank bonds, with an eye to ensuring any liquidity needs of the organization are met. LCU maintains, and continually reviews and revises, Capital and Liquidity Management Plans. The utilization of those, as well as a regular review of an Internal Capital Adequacy Assessment Program (ICAAP), allows for the assessment of the organization's liquidity strategies and contingency plans, under normal, slightly stressed, and more austere projected operating conditions. This contingency planning and related liquidity management process provides a unified liquidity management course of action, to ensure LCU holds liquidity risks to a tolerable measure.

The management of liquidity risk by LCU has a number of key aspects, which would include the following:

- Statutory Liquidity. LCU maintains a minimum level of monies on deposit with SaskCentral based on regulatory requirements (10%). These amounts are updated on a quarterly basis. As such, SaskCentral is a fundamental partner in LCU's liquidity risk management.
- Policies. The board sets policy that, among other things, establishes targets for minimum liquidity levels, determines a monitoring system, and defines authority levels and responsibilities.
- Monitoring. Activity in loans and deposits are regularly reviewed, and any trends used to project forward appropriate liquidity levels. Monitoring of the external environment is also effected, using a variety of sources of data.
- Patterning. LCU's liquidity plan forecasts cash-flow in the organization, over a variety of projected risk situations.
- Diversification of funding. LCU maintains reporting on the diversity of its deposit liabilities by source, term, and deposit type. In addition, a credit facility is maintained with SaskCentral as an additional backstop.
- Stress testing. LCU regularly performs stress testing on elements of the organization, which includes the CUDGC prescribed Liquidity Coverage Ratio (LCR), in order to measure the possible effect of various disrupters (both on an organization-specific level and a more macro level).

The organization keeps a number of liquidity risk fundamentals in mind, including:

- Maintaining a suitable balance between the levels of liquidity held by the organization, and the potential costs of liquidity risk management abatement, factoring in the potential consequences of liquidity stress events.
- Maintaining and growing our base of member deposits.
- Cultivating a flexible liquidity position, to manage both present operations and future growth needs, while keeping the soundness of the organization top of mind

LCU has implemented a LCR calculation process as of January 1, 2017 to comply with our regulatory requirements. The objective is to ensure that LCU has adequate unencumbered high-quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash at little or no loss of value, and meets its liquidity needs for a 30 calendar day stress scenario. It is assumed that corrective actions have been taken by LCU and/or CUDGC after the 30 day window.

CUDGC had set the minimum for LCR at 100% for 2019 (2018 – 90%) and LCU surpassed the target with 192.28% (2018 – 149.18%). For 2020, the minimum LCR will continue to be 100% and LCU does not anticipate any challenges with exceeding this threshold.

Credit Risk
Credit risk is the risk of loss arising from a borrower or counterparty's inability or unwillingness to meet their credit obligations. Strategies to mitigate this risk include maintaining up to date policies and procedures based on strong credit underwriting and monitoring processes. Within those processes there are a number of tools that LCU utilizes to evaluate and monitor the credit portfolio as follows.

LCU has a robust credit analysis and submission program that also includes a component for risk rating not only the current loan, but the entire member file. A variation of this program is used for all consumer, agricultural and commercial loans to ensure the lending decision is based on high quality data that is repeatable.

The semiannual loans analysis program further evaluates our largest files along with any files with a risk rating above a certain threshold. As part of this review, member information is updated and all of the member's accounts with LCU are scrutinized to ensure they are operating satisfactorily.

LCU also monitors high risk accounts semiannually to evaluate whether or not further action is warranted. That action can include increased information requirements, additional loan covenants, or even commencement of collection activity.

The ICAAP process sets aside a provision in its calculations for the impact of credit risk. This provision is based on the probability and impact of credit losses as well as numerous stress tests that explore scenarios and what the effect would be on LCU's capital position as a whole.

Through the IFRS 9 – loan impairment process, which utilizes historical delinquency data from the provincial system as well as our own, LCU held its general allowance for credit impairment at $178,199 (2018 - $178,199) and its specific allowance at $nil (2018 - $113,489).

A syndicated loan is one that LCU has purchased from another credit union as part of management's strategy to maintain the loans to assets ratio at or near 65%. LCU also purchases individual leases and lease packages as another method to maintain our loan portfolio. These loans and leases are evaluated in the same manner as our member generated loan requests and deemed to be of the same quality.

Delinquency is within acceptable parameters at present. Due to strong policies and procedures, along with robust analysis practices, LCU remains focused on carefully managing this area. Delinquency standards for loan delinquency over 90 days are a maximum of 1.00% of assets and as mentioned earlier in this report, LCU ended the year at 0.02% (2018 – 0.09%). Policies and procedures are in place to ensure due diligence is maintained in assessing the credit portfolio, including but not limited to having strategies to limit the potential impact of an economic downturn on mortgage loans and HELOCs. All audit reports, Internal and External, have shown that good lending controls are in place.

As per guidelines set out by CUDGC, LCU is required to provide additional credit disclosures as regards the residential mortgage portfolio. LCU has a maximum lending value when providing residential mortgages of a maximum of 80% of the collateral value. While lending beyond that loan-to-value (LTV) may be considered, it then requires the use of default insurance, which is a contractual coverage that protects LCU's residential portfolio against potential losses as caused by borrower default. LCU utilizes the Canada Mortgage Housing Corporation (CMHC) to provide this coverage as required.

LCU's residential mortgage portfolio may be viewed in the following manner:

Type of Credit	**Total - 2019**	**% of Residential Mortgage Portfolio - 2019**	**Total - 2018**	**% of Residential Mortgage Portfolio - 2018**
Conventional (uninsured)	$ 17,145,784	80.45%	$ 17,513,618	78.81%
CMHC (insured)	$ 3,831,538	17.98%	$ 4,375,346	19.69%
HELOC (Home Equity Lines Of Credit)	$ 335,000	1.57%	$ 335,000	1.50%
Total	**$ 21,312,322**	**100.00%**	**$ 22,223,964**	**100.00%**

LCU completes regular reviews, called stress tests, to aid in identifying the impact of a significant decline in the housing market on the residential mortgage portfolio. There are two main components considered in evaluating such consequences in regards to an economic downturn: the potential increase in member defaults, and the potential decrease in the value of the collateral. As shown in the table above, LCU holds a small amount of HELOCs as part of the residential mortgage portfolio. The majority of the portfolio is comprised of conventional term mortgages. As we would require a minimum of 20% down, or alternatively hold default insurance, in those cases, the residential mortgage portfolio accordingly does have a certain level of protection.

Emerging Risk
Emerging risk includes the inability to afford or manage future technological changes as they materialize. The speed of change is ever increasing and LCU must be able to keep pace with this trend if it wants to fully serve its members long into the future. Specifically, LCU will continue to maintain excellent profitability, keep current on technological change and remain a member of and support the Collaborative Solutions organization.

Legal and Regulatory & Market Risk
No specific risks were identified in these two categories during our ERM process in 2019.

Regulatory Matters

LCU complies with the regulatory obligations identified under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Our compliance processes are designed for an organization of our size, and corresponding exposure to such activity. Every year, the Credit Union's compliance officer (with the assistance of an outsourced compliance audit) provides a report to the Board of Directors on at least an annual basis as to the Credit Union's compliance with this and other legislation.

LCU is committed to prudent operations, and follows the Standards of Sound Business Practices as set out by the Credit Union Deposit Guarantee Corporation.

Corporate Structure and Governance

The governance of LCU is anchored in the co-operative principle of democratic member control. The Credit Union maintains a professional approach in its operations, and accountability to our membership. LCU strives to meet the highest standards in its conduct, consistently seeking to maintain or improve its professional, legal, and ethical reputation.

Code of Conduct LCU's code of conduct provides guidance for employees and directors of the credit union with respect to acceptable business behavior, and the desired ethical culture required to maintain the trust of members and customers, and protect the credit union's reputation in the marketplace. All credit union employees and directors shall adhere to the principles of ethical conduct and responsible business behavior as reflected in the Code of Conduct.

Market Code LCU's market code ensures sound market practices in relation to soliciting, providing, promoting, advertising, marketing, selling, or distributing of credit union products and services, to maintain member trust while adhering to the co-operative principles on which the credit union was founded.

Privacy LCU protects the confidentiality of those who do business with the credit union to ensure the fair handling of personal information that is made available in the course of conducting business with the credit union.

Board of Directors

Mandate and Responsibilities

The board is responsible for the strategic oversight, business direction and supervision of management of Luseland Credit Union. In acting in the best interests of the credit union and its members, the board's actions adhere to the standards set out in *The Credit Union Act 1998*, the *Standards of Sound Business Practice* and other applicable legislation.

Key roles include:

- Exercising the powers of the credit union directly, or indirectly, through employees
- Directing the management of the business affairs of the credit union
- Acting honestly and in good faith with a view to the best interests of the credit union at the exclusion of other interests
- Exercising the care, diligence and skill of a prudent person in directing the credit union's affairs
- Establishing and maintaining prudent policies for the operation of the credit union

The board of directors is accountable to the members of the credit union for directing the affairs of the credit union and maintaining policies which are responsive to their needs and the needs of the credit union for sound operations.

Board Composition

The board is composed of 9 individuals elected by the members of the credit union. Board members are elected for 3 year terms. Nominations are accepted by the Governance Committee, who is also responsible for finding candidates to fill any vacant positions. Voting is by paper ballot at LCU's annual general meeting and election results are announced at the same meeting.

Committees
The responsibilities of the board of a modern financial services organization involve an ever-growing list of duties. Luseland Credit Union maintains a number of committees comprised of directors. This partitioning of responsibilities enables a clear focus on specific areas of activity vital to the effective operation of our credit union.

- Audit and Risk Committee
  The Audit and Risk Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators, and reviews internal control procedures. The committee consists of at least 3 directors. The board determines the skills and abilities needed on the committee and chooses its members accordingly. For 2019, the committee members were Nona Holtz (chair), Brian Gottfried, Bob Prieston, and Debra Scholer.

- Conduct Review Committee
  The Conduct Review Committee ensures that Luseland Credit Union acts with the full integrity and objectivity of its directors and employees, by having in place policies, processes and practices that protect people and the organization from claims and from the perception of unfair benefit or conflict of interest. The committee consists of the same members as the Audit & Risk Committee.

- Executive Committee
  The Executive Committee acts in the capacity of, and on behalf of the board of directors between regular and special board meetings on all board matters except those which the board may not, in compliance with legislative requirements, delegate. The committee consists of the President, Vice-President, and one other member of the board. For 2019, the committee members were Jan Edmonds (chair), Deanne Campbell and Lyle Honeker.

- Governance Committee
  The Governance Committee oversees director nominations, director elections, director qualification reviews, governance review process, board evaluation, director training, education, and development, board committee review, director orientation, director compensation review, and director insurance. Typically the committee is comprised of the directors on the Executive Committee. For 2019, the committee also included: Bob Prieston and Debra Scholer.

- Policy Committee
  The Policy Committee reviews the existing policies of Luseland Credit Union on a three year rotational basis, for the purpose of recommending any changes, deletions and/or additions to the board of directors, for their approval. For 2019, the committee members were Shirley Knorr (chair), Daniel Holman, and Nona Holtz.

- Scholarship Committee
  The Scholarship committee is tasked with reviewing the submissions received for the two annual scholarships presented by the Credit Union to graduating students. From these submissions the winners are chosen with the presentations being made at the graduation ceremonies. Typically the committee is comprised of the directors on the Policy Committee.

- Workplace Violence & Harassment Review Committee
  The Workplace Violence & Harassment Review Committee investigates any violent incidents, complaints of harassment, or instances of unethical behavior within LCU and make recommendations to the board. The committee will procure the services of the RCMP or professional external investigator as required. The Workplace Violence & Harassment Review Committee is comprised of board, management, and staff including Adam Franko, Jason Murray, and Bob Prieston.

Compensation and Attendance
Director compensation is found in the notes to the financial statement. All directors are required to attend at least 75% of the board meetings annually. In any event, a director shall not miss more than two consecutive meetings unless excused for good cause by the board. Failure to meet attendance expectations may disqualify a director from continuing in office. In 2019, the Board of Directors held twelve regular meetings, fifteen committee meetings, and a one-day strategic planning session. Attendance for regular board meetings ranged from a high of 100% to a low of 75% with the average being 87%.

Director Training
The credit union will provide the necessary opportunities for personal and professional development of directors and board committee members.

The credit union will pay related tuition costs, expenses and remuneration for training and development opportunities, as outlined in the director remuneration policy of the credit union.

It is acknowledged that the Credit Union Director Achievement (CUDA) program is the starting point for all director development. All new directors will be enrolled in this program. Individual attendance at the various modules of this program will be strongly encouraged.

Evaluation
The board will monitor and discuss the board's progress and performance at each meeting as required. Additionally, the board completes an annual self-assessment survey with the results shared with the entire board.

Executive Management

The executive management team consists of Adam Franko, General Manager, and Jean Halliday, Controller. There have not been any changes in the management team in the last 12 years and there has been significant work completed to ensure our succession plan is relevant.

Corporate Social Responsibility (CSR)

Luseland Credit Union has always placed an emphasis on being a good corporate citizen in our community and providing much more than just financial services. This commitment is illustrated by not only the financial contributions made, but the many volunteer hours our staff donate to various local organizations. Donations to initiatives in the amount of $500 and over include: Luseland Credit Union Community Swimming Pool, Luseland Mallards Hockey Team, Luseland Minor Ball, Luseland Minor Hockey, Luseland School Library Renovation Project, Major Redneck Games, Person-to-Person, and West Central Crisis Centre. In 2019, a total of $119,654 in monetary donations were made and this does not include the countless napkins, cups, door prizes, silent auction items, etc.

Capital Management

Luseland Credit Union management and board place a high priority on member service and feel that the best way to maintain the existing high level of service is to remain autonomous. In order to retain control of our local credit union it is important to manage the capital position of the operation. The Credit Union Deposit Guarantee Corporation (CUDGC) has set out minimum standards for all Credit Unions to adhere to. These standards are listed in the Standards for Sound Business Practice (SSBP) and are as follows:

- Total eligible capital / risk-weighted assets = 10.50%
- Tier 1 capital / risk-weighted assets = 8.50%
- Common equity tier 1 capital / risk-weighted assets = 7.00%
- Minimum leverage ratio = 5.00%

CUDGC does expect that credit unions will not only meet these standards, but maintain capital levels appropriate for their individual operation and risk profile. The board of LCU has developed its own targets for capital and these are listed below.

- Total eligible capital / risk-weighted assets = 12.00% with a target range of 12.00 – 15.00%
- Tier 1 capital / risk-weighted assets = 12.00% with a target range of 12.00 – 14.00%
- Common equity tier 1 capital / risk-weighted assets = 12.00% with a target of 14.00%
- Minimum leverage ratio = 7.00% with a target range of 8.00 – 10.00%

LCU's capital position at the end of 2019 was as follows:

- Total eligible capital / risk-weighted assets = 13.68% (2018 – 12.97%)
- Tier 1 capital / risk-weighted assets = 13.45% (2018 – 12.74%)
- Common equity tier 1 capital / risk-weighted assets = 13.45% (2018 – 12.74%)
- Leverage ratio = 8.69% (2018 – 8.61%)

As per policy, the board makes a decision as to the allocation of the net profit for the year based on the following order of priority:

- Retained earnings until CUDGC standards have been achieved
- Build retained earnings to support growth, development, and financial stability of the credit union
- Patronage, equity contributions and/or dividends.

LCU utilizes an Internal Capital Adequacy process (ICAAP) to further assist the board and management with capital management. This process began in 2011 and has been expanded and revised to provide greater value to the board and management. The six main principles of ICAAP are:

- board and senior management oversight
- sound capital assessment and planning
- comprehensive assessments of risk
- stress testing
- monitoring and reporting
- internal control review

LCU's calculated ICAAP requirement for Q4 2019 was 12.56% (Q4 2018 - 12.66%) and we are pleased to report we have exceeded the requirement with an eligible capital level of 13.68% (2018 – 12.97%).

People

Members
In 2019, the membership of LCU increased to 1,624. There were 104 new members for the year and 76 memberships closed. LCU is proactive in closing dormant accounts and that partially offset the new memberships.

Directors
There are 3 positions expiring in 2020 and they are Deanne Campbell, Daniel Holman, and Lyle Honeker. Deanne Campbell and Lyle Honeker are retiring from the board after 12 and 6 years serving the members, respectively. The board, management, and the entire staff would like to thank Deanne and Lyle for their support in making LCU as great as it is today. Daniel Holman has chosen to let his name stand for nomination as an incumbent. Alan Olfert and Karen Mitzel have been nominated to the board by acclamation. The board has had a productive year with regular meetings, committee meetings, and a strategic planning session.

Staff
The Credit Union is very proud of its staff and the time that they volunteer to various community activities and associations. This continued dedication to our community is just one of the many ways LCU remains committed to our community. In 2019, Jackie Cook and Jason Murray moved onto other opportunities. We wish Jackie and Jason all best! As a part of LCU's succession planning, Alyssa Underdahl has been promoted to Office Manager and Jean Halliday's title has changed to Controller.

Respectfully submitted,

Adam Franko, General Manager

Luseland Credit Union Limited
Financial Statements
December 31, 2019

Contents

Management's Responsibility

To the Members of Luseland Credit Union Limited:

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

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

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

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

March 12, 2020

General Manager

Director

Independent Auditor's Report

To the Members of Luseland Credit Union Limited:

Opinion

We have audited the financial statements of Luseland Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2019, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 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 Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report *(continued)*

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Saskatoon, Saskatchewan

March 12, 2020

MNP LLP

Chartered Professional Accountants

Luseland Credit Union Limited
Statement of Financial Position
As at December 31, 2019

	2019	*2018*
Assets		
Cash and cash equivalents *(Note 5)*	**15,884,557**	11,711,567
Investments *(Note 6)*	**30,787,607**	24,017,223
Member loans receivable *(Note 7)*	**76,712,912**	79,904,789
Other assets *(Note 8)*	**159,778**	72,787
Property, plant and equipment *(Note 9)*	**2,649,882**	2,813,918
	126,194,736	118,520,284
Liabilities		
Member deposits *(Note 11)*	**115,278,184**	108,291,373
Other liabilities *(Note 13)*	**81,846**	167,960
Membership shares *(Note 14)*	**8,120**	8,000
	115,368,150	108,467,333

Commitments *(Note 20)*

Members' equity		
Retained earnings	**10,826,586**	10,052,951
	126,194,736	118,520,284

Approved on behalf of the Board

Director **Director**

Luseland Credit Union Limited
Statement of Comprehensive Income
For the year ended December 31, 2019

	2019	2018
Interest income		
Member loans	**3,635,984**	3,378,347
Investments	**914,151**	891,030
	4,550,135	4,269,377
Interest expense		
Member deposits	**1,067,321**	905,497
Borrowed money	**2,484**	3,017
	1,069,805	908,514
Gross financial margin	**3,480,330**	3,360,863
Other income	**159,843**	137,295
	3,640,173	3,498,158
Operating expenses		
Personnel	**870,179**	803,400
Security	**107,643**	109,765
Organizational	**55,314**	54,335
Occupancy	**209,465**	248,933
General business	**826,533**	728,665
	2,069,134	1,945,098
Income before provision for impaired loans, patronage refund and provision for (recovery of) income taxes	**1,571,039**	1,553,060
Provision for impaired loans *(Note 7)*		
Change in loan allowance	**-**	251,688
Write-offs	**473,126**	31,540
	473,126	283,228
Patronage refund *(Note 15)*	**175,000**	150,000
Income before provision for (recovery of) income taxes	**922,913**	1,119,832
Provision for (recovery of) income taxes *(Note 12)*		
Current	**186,065**	261,533
Deferred	**(36,787)**	(52,234)
	149,278	209,299
Comprehensive income	**773,635**	910,533

The accompanying notes are an integral part of these financial statements

Luseland Credit Union Limited
Statement of Changes in Members' Equity
For the year ended December 31, 2019

	Retained earnings	*Total equity*
Balance December 31, 2017	**9,142,418**	**9,142,418**
Comprehensive income	**910,533**	**910,533**
Balance December 31, 2018	**10,052,951**	**10,052,951**
Comprehensive income	**773,635**	**773,635**
Balance December 31, 2019	**10,826,586**	**10,826,586**

The accompanying notes are an integral part of these financial statements

Luseland Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2019

	2019	*2018*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**3,597,494**	3,219,323
Interest received from investments	**845,236**	879,616
Other income	**159,843**	137,295
Cash paid to suppliers and employees	**(1,874,657)**	(1,741,819)
Interest paid on deposits	**(1,023,749)**	(887,027)
Interest paid on borrowed money	**(2,484)**	(3,017)
Patronage refund	**(175,000)**	(150,000)
Income taxes paid	**(269,095)**	(159,607)
	1,257,588	1,294,764
Financing activities		
Net change in member deposits	**6,943,239**	(1,452,658)
Net change in membership shares *(Note 14)*	**120**	175
	6,943,359	(1,452,483)
Investing activities		
Net change in investments	**(6,701,469)**	7,963,685
Net change in member loans receivable	**2,757,241**	(11,189,936)
Purchases of property, plant and equipment *(Note 9)*	**(83,729)**	(86,447)
	(4,027,957)	(3,312,698)
Increase (decrease) in cash and cash equivalents	**4,172,990**	(3,470,417)
Cash and cash equivalents, beginning of year	**11,711,567**	15,181,984
Cash and cash equivalents, end of year	**15,884,557**	11,711,567

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, 701 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 Audit and Risk Committee on behalf of the Board of Directors and authorized for issue on March 12, 2020.

2. Change in accounting policies

Standards and Interpretations effective in the current period

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

- IFRS 9 *Financial Instruments*
- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over income tax treatments*

3. Basis of preparation

Basis of measurement

The financial statements have been prepared using the historical cost 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.

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

Classification of financial assets

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

Key assumptions in determining the allowance for expected credit losses

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

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

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

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

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

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

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

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

Fair value of unquoted equity instruments

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

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

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.

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.

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.

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 principal 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 comprehensive income for the current period.

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

Revenue recognition

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

Service charge fees, commission and other revenue

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

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

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

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

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

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

Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, SaskCentral and Concentra Bank deposits, portfolio investments, member loans receivable and accrued interest thereon, and accounts receivable.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss include cash.

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

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

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

Business model assessment

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

Contractual cash flow assessment

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

Reclassifications

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

Impairment

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

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

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

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

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

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

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

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

Refer to Note 18 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

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

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

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

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

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

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

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

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

Modification of financial assets

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

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

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

Financial liabilities

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

Derecognition of financial liabilities

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

Derivatives

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

Dividend income

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

Interest

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

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

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

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

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

Offsetting

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

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

Collateral

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

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

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

Cash and cash equivalents

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

Investments

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

SaskCentral and Concentra Bank deposits and shares

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

Portfolio Investments

Portfolio bonds are measured at amortized cost.

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

Impairment of non-financial assets

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

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

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

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

Syndication

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

Foreclosed assets

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

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

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	5-6 %
Computer equipment	33 %
Furniture and equipment	20 %

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

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

Income taxes

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

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

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

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

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

Employee benefits

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

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $48,103 (2018 – $36,679) were paid to the defined contribution retirement plan during the year.

Membership shares

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

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, 2019 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IAS 1 Presentation of Financial Statements

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

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

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

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

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

5. Cash and cash equivalents

	2019	*2018*
Cash	**9,247,229**	5,474,239
Cash equivalents	**6,637,328**	6,237,328
	15,884,557	11,711,567

6. Investments

	2019	*2018*
Measured at fair value through profit or loss		
SaskCentral and Concentra Bank shares	**1,685,000**	1,110,442
Other equity instruments	**787,850**	526,476
	2,472,850	1,636,918
Measured at amortized cost		
SaskCentral and Concentra Bank deposits	**14,115,259**	11,115,259
Portfolio investments	**13,840,829**	10,975,292
	27,956,088	22,090,551
Accrued interest	**358,669**	289,754
Total	**30,787,607**	24,017,223

6. Investments *(Continued from previous page)*

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

	2019	*2018*
Investment portfolio rating		
AAA-	**250,000**	250,000
AA	**5,603,982**	3,612,502
A	**7,500,000**	6,500,000
BBB	**159,331**	166,507
R1	**1,185,000**	610,442
Unrated	**1,615,366**	1,472,759
	16,313,679	12,612,210

SaskCentral shares are included in the R1 category above and Concentra Bank shares are included in the A category above.

Statutory liquidity

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

Liquidity coverage ratio

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

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

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

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

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

7. Member loans receivable

Principal and allowance by loan type:

2019

	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value
Agriculture loans	10,329,021	-	-	40,424	**10,288,597**
Commercial loans	22,131,841	-	-	99,245	**22,032,596**
Consumer loans	2,083,146	13,286	-	3,060	**2,093,372**
Lines of credit	3,407,478	-	-	7,003	**3,400,475**
Mortgages	38,073,090	-	-	28,467	**38,044,623**
	76,024,576	13,286	-	178,199	**75,859,663**
Foreclosed assets	285,000	-	-	-	**285,000**
Accrued interest	567,764	485	-	-	**568,249**
Total	76,877,340	13,771	-	178,199	**76,712,912**

2018

	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value
Agriculture loans	8,739,726	-	-	46,854	8,692,872
Commercial loans	23,082,227	209,644	89,344	104,451	23,098,076
Consumer loans	1,931,642	-	-	2,133	1,929,509
Lines of credit	5,692,344	-	-	6,759	5,685,585
Mortgages	39,940,412	70,723	20,724	18,002	39,972,409
	79,386,351	280,367	110,068	178,199	79,378,451
Accrued interest	526,338	3,421	3,421	-	526,338
Total	79,912,689	283,788	113,489	178,199	79,904,789

The allowance for loan impairment changed as follows:

	2019	2018
Balance, beginning of year	**291,688**	40,000
Provision for impaired loans	**473,126**	283,228
	764,814	323,228
Less: accounts written off, net of recoveries	**586,615**	31,540
Balance, end of year	**178,199**	291,688

8. Other assets

	2019	2018
Accounts receivable	**50,000**	-
Prepaid expenses and deposits	**19,637**	19,433
Deferred tax asset	**90,141**	53,354
	159,778	72,787

9. Property, plant and equipment

	Land	Buildings	Computer equipment	Furniture and equipment	Total
Cost					
Balance at December 31, 2017	**131,250**	**2,815,960**	**171,554**	**178,047**	**3,296,811**
Additions	**-**	**46,647**	**2,431**	**37,369**	**86,447**
Balance at December 31, 2018	**131,250**	**2,862,607**	**173,985**	**215,416**	**3,383,258**
Additions	**-**	**83,729**	**-**	**-**	**83,729**
Balance at December 31, 2019	**131,250**	**2,946,336**	**173,985**	**215,416**	**3,466,987**
Accumulated depreciation					
Balance at December 31, 2017	**-**	**194,070**	**59,558**	**65,365**	**318,993**
Depreciation	**-**	**158,390**	**56,302**	**35,655**	**250,347**
Balance at December 31, 2018	**-**	**352,460**	**115,860**	**101,020**	**569,340**
Depreciation	**-**	**153,995**	**58,125**	**35,645**	**247,765**
Balance at December 31, 2019	**-**	**506,455**	**173,985**	**136,665**	**817,105**
Net book value					
At December 31, 2018	131,250	2,510,147	58,125	114,396	2,813,918
At December 31, 2019	**131,250**	**2,439,881**	**-**	**78,751**	**2,649,882**

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% (3.45% at December 31, 2019), in the amount of $1,800,000 (2018 - $1,800,000) from SaskCentral. As at December 31, 2019, $nil was advanced (2018 - $nil).

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

11. Member deposits

	2019	2018
Chequing, savings, plan 24	**92,590,805**	87,333,310
Registered savings plans	**5,196,916**	4,935,085
Term deposits	**17,241,925**	15,818,012
Accrued interest	**248,538**	204,966
	115,278,184	108,291,373

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 1.63% (2018 - 1.50%).
- Registered savings plans are subject to fixed and variable rates of interest up to 2.50% (2018 - 2.50%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 2.25% (2018 - 2.25%), with interest payments due monthly, annually or on maturity.

12. Income tax

Income tax expense recognized in comprehensive income

The applicable tax rate is the aggregate of the federal income tax rate of 9% on income under $309,956 and 15% on income greater than $309,956 (2018 - 10% and 15%, under/over $398,356) and the provincial tax rate of 2% on income under $371,947 and 12% on income over $371,947 (2018 - 2% and 12%, under/over $478,027).

Deferred income tax recovery recognized in comprehensive income

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

	2019	2018
Deferred tax asset		
Property, plant and equipment	**48,532**	18,231
Allowance for impaired loans	**41,609**	35,123
	90,141	53,354
Net deferred tax asset is reflected in the statement of financial position as follows:		
Deferred tax asset	**90,141**	53,354

Reconciliation between average effective tax rate and the applicable tax rate

	2019	2018
Applicable tax rate	**27.00 %**	27.00 %
Small business deduction	**(16.00)%**	(15.00)%
Income not eligible for deduction	**9.48 %**	9.74 %
Non-deductible and other items	**(4.31)%**	(3.05)%
Average effective tax rate (tax expense divided by profit before tax)	**16.17 %**	18.69 %

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

13. Other liabilities

	2019	*2018*
Accounts payable	**68,857**	71,941
Corporate income tax payable	**12,989**	96,019
	81,846	167,960

14. Membership shares

Authorized:

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

Issued:

	2019	*2018*
1,624 Common shares (2018 - 1,600)	**8,120**	8,000

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 104 (2018 - 111) and redeemed 80 (2018 - 76) common shares.

15. Patronage

The Credit Union declared a patronage refund payable in the amount of $175,000 on December 18, 2019 (2018 - $150,000), to be paid by cash to the members based on participation for the year ended December 31, 2019.

The patronage refund of $175,000 (2018 - $150,000) has been reflected in the statement of comprehensive income with related tax savings of approximately $47,250 (2018 - $40,500) 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:

	2019	*2018*
Salaries and short-term benefits	**345,957**	333,373

Transactions with key management personnel

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

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

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

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

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.

	2019	*2018*
Aggregate loans to KMP	**2,698,443**	2,951,732
Aggregate revolving credit facilities to KMP	**136,800**	202,000
Less: approved and undrawn lines of credit	**(74,610)**	(165,440)
	2,760,633	2,988,292

	2019	*2018*
During the year the aggregate value of loans and lines of credit approved to KMP amounted to:		
Revolving credit	**50,000**	130,000
Mortgages	**780,000**	173,964
Loans	**218,960**	910,492
	1,048,960	1,214,456

	2019	*2018*
Income and expense transactions with KMP consisted of:		
Interest earned on loans and revolving credit facilities to KMP	**114,458**	114,390
Interest paid on deposits to KMP	**52,591**	42,905

	2019	*2018*
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**4,958,544**	4,948,136
Term deposits	**90,623**	146,041
Registered plans	**78,186**	93,070
Total value of member deposits due to KMP	**5,127,353**	5,187,247

Directors' fees and expenses

	2019	*2018*
Directors' expenses	**4,791**	4,567
Meeting, training and conference costs	**7,760**	7,812

SaskCentral and Concentra Bank

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

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

Interest and dividends earned on investments during the year ended December 31, 2019 amounted to $461,224 (2018 - $485,926).

Interest paid on borrowings during the year ended December 31, 2019 amounted to $2,484 (2018 - $3,017).

Payments made for affiliation dues for the year ended December 31, 2019 amounted to $17,960 (2018 - $19,139).

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 Bank.

17. Capital management

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

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

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

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

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

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

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

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

	Regulatory standards	***Board standards***
Total eligible capital to risk-weighted assets	**10.50 %**	**12.00 %**
Tier 1 capital to risk-weighted assets	**8.50 %**	**12.00 %**
Common equity tier 1 capital to risk-weighted assets	**7.00 %**	**12.00 %**
Leverage ratio	**5.00 %**	**7.00 %**

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

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

The following table summarizes key capital information:

	2019	*2018*
Eligible capital		
Common equity tier 1 capital	**10,826,586**	10,052,951
Additional tier 1 capital	**-**	-
Total tier 1 capital	**10,826,586**	10,052,951
Total tier 2 capital	**186,319**	186,199
Total eligible capital	**11,012,905**	10,239,150
Risk-weighted assets		
Total eligible capital to risk-weighted assets	**13.68 %**	12.97 %
Total tier 1 capital to risk-weighted assets	**13.45 %**	12.74 %
Common equity tier 1 capital to risk-weighted assets	**13.45 %**	12.74 %
Leverage ratio	**8.69 %**	8.61 %

18. Financial instruments

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

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

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

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

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

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

Credit risk

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

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

Risk management process

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

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

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

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

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

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

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

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

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

	2019	*2018*
Unadvanced lines of credit	**8,091,948**	5,694,242
Guarantees and standby letters of credit	**220,000**	220,000
Commitments to extend credit	**338,220**	206,351
	8,650,168	6,120,593

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

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

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

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

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

Measurement of expected credit losses

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

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

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

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

Write-offs

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

Exposure to credit risk

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

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

	2019		
	12-month ECL	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and lines of credit			
Low risk	**5,685,833**	**-**	**5,685,833**
Default	**-**	**13,286**	**13,286**
Total gross carrying amount	**5,685,833**	**13,286**	**5,699,119**
Less: loss allowance	**10,063**	**-**	**10,063**
Total carrying amount	**5,675,770**	**13,286**	**5,689,056**
Residential mortgages			
Low risk	**20,977,322**	**-**	**20,977,322**
Total gross carrying amount	**20,977,322**	**-**	**20,977,322**
Less: loss allowance	**28,467**	**-**	**28,467**
Total carrying amount	**20,948,855**	**-**	**20,948,855**
Commercial loans			
Low risk	**25,185,224**	**-**	**25,185,224**
Total gross carrying amount	**25,185,224**	**-**	**25,185,224**
Less: loss allowance	**99,040**	**-**	**99,040**
Total carrying amount	**25,086,184**	**-**	**25,086,184**
Agricultural loans			
Low risk	**23,876,197**	**-**	**23,876,197**
Total gross carrying amount	**23,876,197**	**-**	**23,876,197**
Less: loss allowance	**40,424**	**-**	**40,424**
Total carrying amount	**23,835,773**	**-**	**23,835,773**

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

	2019		
	12-month ECL	***Lifetime ECL (credit impaired)***	***Total***
Local government loans			
Low risk	**300,000**	**-**	**300,000**
Total gross carrying amount	**300,000**	**-**	**300,000**
Less: loss allowance	**205**	**-**	**205**
Total carrying amount	**299,795**	**-**	**299,795**
Total			
Low risk	**76,024,576**	**-**	**76,024,576**
Default	**-**	**13,286**	**13,286**
Total gross carrying amount	**76,024,576**	**13,286**	**76,037,862**
Less: loss allowance	**178,199**	**-**	**178,199**
Total carrying amount	**75,846,377**	**13,286**	**75,859,663**

		2018		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Consumer loans and lines of credit				
Low risk	7,819,195	-	-	7,819,195
Total gross carrying amount	7,819,195	-	-	7,819,195
Less: loss allowance	8,891	-	-	8,891
Total carrying amount	7,810,304	-	-	7,810,304
Residential mortgages				
Low risk	22,751,033	-	-	22,751,033
Default	-	-	70,723	70,723
Total gross carrying amount	22,751,033	-	70,723	22,821,756
Less: loss allowance	20,143	-	20,333	40,476
Total carrying amount	22,730,890	-	50,390	22,781,280
Commercial loans				
Low risk	25,963,244	-	-	25,963,244
Moderate risk	-	43,250	-	43,250
Default	-	-	209,644	209,644
Total gross carrying amount	25,963,244	43,250	209,644	26,216,138
Less: loss allowance	95,331	730	99,406	195,467
Total carrying amount	25,867,913	42,520	110,238	26,020,671

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Agriculture loans				
Low risk	22,809,629	-	-	22,809,629
Total gross carrying amount	22,809,629	-	-	22,809,629
Less: loss allowance	46,854	-	-	46,854
Total carrying amount	22,762,775	-	-	22,762,775
Total				
Low risk	79,343,101	-	-	79,343,101
Moderate risk	-	43,250	-	43,250
Default	-	-	280,367	280,367
Total gross carrying amount	79,343,101	43,250	280,367	79,666,718
Less: loss allowance	171,219	730	119,739	291,688
Total carrying amount	79,171,882	42,520	160,628	79,375,030

The gross carrying amount of financial guarantee contracts for which expected credit losses were recognized and are not included in the above table as at December 31, 2019 was $352,000 (2018 – $nil).

Concentrations of credit risk

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

Amounts arising from expected credit losses

Reconciliation of the loss allowance

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

	12-month ECL	***Lifetime ECL (not credit impaired)***	***Lifetime ECL (credit impaired)***	***Total***
Consumer loans and lines of credit				
Balance at January 1, 2018	**9,012**	**-**	**-**	**9,012**
Net remeasurement of loss allowance	**(121)**	**-**	**-**	**(121)**
Balance at December 31, 2018	**8,891**	**-**	**-**	**8,891**
Net remeasurement of loss allowance	**1,172**	**-**	**-**	**1,172**
Balance at December 31, 2019	**10,063**	**-**	**-**	**10,063**
Residential mortgages				
Balance at January 1, 2018	**23,624**	**-**	**-**	**23,624**
Net remeasurement of loss allowance	**(3,481)**	**-**	**20,333**	**16,852**
Balance at December 31, 2018	**20,143**	**-**	**20,333**	**40,476**
Net remeasurement of loss allowance	**8,324**	**-**	**(20,333)**	**(12,009)**
Balance at December 31, 2019	**28,467**	**-**	**-**	**28,467**

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

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial loans				
Balance at January 1, 2018	**106,856**	**-**	**3,572**	**110,428**
Net remeasurement of loss allowance	**(11,525)**	**730**	**95,834**	**85,039**
Balance at December 31, 2018	**95,331**	**730**	**99,406**	**195,467**
Net remeasurement of loss allowance	**3,709**	**(730)**	**(99,406)**	**(96,427)**
Balance at December 31, 2019	**99,040**	**-**	**-**	**99,040**
Agricultural loans				
Balance at January 1, 2018	**55,713**	**-**	**3,572**	**59,285**
Net remeasurement of loss allowance	**(8,859)**	**-**	**(3,572)**	**(12,431)**
Balance at December 31, 2018	**46,854**	**-**	**-**	**46,854**
Net remeasurement of loss allowance	**(6,430)**	**-**	**-**	**(6,430)**
Balance at December 31, 2019	**40,424**	**-**	**-**	**40,424**
Local government loans				
Balance at January 1, 2018	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**-**	**-**	**-**	**-**
Balance at December 31, 2018	**-**	**-**	**-**	**-**
Net remeasurement of loss allowance	**205**	**-**	**-**	**205**
Balance at December 31, 2019	**205**	**-**	**-**	**205**
Total				
Balance at January 1, 2018	**195,205**	**-**	**7,144**	**202,349**
Net remeasurement of loss allowance	**(23,986)**	**730**	**112,595**	**89,339**
Balance at December 31, 2018	**171,219**	**730**	**119,739**	**291,688**
Net remeasurement of loss allowance	**6,980**	**(730)**	**(119,739)**	**(113,489)**
Balance at December 31, 2019	**178,199**	**-**	**-**	**178,199**

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

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

Market risk

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

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 of Directors.

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

Interest rate risk

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

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

Sensitivity analysis is used to assess the change in value of the Credit Union’s financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a quarterly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $105,777 (2018 - $202,831) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest margin by $105,777 (2018 - $202,831) over the next 12 months.

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

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

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

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

Interest rate sensitivity

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

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

Contractual repricing and maturity

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

(In thousands)

	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year	Non-Interest Sensitive	2019 Total	2018 Total
Assets							
Cash and cash equivalents	6,637	7,728	-	-	1,520	**15,885**	11,712
Average yield %	*1.47*	*1.74*	-	-	-	*1.46*	*1.45*
Investments	25	6,349	4,639	17,731	2,044	**30,788**	24,017
Average yield %	*1.47*	*1.74*	*2.05*	*2.11*	-	*1.88*	*1.86*
Member loans receivable	50,009	1,173	4,400	20,278	853	**76,713**	79,905
Average yield %	*5.07*	*4.08*	*4.65*	*3.85*	-	*4.65*	*4.56*
Accounts receivable	-	-	-	-	50	**50**	-
	56,671	**15,250**	**9,039**	**38,009**	**4,467**	**123,436**	115,634
Liabilities							
Member deposits	58,570	2,442	7,320	30,911	16,035	**115,278**	108,291
Average yield %	*0.99*	*1.47*	*1.49*	*1.40*	-	*1.00*	*0.96*
Accounts payable	-	-	-	-	69	**69**	72
Membership shares	-	-	-	-	8	**8**	8
	58,570	**2,442**	**7,320**	**30,911**	**16,112**	**115,355**	108,371
Net sensitivity	**(1,899)**	**12,808**	**1,719**	**7,098**	**(11,645)**	**8,081**	7,263

Liquidity risk

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

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

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

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

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

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;
- Monitoring of term deposits; and
- Contingency planning.

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

The following table details contractual maturities of financial liabilities:

As at December 31, 2019:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	**84,367**	**4,196**	**26,715**	**115,278**
Accounts payable	**69**	**-**	**-**	**69**
Membership shares	**-**	**-**	**8**	**8**
Total	**84,436**	**4,196**	**26,723**	**115,355**

As at December 31, 2018:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	75,492	6,815	25,984	108,291
Accounts payable	72	-	-	72
Membership shares	-	-	8	8
Total	75,564	6,815	25,992	108,371

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, 2019:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	**15,885**	**-**	**-**	**15,885**
Investments	**13,057**	**9,938**	**7,793**	**30,788**
Member loans receivable	**56,435**	**7,067**	**13,211**	**76,713**
Accounts receivable	**50**	**-**	**-**	**50**
Total	**85,427**	**17,005**	**21,004**	**123,436**

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

As at December 31, 2018:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	11,712	-	-	11,712
Investments	10,955	1,000	12,062	24,017
Member loans receivable	63,722	1,450	14,733	79,905
Total	86,389	2,450	26,795	115,634

19. Fair value measurements

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

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

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

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

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

Financial assets and financial liabilities measured at fair value

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

(In thousands)	***Fair Value***	***Level 1***	***Level 2***	***2019 Level 3***
Financial assets				
Cash	**9,247**	**9,247**	**-**	**-**
SaskCentral and Concentra Bank shares	**1,685**	**-**	**-**	**1,685**
Other equity instruments	**788**	**-**	**788**	**-**
Total financial assets	**11,720**	**9,247**	**788**	**1,685**

(In thousands)	*Fair Value*	*Level 1*	*Level 2*	*2018 Level 3*
Financial assets				
Cash	5,474	5,474	-	-
SaskCentral and Concentra Bank shares	1,110	-	-	1,110
Other equity instruments	526	-	526	-
Total financial assets	7,110	5,474	526	1,110

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

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

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

Financial instruments not measured at fair value

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

					2019
(In thousands)	***Carrying amount***	***Fair Value***	***Level 1***	***Level 2***	***Level 3***
Financial assets measured at amortized cost					
Cash equivalents	**6,637**	**6,637**	**6,637**	**-**	**-**
Investments	**28,315**	**28,556**	**-**	**28,556**	**-**
Member loans receivable	**76,713**	**76,330**	**-**	**76,330**	**-**
Accounts receivable	**50**	**50**	**-**	**50**	**-**
Total financial assets	**111,715**	**111,573**	**6,637**	**104,936**	**-**
Financial liabilities measured at amortized cost					
Member deposits	**115,278**	**114,975**	**-**	**114,975**	**-**
Accounts payable	**69**	**69**	**-**	**69**	**-**
Membership shares	**8**	**8**	**-**	**-**	**8**
Total financial liabilities	**115,355**	**115,052**	**-**	**115,044**	**8**

					2018
(In thousands)	*Carrying amount*	*Fair Value*	*Level 1*	*Level 2*	*Level 3*
Financial assets measured at amortized cost					
Cash equivalents	6,237	6,237	6,237	-	-
Investments	22,380	22,429	-	22,429	-
Member loans receivable	79,905	79,447	-	79,447	-
Total financial assets	108,522	108,113	6,237	101,876	-
Financial liabilities measured at amortized cost					
Member deposits	108,291	107,876	-	107,876	-
Accounts payable	72	72	-	72	-
Membership shares	8	8	-	-	8
Total financial liabilities	108,371	107,956	-	107,948	8

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

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

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

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

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 2016, the Credit Union entered into a seven year commitment with Celero for the provision of retail banking services. The annual operating fee is calculated based on the average number of outstanding accounts throughout the year. The annual operating fees for the year ended December 31, 2019 were $58,831 (2018 - $55,723) and recorded as an expense. The annual estimated fee for the year ended December 31, 2020 is $60,454 (2019 - $58,831).

In 2018 the Credit Union entered into an agreement to purchase units in the APEX III 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 2019 the Credit Union has advanced $56,175 (2018 - $nil) of their total commitment of $500,000 (2018 - $500,000) to the APEX III Investment Fund.

In 2018 the Credit Union entered into an agreement to purchase units in the Westcap MBO 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 2019 the Credit Union has advanced $250,000 (2018 - $50,000) of their total commitment of $500,000 (2018 - $500,000) to the Westcap MBO 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.

Eligibility of a Director

The following conditions are to apply when determining the eligibility of an individual to become a director of the credit union:

- Must be a member of the credit union for one year
- Must maintain membership with the credit union
- Must be eligible for bonding
- Must not have loans in arrears with the credit union, other credit unions or other financial organizations
- Must not be an employee of the credit union
- Must not be involved in any legal action or dispute with the credit union
- Must not be a board member of any other financial institution except as a representative of the credit union
- Must be of legal age (18)
- Must be able to attend a minimum of 75% of regular board meetings, and keep up to date with Credit Union Director Training program, as per Board Policy
- Must be prepared to conduct a significant portion of the business with the credit union in order to demonstrate confidence in the credit union

Tenure

A board member will be eligible to sit on the board of directors for an unlimited number of terms.

Removal of a Director

A director may be removed from the board if he/she did not disclose information as outlined by credit union policy (and Credit Union Act) prior to coming on the board or is in contravention of any of the other conditions outlined in the section “Eligibility of a Board Member.”

Facts About Saskatchewan Credit Unions

- Today there are 40 credit unions in Saskatchewan serving 208 communities through 235 service outlets.
- Credit unions offer financial products and services to more than 482,000 members.
- Saskatchewan credit union assets reached over $24.7 billion with revenue of over $1.1 billion.
- Credit union lending amounts were over $19.6 billion.
- There are 370 board members who are locally elected by members of each credit union to provide strategic direction to their management teams.
- As independent financial institutions owned and controlled by their members, credit unions are shaped by community needs. Saskatchewan credit unions range in asset size from $21 million to more than $6 billion.
- In 2019, Saskatchewan credit unions returned over $9.8 million to their members in the form of patronage equity contribution and dividends.
- Credit unions are a major contributor to Saskatchewan's economy, employing over 3,300 people.
- Funds held on deposit in Saskatchewan credit unions are fully guaranteed through the Credit Union Deposit Guarantee Corporation. The full guarantee is made possible through a comprehensive deposit protection regime that is focused on prevention.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

ANNUAL REPORT MESSAGE 2019

January 2020

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral). Together, these entities are considered Provincially Regulated Financial Institutions or "PRFIs". The Corporation is mandated through provincial legislation, *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016* in performing its duties. Provincial legislation also assigns responsibility for oversight of the Corporation to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan.

The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By promoting responsible governance and prudent management of capital, liquidity and guaranteeing deposits, the Corporation contributes to confidence in Saskatchewan PRFIs.

For more information about the Corporation's regulatory and deposit protection responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult the Corporation's web site at www.cudgc.sk.ca.