Affinity Credit Union

Consolidated Financial Statements
for the year ended December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Affinity Credit Union were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments.

These consolidated financial statements were prepared in accordance with financial reporting requirements prescribed by the Credit Union Act, 1998 of the Province of Saskatchewan, Credit Union Deposit Guarantee Corporation, and by statute. The accounting policies followed in the preparation of these financial statements conform to international reporting standards (IFRS).

Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements. In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with appropriate legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of our operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit and Risk Committee, which is composed entirely of independent directors. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit and Risk Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. Our Senior Compliance Manager and Chief Internal Auditor have full and unrestricted access to the Audit and Risk Committee.

Further monitoring of financial performance and reporting is carried out by the Credit Union Deposit Guarantee Corporation. It is given its responsibilities and powers by provincial statute through the Credit Union Act. Its purpose is to guarantee members' funds on deposit with Saskatchewan Credit Unions and provide preventative services. Preventative services include ongoing financial monitoring, regular reporting and consultation.

KPMG LLP, Chartered Professional Accountants appointed by the members of Affinity Credit Union upon the recommendation of the Audit and Risk Committee and Board, have performed an independent audit of the consolidated financial statements and their report follows. The auditors have full and unrestricted access to the Audit and Risk Committee to discuss their audit and related findings.

Mark Lane Chief Executive Officer	Lise de Moissac Executive Vice President and Chief Financial Officer

Saskatoon, Saskatchewan
February 26, 2018

KPMG LLP
500-475 2nd Avenue South
Saskatoon Saskatchewan S7K 1P4
Canada
Tel (306) 934-6200
Fax (306) 934-6233

INDEPENDENT AUDITORS' REPORT

To the Members of Affinity Credit Union:

We have audited the accompanying consolidated financial statements of Affinity Credit Union, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Affinity Credit Union as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants

February 26, 2018
Saskatoon, Canada

AFFINITY CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31 (in thousands of dollars)

	Note	**2017**	2016 (Note 25)
ASSETS			
Cash and cash equivalents		**$ 43,983**	$ 42,805
Financial investments	2	**773,545**	830,300
Loans	3	**4,277,309**	4,120,819
Other assets	5	**99,195**	102,906
Total Assets		**$ 5,194,032**	$ 5,096,830
LIABILITIES			
Deposits	9	**$ 4,697,980**	$ 4,631,772
Other liabilities	10	**41,245**	39,712
Total Liabilities		**4,739,225**	4,671,484
EQUITY			
Retained earnings		**451,643**	422,865
Accumulated other comprehensive income		**2,816**	3,000
Equity attributable to owners		**454,459**	425,865
Non-controlling interest / subsidiary preferred shares		**348**	(519)
Total Equity		**454,807**	425,346
Total Liabilities and Equity		**$ 5,194,032**	$ 5,096,830

Commitments (Note 14)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD

.... **CFO**

.... **Director**

AFFINITY CREDIT UNION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31 (in thousands of dollars)

	Note	**2017**	2016 (Note 25)
PROFIT OR LOSS			
INTEREST INCOME			
Loans		**$ 156,319**	$ 154,374
Investments		**13,994**	10,344
	16	**170,313**	164,718
INTEREST EXPENSE			
Deposits		**44,324**	43,659
Borrowings		**94**	147
	16	**44,418**	43,806
NET INTEREST		**125,895**	120,912
PROVISION FOR CREDIT LOSSES		**14,938**	14,188
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**110,957**	106,724
OTHER INCOME	17	**44,767**	48,331
NET INTEREST AND OTHER INCOME		**155,724**	155,055
OPERATING EXPENSES			
Personnel		**72,531**	72,935
General business		**30,671**	30,665
Occupancy		**9,311**	9,409
Organizational		**3,347**	3,391
Member security		**4,082**	4,263
		119,942	120,663
PROFIT BEFORE INCOME TAX		**35,782**	34,392
PROVISION FOR INCOME TAXES	13	**6,201**	5,531
PROFIT		**29,581**	28,861
OTHER COMPREHENSIVE INCOME (LOSS)		**(120)**	2,982
TOTAL COMPREHENSIVE INCOME		**$ 29,461**	$ 31,843
Profit attributable to:			
Affinity Credit Union		**$ 29,581**	$ 29,040
Non-controlling interests - Minority shareholders of 101188741 Saskatchewan Ltd.		**-**	(179)
		$ 29,581	$ 28,861

The accompanying notes are an integral part of these consolidated financial statements.

AFFINITY CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31 (in thousands of dollars)

	2017				
	Retained earnings including contributed surplus	**Accumulated other comprehensive income**	**Equity attributable to owners**	**Non-controlling interest / subsidiary preferred shares**	**Total equity**
Balance, beginning of year	**$ 422,865**	**$ 3,000**	**$ 425,865**	**$ (519)**	**$ 425,346**
Total profit	**29,581**	**-**	**29,581**	**-**	**29,581**
Other comprehensive income (loss), net of tax	**64**	**(184)**	**(120)**	**-**	**(120)**
Acquisition of non-controlling interest without a change in control (Note 19)	**(867)**	**-**	**(867)**	**867**	**-**
Balance, end of year	**$ 451,643**	**$ 2,816**	**$ 454,459**	**$ 348**	**$ 454,807**

	2016 (Note 25)				
	Retained earnings including contributed surplus	Accumulated other comprehensive income	Equity attributable to owners	Non-controlling interest / subsidiary preferred shares	Total equity
Balance, beginning of year	$ 393,856	$ (13)	$ 393,843	$ (340)	$ 393,503
Total profit or (loss)	29,040	-	29,040	(179)	28,861
Other comprehensive income (loss), net of tax	(31)	3,013	2,982	-	2,982
Balance, end of year	$ 422,865	$ 3,000	$ 425,865	$ (519)	$ 425,346

The accompanying notes are an integral part of these consolidated financial statements.

AFFINITY CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31 (in thousands of dollars)

	Note	**2017**	2016 (Note 25)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Total profit		**$ 29,581**	$ 28,861
Adjustments to operating cash flows	18	**(96,749)**	(101,079)
Changes in operating assets and liabilities	18	**(81,885)**	77,643
Cash interest received		**169,467**	164,794
Cash interest paid		**(46,426)**	(42,436)
Cash income taxes paid		**(7,118)**	(8,420)
		(33,130)	119,363
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Proceeds from investments		**227,390**	167,621
Purchases of investments		**(172,039)**	(293,627)
Net cash and cash equivalents attributed to minority shareholders		**-**	(179)
Purchase of non-financial assets		**(2,128)**	(2,187)
Proceeds from disposal of property and equipment		**403**	3,963
		53,626	(124,409)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Other liabilities		**(586)**	28
Sale of loans		**4,046**	28,874
Repurchase of loans		**(22,755)**	(3,805)
		(19,295)	25,097
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,201**	20,051
NET FOREIGN EXCHANGE DIFFERENCE ON CASH HELD		**(23)**	(188)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**42,805**	22,942
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 43,983**	$ 42,805

The accompanying notes are an integral part of these consolidated financial statements.

Corporate Information

Affinity Credit Union was continued pursuant to The Credit Union Act, 1998 of the Province of Saskatchewan (the Act). It and its subsidiaries (Note 1(a)) (collectively the Credit Union) serve members and non-members through the provision of a broad range of financial services on-line and through numerous locations throughout Saskatchewan. Affinity's regulator, Credit Union Deposit Guarantee Corporation (the Corporation), a provincial corporation, guarantees the repayment of all deposits with Saskatchewan credit unions, including accrued interest. The Act provides that the Province of Saskatchewan will ensure that the Corporation carries out that obligation.

The controlling entity in the consolidated group is Affinity Credit Union. The registered office and principal place of business is:

Affinity Credit Union
902 7^{th} Ave N
PO Box 1330
Saskatoon SK S7K 3P4

Basis of Preparation and Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors on February 26, 2018.

The consolidated financial statements have been prepared on the historic cost basis except, derivative financial instruments, available-for-sale and fair-value-through-profit-and-loss financial investments and investment properties which have been measured at fair value.

The consolidated financial statements are presented in Canadian dollars which is the Credit Union's functional currency. All values are rounded to the nearest thousand dollars ($'000).

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates and Key Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year.

Accordingly, actual results could differ from those estimates. Estimates, judgments and underlying assumptions are reviewed periodically and, as revisions become necessary, they are reported in the Consolidated Statement of Comprehensive Income in the year in which they become known.

The most significant uses of judgments and estimates are as follows:

Fair value of financial instruments

The Credit Union estimates the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described in the "Fair Value of Financial Instruments" accounting policy Note 1(d). The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimates are required to establish fair values. Estimates are based on observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles or by analyzing discounted cash flows and other risks affecting the specific instrument. Judgment is required in assessing the relevance and availability of market data when concluding that such data does not allow for a reliable estimate of fair value. See also Note 23, "Fair Value of Financial Instruments".

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Use of Estimates and Key Judgments - *continued*

Impairment losses on loans

The Credit Union reviews its loans at each reporting date to assess whether a charge for impairment should be recorded in the Consolidated Statement of Comprehensive Income. In particular, when determining any adjustments to individual loan allowances and/or the collective assessment, management must estimate the amount and timing of future cash flows the Credit Union expects to receive as well as other factors including the net realizable value of any underlying collateral.

The collective assessment allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective assessment allowance, management considers factors such as credit quality, historical loss experience and current economic conditions, including: the economic environment, interest rates and their effect on customer spending, the unemployment level and bankruptcy trends. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to both the Provision for credit losses on the Consolidated Statement of Comprehensive Income and Loans on the Consolidated Statement of Financial Position.

Economic life – non-financial assets

Estimates are required to determine the applicable nominal value of depreciation and amortization expense for property and equipment and finite life intangible assets. The Credit Union uses a model to estimate residual value and useful life of property and equipment based on a number of variables including current condition, the Credit Union's internal maintenance standards and other intrinsic factors such as location, proximity to a major trading centre and access to certain amenities, as applicable. Similarly for intangible assets, model inputs include the rate of technological advancements, and the expected market requirements for, and the expected pattern of usage of, the intangible assets. The underlying assumptions utilized in these models and the results produced are reviewed and assessed annually.

Impairment losses on non-financial assets

Judgement is required to identify and assess whether indicators of impairment for property and equipment and intangible assets exist. When management has judged that a non-financial asset is impaired, an estimation is made on the recoverable amount of the asset being the higher of its estimated fair value less cost to sell and its value in use. An adjustment is made for the difference between the recoverable amount of the asset and the carrying value.

Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of Affinity Credit Union and all of its controlled entities. A controlled entity is any entity over which Affinity Credit Union has the power to govern, has exposure to the rights and variable returns, and has the ability to exercise influence by exercising power in order to affect the returns.

All inter-company balances and transactions between the consolidated entities, including any unrealized profits or losses, have been eliminated upon consolidation. If necessary, adjustments are made to ensure consistency of accounting policies.

During the year, if a change in circumstances occurs such that the Credit Union's control over an entity changes, the operating results of that entity are included from the date control was obtained or to the date control ceased.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(a) Basis of Consolidation – *continued*

Included in the consolidated financial statements are the following 100% owned and controlled entities:

- ACU Insurance Services Inc.
- Affinity Holdings Inc.
- Affinity Employee Services Inc.
- Affinity Services Group Inc.
- Affinity Properties Ltd.
- Affinity Insurance Services Inc.
- Affinity Insurance Services Regina Inc.
- Affinity Insurance Services North Albert Inc.
- Affinity Insurance Services Meadow Lake Inc.
- Affinity Insurance Services Saskatoon Inc.
- Affinity Insurance Services Prince Albert Inc.
- Canada Loan Administration Services Inc.
- Spectra Financial Inc.
- 101188741 Saskatchewan Ltd.

During the year, Affinity Properties Ltd. acquired the issued and outstanding common shares of 101188741 Saskatchewan Ltd. from minority shareholders. This resulted in 100% ownership of the company. Preferred shares to minority shareholders remain outstanding.

All entities are incorporated in the Province of Saskatchewan and have a year-end of December 31^{st}.

(b) Cash and cash equivalents

Cash includes cash on hand and cash equivalents with an initial term to maturity of less than three months. Cash equivalents are primarily settlement account balances due from Credit Union Central of Saskatchewan (SaskCentral) and other deposit taking institutions. These are recorded and carried at amortized cost and interest is included in the Consolidated Statement of Comprehensive Income when earned.

(c) Financial Instruments

The Credit Union's primary financial assets include Financial investments and Loans. Financial liabilities are comprised mainly of Deposits. Derivative financial instruments are used for risk mitigation purposes.

All financial assets and financial liabilities are initially recognized in the Consolidated Statement of Financial Position at fair value plus transaction costs on acquisition, with the exception of held for trading and fair value through profit and loss financial instruments for which transaction costs are immediately expensed. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair-value-through-profit-and-loss including held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Classification depends on the purpose for which the financial assets or financial liabilities were acquired or issued, their characteristics and the Credit Union's designation of such instruments based on management's intentions.

Investments are classified on acquisition (based on management's intentions) as held-to-maturity, held-for-trading, fair-value-through-profit-and-loss, loans and receivables or available-for-sale. Loans, other than those that the Credit Union intends to sell immediately for profit that are quoted in an active market, are considered loan and receivables. Financial liabilities are classified as other financial liabilities.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(c) Financial Instruments – *continued*

Held-to-maturity
Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which the Credit Union has the positive intention and ability to hold to maturity. An asset cannot be classified as held-to-maturity if it can be contractually prepaid or otherwise extinguished by the issuer in such a way that the Credit Union would not recover substantially all of its recorded investment.

Transactions to purchase or sell these items are recorded on the settlement date. The asset is subsequently measured at amortized cost using the effective interest method. Interest income and the amortization of any premiums and discounts on held-to-maturity instruments are recorded in Interest income in the Consolidated Statement of Comprehensive Income.

Fair-value-through-profit-and-loss – including Held-for-trading
Financial assets considered fair-value-through-profit-and-loss include those financial assets classified as held-for-trading, which are typically acquired for resale prior to maturity and whose fair value can be reliably measured, or that are designated on initial recognition as fair-value-through-profit-and-loss (having satisfied certain qualifications for designation). The election to use fair–value-through-profit-and-loss is irrevocable and is made in accordance with documented risk management and investment strategies.

Financial liabilities designated as fair-value-through-profit-and-loss or held-for-trading are those non-derivative financial liabilities that the Credit Union elects to designate on initial recognition as instruments that it will measure at fair value. These are accounted for in the same manner as financial assets with the same classification. The Credit Union has not designated any non-derivative financial liabilities as fair-value-through-profit-and-loss or held-for-trading.

Transactions to purchase or sell these instruments are recorded on the settlement date. Fair-value-through-profit-and-loss financial instruments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value or realized on disposal are recognized immediately in Other income. Interest on fair-value-through-profit-and-loss instruments is recorded in Interest income in the Consolidated Statement of Comprehensive Income.

Available-for-sale
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity, held-for-trading or fair-value-through-profit-and-loss. These assets are carried at fair value with the exception of unquoted equity securities whose fair value cannot be reliably measured which are carried at cost. Available for sale assets may be sold in response to or in anticipation of changes in interest rates and repayment risk, or to meet liquidity needs. Unrealized gains and losses are included in Other comprehensive income until the financial asset is sold or derecognized. Upon sale or de-recognition, the cumulative gains or losses net of tax previously recognized in Other comprehensive income are transferred to profit or loss. Dividends are recorded in Other income in the Consolidated Statement of Comprehensive Income. Interest received on available-for-sale intruments is recorded in Interest income in the Consolidated Statement of Comprehensive Income. Interest on interest-bearing available-for-sale financial assets is calculated utilizing the effective interest method.

Transactions to purchase or sell these instruments are recorded on the settlement date. These instruments are carried at fair value, without any deduction for transaction costs incurred on sale or disposal. Transaction costs on purchase form part of the cost of the asset.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(c) Financial Instruments – *continued*

Loans and receivables
Loans and receivables include financial assets that have the characteristics of loans and receivables. Loans and receivables are initially measured at fair value plus any transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently measured at amortized cost using the effective interest method. Amortized cost is the amount at which the instrument is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Under the effective interest method, estimated future cash receipts are discounted over the asset's expected life, or other appropriate period, to its net carrying value. Net gains and losses arising from changes in fair value are recognized in profit or loss upon de-recognition or impairment.

Transactions to purchase or sell these items are recorded on the settlement date. Interest is calculated using the effective interest method and recorded in Interest income.

Other financial liabilities
Other financial liabilities include liabilities that have not been classified as fair-value-through-profit-and-loss or held-for-trading. Transactions to purchase or sell these instruments are recorded on the settlement date. Total interest expense, calculated using the effective interest method, is recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost, using the effective interest method. Amortized cost is the amount at which the instrument is measured at initial recognition less principal repayments plus or minus the cumulative amortization, using the effective interest method, of any difference between the initial amount and the maturity amount. Under the effective interest method, estimated future cash flows are discounted over the instrument's expected life or other appropriate period, to their net carrying value. Net gains and losses arising from changes in fair value are recognized in profit or loss upon de-recognition.

(d) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices in an active market. In the absence of an active market, the Credit Union determines the fair value based on internal and external valuation models, such as observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles or discounted cash flow analysis.

The Credit Union classifies and discloses fair value measurements of financial instruments recognized in the Consolidated Statement of Financial Position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. See Note 23 for further discussion regarding the fair value of financial instruments.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(e) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the Credit Union had not acquired, issued or disposed of the financial instrument.

Transaction costs include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Transaction costs related to a financial asset or liability not classified as fair value through profit and loss are added to or deducted from the fair value on initial recognition. For financial instruments classified as fair value through profit and loss, transaction costs are immediately recognized in profit or loss on initial recognition.

(f) Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions for asset / liability management and for trading.

Derivative financial instruments are initially recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative financial instruments are immediately recorded in profit or loss, with the exception of derivative instruments designated as effective cash flow hedges the effective portion of which is recorded in Other comprehensive income. The Credit Union has not designated any derivative instruments as effective cash flow hedges.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; and c) the combined instrument or contract is not measured at fair value through profit and loss. These embedded derivatives are accounted for as separate derivatives and are measured at fair value with changes therein recognized immediately in profit or loss.

The Credit Union has one set of financial products that require bifurcation, being index linked deposits. The embedded derivatives within these deposits are the equity linked portion of the deposit. The fair value is calculated as the return based on the actual returns of various portfolios of stock listed on the Toronto Stock Exchange. These embedded derivative-liabilities are perfectly economically hedged by the purchase of a derivative-asset. The fair value of the embedded derivatives is reported in Other liabilities in the Consolidated Statement of Financial Position.

(g) Impairment of Financial Assets

The Credit Union assesses at each Consolidated Statement of Financial Position date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset. Management considers downgrades in credit ratings, recent financial results, defaults on preferred and subordinated shares and loans, amongst other factors in determining whether objective evidence of impairment exists.

Financial assets carried at amortized cost
If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables or held-to-maturity has been incurred, the Credit Union measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of the estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(g) Impairment of Financial Assets *- continued*

Financial assets carried at amortized cost - continued
Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions not affecting the period of historical experience.

Impairment losses are recognized in the Consolidated Statement of Comprehensive Income and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognized, the previously recognized loss is reversed through profit or loss by adjusting the allowance.

Loan impairment provisions
The Credit Union's loan impairment provisions are established to recognize incurred impairment losses in the portfolio of loans. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected future cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

a) Individual Component

All impaired loans that exceed specific thresholds are individually assessed for impairment. The Credit Union considers all loans for impairment, regardless of portfolio. Impairment losses are recognized as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the borrower's debt capacity and financial flexibility; the level and quality of its cash flows and the realizable value of any collateral.

b) Collective Component

The collective component is made up of loan impairment provisions for impaired loans that are below individual assessment thresholds. These are established on a portfolio basis using a present value methodology, taking into account the level of arrears, historic loss experience, and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates.

Financial assets carried at fair value
Impairment losses are also assessed for financial assets classified as available-for-sale. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics or similar debt issuers. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and current observable data.

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in Other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognized in profit or loss. The loss is measured as the difference between the amortized cost of the financial asset and its current fair value, less any impairment loss previously recognized in profit or loss. Impairment losses on available-for-sale equity instruments are not allowed to be reversed through profit or loss, but those on available-for-sale debt instruments are reversed if there is an increase in fair value that is objectively related to an event occurring after the impairment was recognized.

For assets classified as held-for-trading and fair-value-through-profit-and-loss, changes in fair value include impairment, if any. Such changes in fair value are recognized immediately in the Consolidated Statement of Comprehensive Income.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(h) Loan Syndication

As part of its normal operating activities the Credit Union syndicates loan receivables. When a loan is syndicated, all of the risks and rewards associated with ownership of the loan are transferred to the purchaser and no guarantees, provisions for recourse or over-collateralizations are made by the Credit Union. As a result, all of the underlying assets and liabilities associated with syndicated loans have been derecognized at the time of sale and are not reported in the Consolidated Statement of Financial Position. Any gains or losses on sale are recognized in the Consolidated Statement of Comprehensive Income.

(i) Foreclosed Assets

The carrying value of foreclosed assets held for sale will be recovered principally through a sale transaction rather than through continuing use. These assets are initially recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the foreclosed asset plus subsequent disbursements related to the asset. Depending on the information available, quoted market prices, prices for similar items or discounted cash flows are used to measure fair value. Foreclosed assets are included in Loans in the Consolidated Statement of Financial Position.

An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for subsequent increases in fair value less costs to sell but will not exceed any cumulative impairment losses previously recognized.

(j) Investment Properties

Investment properties, comprised of land and buildings in which a significant portion of the property is held for rental and there is no strategic intent to occupy a significant portion of the property, are initially recorded at cost. Investment properties are included in Other assets in the Consolidated Statement of Financial Position. Transaction costs are included in the initial measurement. After initial recognition, the Credit Union utilizes the fair value model to determine the carrying value of the investment property.

Investment properties are valued annually using net present value methodology. The approach is based on estimates of future cash flows and uses a capitalization rate derived from information on actual sales in the market. The valuation takes into account the characteristics of the properties with respect to location, condition, lease situation and comparable market information regarding rents, yield requirements and unit prices. Future cash flows also consider vacancy rates, unrecoverable costs and cash outflows for planned improvements. The Credit Union’s valuation model is validated when deemed prudential by engaging in an independent valuation by a professionally qualified appraiser.

Changes in fair values are recorded in the Consolidated Statement of Comprehensive Income. Depreciation is not charged on investment properties.

(k) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and provisions for impairment, if any. When components of property and equipment have different useful lives they are accounted for separately. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets and include expenditures that are directly attributable to bring the assets into working condition for their intended use. Costs for repairs and maintenance are recognized as expenses in profit or loss in the period in which they are incurred.

Depreciation is provided on the depreciable amount of items in property and equipment on a straight line basis over their estimated useful economic lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. Depreciation on leaseholds is calculated on the gross carrying amount on a straight line basis over the lesser of the lease term plus any renewal term (if assessed as applicable) or the estimated useful economic life.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(k) Property and Equipment - *continued*

The following annual rates are used in calculating depreciation, with the exception of land and other non-depreciable assets:

Property (Buildings & Land Improvements)	2.2% - 27.0%
Equipment	3.3% - 66.7%
Leaseholds	5.0% - 44.4%

Depreciation rates and the residual values underlying the calculation of depreciation of items in property, equipment and leaseholds are reviewed annually to take into account any change in circumstances and adjusted if appropriate.

To determine the applicable depreciation rate, the Credit Union takes into account the rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. In reviewing the residual values, the Credit Union estimates the amount it would currently obtain for the disposal of the assets after deducting the estimated disposal costs if the assets were already of the age and condition expected at the end of their useful economic lives.

Land is not depreciated, although in common with all long lived assets, it is subject to impairment testing, if deemed appropriate.

Gains and losses on disposals are determined as the difference between the net sales proceeds and the carrying amounts of the assets and are recognized in the Consolidated Statement of Comprehensive Income. Items are derecognized upon disposal or when no future economic benefits are expected from their use or disposal.

(l) Intangible Assets

Intangible assets are recognized and reported separately from goodwill and include certain computer software, banking system software, wealth management relationships, supplier contracts and other insurance related intangibles and preferred arrangements assessed on all business combinations where the Credit Union is considered the acquirer. All intangibles are initially recorded at cost or at their assessed fair value at the time of the business combination.

Intangible assets which have a finite useful life are amortized over the estimated useful economic life based on the initial cost less the estimated residual value at the end of the useful economic life. To determine the applicable amortization rate, the Credit Union takes into account the rate of technological developments and expected market requirements for, and the expected pattern of usage of, the intangible assets.

The following annual rates are used in calculating amortization for intangibles with a finite life:

Software	3.3% - 50.0%
Other intangibles	5.6% - 16.6%

Insurance business related intangible assets relate to the acquisition of insurance agencies where the purchase price exceeded the net working capital and share value of the agencies acquired. These license related intangible assets have an indefinite useful life and no amortization is recorded.

Amortization and impairment losses (if any) and gains and losses on the disposal of intangible assets are recorded in the year they are incurred in the Consolidated Statement of Comprehensive Income.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(m) Impairment of Non-financial Assets

The Credit Union performs impairment testing on property and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may no longer be recoverable. At a minimum the Credit Union assesses annually whether there is any indication that an item of property or equipment or intangible assets may be impaired. If any such indication exists, an estimate of the recoverable amount of the asset is derived. An impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. Fair value less selling costs is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arms-length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use or such cash flows from the cash generating unit to which that asset belongs, including those cash flows resulting from its ultimate disposal, at a market based discount rate.

If there is any indication that an impairment loss recognized for an asset in prior periods may no longer exist or may have decreased, the recoverable amount of the asset will be estimated. If the recoverable amount of the asset exceeds the carrying amount, the impairment loss, in whole or in part, may be reversed to an amount not in excess of the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

(n) Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in Equity or in Other comprehensive income.

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

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantially enacted income tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for income tax purposes to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized through profit or loss in the period of change.

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

(o) Membership Equity

Membership equity is classified as a liability in accordance with its terms (See Note 12, "Membership Equity").

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(p) Revenues and Expenses

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

Interest revenue and expense

Interest revenue and expense are recognized on an accrual basis using the effective interest method. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

When a loan is classified as impaired, the Credit Union ceases to recognize interest revenue and other income earned but not yet received. Such amounts are accrued; however, a reserve is claimed against these amounts such that there is no net amount recognized in profit or loss. Accrued interest may be recovered as part of the recovery of the debt.

Fees, commission and other revenue

Fees, commissions and other revenue are recorded on an accrual basis over the period to which they relate, once a right to receive consideration has been attained. Financial service fees are recognized as revenue when the service is provided.

Where the Credit Union receives consideration prior to a service being substantially performed or before a right to receive consideration has been fully attained, a liability equal to the unearned consideration is recorded in the Consolidated Statement of Financial Position.

(q) Foreign Currency Transactions

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at the exchange rate prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date.

Translation gains and losses are recorded in Other income.

(r) Leases

Leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the Credit Union. All other leases are classified as operating leases. As at December 31, 2017 the Credit Union had no finance leases.

Lease payments for operating leases are charged as expenses over the period of the lease on a straight-line basis unless another base is more representative of the time pattern of the benefits.

(s) Employee Benefits

Employee benefits include all forms of consideration given by the Credit Union in exchange for services rendered by employees.

Short term employee benefits include: salaries and wages, deductions at source, paid annual vacation or sick leave, employee recognition payments and variable compensation. Salaries, deductions, and leaves are recognized as an expense and liability as they are earned by the employee, and the amounts have been included in personnel expense for the year. Employee recognition payments and variable compensation are recognized as a liability and expensed when the Credit Union has a legal or constructive obligation to pay as a result of past events and the obligation can be reasonably estimated. Employee benefits payable, in greater than one year's time, have been measured at the present value of the estimated future cash outflows to be made, and have been included in personnel expense, with the exception of actuarial gains and losses which are recorded in Other comprehensive income.

The Credit Union contributes to post retirement arrangements which provide benefits for employees on retirement or death. For the defined contribution superannuation fund, the Credit Union has no financial interest in the fund and is not liable for the performance or obligations of the fund. Credit Union contributions to the plan are charged as expenses when incurred.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

(t) Comprehensive Income

Total comprehensive income includes all changes in equity of the Credit Union. Comprehensive income is the total of profit or loss and Other comprehensive income (loss). The Credit Union's Other comprehensive income (loss) represents unrealized gains and losses on financial assets classified as available for sale; unrealized gains and losses on derivatives designated as hedges, if any; and actuarial gains and losses incurred on the defined benefit obligations.

(u) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. For every business combination, an acquirer is identified, which is the combining entity that obtains control of the other combining entity. The effective date of the business combination is the date the acquirer gains control of the acquired entity. The identifiable assets (including previously unrecognized intangible assets) and identifiable liabilities (including contingent liabilities but excluding future restructuring costs) of the acquired entity are measured at fair value. The excess of the consideration transferred over the fair values of the identifiable net assets is recognized as goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

The transaction costs incurred for a business combination, such as legal fees, due diligence fees and other professional consulting fees are expensed as incurred.

Accounting Developments

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018. The standard is required to be adopted retrospectively but the Credit Union will not be required to restate prior period comparative consolidated financial statements. The Credit Union will recognize an adjustment to opening January 1, 2018 retained earnings and accumulated other comprehensive income (AOCI), to reflect the application of the new requirements at the adoption date.

During 2016 and 2017, the Credit Union has developed new accounting policies, assessed the classification of instruments, developed impairment models and implemented new information technology systems to support the IFRS 9 impairment calculations.

(a) Classification and Measurement

Classification of debt instruments at initial recognition will be determined by the business model under which the instruments are managed.

Debt instruments that are managed on a "held for trading" basis will be classified as fair value through profit and loss (FVTPL). Debt instruments, including those containing embedded derivatives, that are managed on either a "hold to collect and sale basis" or a "hold to collect basis" will be classified and measured on the basis of whether they meet the "solely payments of principal and interest" (SPPI) criteria.

If the SPPI criteria is met, "hold to collect and sale" instruments will be classified as fair value through OCI (FVOCI for debt) and "hold to collect" instruments will be classified as amortized cost. If the SPPI criteria is not met, the instruments will be classified as FVTPL. The purpose of the SPPI test is to ensure debt instruments that contain non-basic lending features are measured at FVTPL.

For those debt instrument financial assets that would otherwise be classified as FVOCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the instrument at FVTPL if doing so significantly reduces an accounting mismatch.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Accounting Developments – *continued*

(a) Classification and Measurement - *continued*

Subsequent measurements of instruments classified as FVOCI, amortized cost and FVTPL are performed in a similar manner to available-for-sale (AFS) and loans and receivables and held-for-trading under IAS 39 respectively, except for the impairment provisions referenced below.

All equity instrument financial assets are required to be classified upon initial recognitation as FVTPL unless an irrevocable assignment is made to classify the instrument as FVOCI for equities. Unlike AFS for equity security under IAS 39, FVOCI for equities causes all realized and unrealized gains and losses to be recognized in OCI with no recycling to profit and loss. Only dividends continue to be recognized in profit and loss.

Derivatives will continue to be measured at FVTPL.

The classification and measurement of financial liabilities as applied to the Credit Union remain essentially unchanged from the current IAS 39 requirements.

The largest impact expected from IFRS 9 - classification and measurement is the re-classification of the majority of the Credit Union's "held for trading" financial investments to amortized cost.

(b) Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost or FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Incurred Loss versus Expected Loss Methodology
The application of ECL will significantly change the Credit Union's credit loss methodology. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. This compares to the present incurred loss model under IAS 39 that incorporates a single best estimate, the time value of money and information about past events and current conditions.

ECL allowances will be measured at either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have a significant increased credit risk (SICR) since initial recognition. This compares to the present incurred loss model which recognizes credit losses when there is objective evidence of impairment. The inclusion of relative credit deterioration criteria and consideration of forward looking information in the model eliminates the trigger event required under the incurred loss model and causes lifetime ECL to be recognized earlier. The most significant impact will be on the loan portfolio.

Stage Migration

- Stage 1 is comprised of all non-impaired financial instruments. For this stage, credit losses will be recognized based on 12 months of ECL.

- Stage 2 requires the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since initial recognition. In determining whether SICR has occured, entities are required to compare the risk of default occurring at the reporting date with the risk of default occurring at the date of initial recognition. The primary factors evaluated include relative changes in probability-weighted probability of default and certain criteria such as 30-day past due and watch list status.

- Stage 3 is comprised of all financial instruments where there is objective evidence of impairment as a result of one or more loss events that have occurred since initial recognition.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Accounting Developments - *continued*

(b) Impairment – *continued*

The individually assessed allowance for impaired instruments recognized under IAS 39 will generally be replaced by stage 3 allowances under IFRS 9, whereas the collective allowances for non-impaired financial instruments will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9. The definition of default is not expected to be materially different under the ECL model.

The Credit Union is finalizing the testing of the key models required under IFRS 9 and has not yet quantified the impact on allowances.

(c) Hedge Accounting

IFRS 9 amends hedge accounting. As Affinity does not practice hedge accounting, no impact will result.

In addition to IFRS 9, at December 31, 2017 a number of other standards, interpretations, and amendments thereto have been issued by the IASB, which are not effective for these consolidated financial statements. None of these new standards are expected to have a significant effect on the consolidated financial statements of the Credit Union, except for:

- IFRS 7 Financial Instruments: Disclosures – IFRS 7 will have significant amendments to support the changes to IFRS 9. These changes will become mandatory for the Credit Union's 2018 consolidated financial statements.

- IFRS 16 Leases – IFRS 16 will become mandatory for the Credit Union's 2019 consolidated financial statements and is expected to impact the recognition of and expense from long term leases as well as provide for amendments to disclosure.

IFRS 9 models are in their final stages of validation. As a result, the impact of IFRS 9 has not been finalized. Modifications to disclosure required to support IFRS 9 as required in IFRS 7, and new leasing models to support IFRS 16 are currently in development.

No new standard(s) that became effective in the year 2017 (or later) have been adopted effective January 1, 2017.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 2. FINANCIAL INVESTMENTS

Financial investments are recognized in accordance with financial instrument designation categories. The carrying values of investments by category are presented in the tables below:

Available-for-sale		**2017**		2016
Co-operative shares	**$**	**39,481**	$	39,491
Government debt		**20,603**		20,934
Corporate debt		**8,474**		10,329
Venture capital funds		**20,183**		18,602
	$	**88,741**	$	89,356

Fair-value-through-profit-and-loss (Held-for-trading)				
Government debt	**$**	**437**	$	2,333
Corporate debt		**-**		752
	$	**437**	$	3,085

Held-to-maturity				
Government debt	**$**	**17,606**	$	10,099
Corporate debt		**29,037**		17,150
	$	**46,643**	$	27,249

Loans and receivables				
Liquidity reserve	**$**	**480,335**	$	453,035
Term deposits		**154,486**		254,922
	$	**634,821**	$	707,957
Accrued interest		**2,903**		2,653
	$	**773,545**	$	830,300

The fair values of Co-operative shares have been estimated at cost, as these equity investments do not have a quoted market price. There is no market for these investments and the Credit Union does not intend to dispose of the investments.

As at December 31, 2017, no impairment losses have been booked on the investment portfolio (2016 - $Nil).

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 3. LOANS

2017	**Carrying value**	**Impaired**	**Specific allowance**	**Collective assessment**	**Net value**
Government guaranteed/cash secured	**$ 748,958**	**$ 2,930**	**$ 315**	**$ -**	**$ 751,573**
Conventional mortgages	**2,807,715**	**30,037**	**15,886**	**2,607**	**2,819,259**
Personal loans	**486,587**	**4,448**	**2,547**	**1,700**	**486,788**
Non-personal loans	**207,414**	**2,056**	**1,703**	**1,579**	**206,188**
Foreclosed assets	**-**	**4,121**	**873**	**-**	**3,248**
Accrued interest	**10,253**	**1,904**	**1,904**	**-**	**10,253**
	$4,260,927	**$ 45,496**	**$ 23,228**	**$ 5,886**	**$4,277,309**

2016	Carrying value	Impaired	Specific allowance	Collective assessment	Net value
Government guaranteed/cash secured	$ 720,190	$ 1,964	$ 245	$ -	$ 721,909
Conventional mortgages	2,651,267	20,770	8,968	2,380	2,660,689
Personal loans	477,692	4,041	2,422	1,061	478,250
Non-personal loans	247,096	2,758	1,791	464	247,599
Foreclosed assets	-	3,805	1,088	-	2,717
Accrued interest	9,655	865	865	-	9,655
	$ 4,105,900	$ 34,203	$ 15,379	$ 3,905	$ 4,120,819

Specific allowance and collective assessment on loans:

2017	**Specific allowance**	**Collective assessment**	**Total**
Balance, beginning of year	**$ 15,379**	**$ 3,905**	**$ 19,284**
Impairment loss recognized	**13,562**	**1,981**	**15,543**
Amounts written off	**(6,752)**	**-**	**(6,752)**
Change in interest accrued - impaired loans	**1,039**	**-**	**1,039**
Balance, end of year	**$ 23,228**	**$ 5,886**	**$ 29,114**

2016	Specific allowance	Collective assessment	Total
Balance, beginning of year	$ 3,980	$ 2,474	$ 6,454
Impairment loss recognized	13,066	1,431	14,497
Amounts written off	(2,345)	-	(2,345)
Change in interest accrued - impaired loans	678	-	678
Balance, end of year	$ 15,379	$ 3,905	$ 19,284

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 4. IMPAIRED AND PAST DUE LOANS

Outstanding impaired loans, net of provision for credit losses, by portfolio type, are as follows:

2017	**Impaired**	**Specific allowance**	**Net impaired loans**
Government guaranteed/cash secured	**$ 2,930**	**$ 315**	**$ 2,615**
Conventional mortgages	**30,037**	**15,886**	**14,151**
Personal loans	**4,448**	**2,547**	**1,901**
Non-personal loans	**2,056**	**1,703**	**353**
Foreclosed assets	**4,121**	**873**	**3,248**
Accrued interest	**1,904**	**1,904**	**-**
	$ 45,496	**$ 23,228**	**$ 22,268**

2016	Impaired	Specific allowance	Net impaired loans
Government guaranteed/cash secured	$ 1,964	$ 245	$ 1,719
Conventional mortgages	20,770	8,968	11,802
Personal loans	4,041	2,422	1,619
Non-personal loans	2,758	1,791	967
Foreclosed assets	3,805	1,088	2,717
Accrued interest	865	865	-
	$ 34,203	$ 15,379	$ 18,824

Net impaired loans exclude certain past due loans where payment of interest or principal is contractually in arrears but where payment in full is expected. The Credit Union holds collateral against loans to customers in the form of interests over property, other securities and guarantees. Details of such past due loans (delinquencies) not included in the impaired amount are as follows:

2017	**1 - 30 days**	**31 - 90 days**	**More than 90 days**	**Total**
Government guaranteed/cash secured	**$ 18,282**	**$ 5,009**	**$ 517**	**$ 23,808**
Conventional mortgages	**26,066**	**6,301**	**423**	**32,790**
Personal loans	**14,314**	**3,392**	**515**	**18,221**
Non-personal loans	**2,532**	**616**	**67**	**3,215**
	$ 61,194	**$ 15,318**	**$ 1,522**	**$ 78,034**

2016	1 - 30 days	31 - 90 days	More than 90 days	Total
Government guaranteed/cash secured	$ 15,254	$ 4,981	$ 142	$ 20,377
Conventional mortgages	35,355	9,020	3,205	47,580
Personal loans	15,213	2,779	701	18,693
Non-personal loans	5,254	2,551	1,639	9,444
	$ 71,076	$ 19,331	$ 5,687	$ 96,094

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 5. OTHER ASSETS

		2017		2016
Investment properties	**$**	**2,164**	$	3,908
Prepaid, receivables and other		**10,460**		7,677
Fair value of derivative assets (Note 6)		**569**		1,790
Property and equipment (Note 7)		**64,076**		68,278
Intangible assets (Note 8)		**17,804**		18,904
Deferred income tax asset (Note 13)		**4,122**		2,349
	$	**99,195**	$	102,906

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Interest rate swap contracts

The nature of the Credit Union's activities exposes it to risks related to changes in interest rates. The Credit Union uses interest rate swaps to reduce exposure to interest rate changes. Swaps do not receive hedge accounting treatment.

As at December 31, 2017, the Credit Union held swap contracts with a notional value of $Nil (2016 - $2,500). The swap contracts had a market value of $Nil (2016 – $(10)).

(b) Options purchased

To mitigate the risk associated with index linked deposit offerings the Credit Union has purchased options to exactly match the index return which is contracted through the terms of the deposits. Options do not receive hedge accounting treatment.

Fair value reflected in Consolidated Statement of Financial Position

		2017		2016
Options purchased - positive value	**$**	**569**	$	1,790
Options purchased - negative value		**-**		-
	$	**569**	$	1,790

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 7. PROPERTY AND EQUIPMENT

Equipment includes furniture, automobiles, and technological hardware. Land and buildings also includes land improvements and joint operation assets.

	2017			
	Land and buildings	**Equipment**	**Leaseholds**	**Total**
Cost				
Opening balance	**$ 59,832**	**$ 14,773**	**$ 15,407**	**$ 90,012**
Additions	**344**	**892**	**9**	**1,245**
Disposals	**(703)**	**(143)**	**-**	**(846)**
Fully depreciated assets written off	**-**	**(2,424)**	**(434)**	**(2,858)**
Closing balance	**$ 59,473**	**$ 13,098**	**$ 14,982**	**$ 87,553**
Accumulated depreciation & impairment				
Opening balance	**$ (10,145)**	**$ (7,450)**	**$ (4,139)**	**$ (21,734)**
Depreciation	**(1,002)**	**(2,727)**	**(1,167)**	**(4,896)**
Disposals	**200**	**95**	**-**	**295**
Fully depreciated assets written off	**-**	**2,424**	**434**	**2,858**
Closing balance	**$ (10,947)**	**$ (7,658)**	**$ (4,872)**	**$ (23,477)**
Net book value	**$ 48,526**	**$ 5,440**	**$ 10,110**	**$ 64,076**

	2016			
	Land and buildings	Equipment	Leaseholds	Total
Cost				
Opening balance	$ 61,340	$ 15,922	$ 15,508	$ 92,770
Additions	304	1,663	32	1,999
Disposals	(1,812)	(156)	(70)	(2,038)
Fully depreciated assets written off	-	(2,656)	(63)	(2,719)
Closing balance	$ 59,832	$ 14,773	$ 15,407	$ 90,012
Accumulated depreciation & impairment				
Opening balance	$ (10,092)	$ (7,054)	$ (2,977)	$ (20,123)
Depreciation	(994)	(3,170)	(1,254)	(5,418)
Disposals	941	118	29	1,088
Fully depreciated assets written off	-	2,656	63	2,719
Closing balance	$ (10,145)	$ (7,450)	$ (4,139)	$ (21,734)
Net book value	$ 49,687	$ 7,323	$ 11,268	$ 68,278

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 8. INTANGIBLE ASSETS

(a) Software and other preferred arrangements arising on business combinations

	2017		
	Software	**Other intangibles**	**Total**
Cost			
Opening balance	**$ 16,642**	**$ 1,755**	**$ 18,397**
Additions	**883**	**-**	**883**
Disposals	**-**	**-**	**-**
Fully amortized assets written off	**(543)**	**-**	**(543)**
Closing balance	**$ 16,982**	**$ 1,755**	**$ 18,737**
Accumulated amortization & impairment			
Opening balance	**$ (11,432)**	**$ (604)**	**$ (12,036)**
Amortization	**(1,804)**	**(166)**	**(1,970)**
Disposals	**-**	**-**	**-**
Fully amortized assets written off	**543**	**-**	**543**
Closing balance	**$ (12,693)**	**$ (770)**	**$ (13,463)**
Net book value	**$ 4,289**	**$ 985**	**$ 5,274**

	2016		
	Software	Other intangibles	Total
Cost			
Opening balance	$ 16,906	$ 1,755	$ 18,661
Additions	188	-	188
Disposals	(38)	-	(38)
Fully amortized assets written off	(414)	-	(414)
Closing balance	$ 16,642	$ 1,755	$ 18,397
Accumulated amortization & impairment			
Opening balance	$ (9,895)	$ (438)	$ (10,333)
Amortization	(1,954)	(166)	(2,120)
Disposals	3	-	3
Fully amortized assets written off	414	-	414
Closing balance	$ (11,432)	$ (604)	$ (12,036)
Net book value	$ 5,210	$ 1,151	$ 6,361

(b) Insurance related intangibles

The Credit Union owns nine subsidiary insurance agencies. Each agency was purchased for an amount greater than the net working capital and share value, giving rise to a license related indefinite life intangible asset with a total carrying value of $12,530 (2016 - $12,543).

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 9. DEPOSITS

	2017	2016
Demand deposits	**$2,277,732**	$ 2,171,023
Term deposits	**2,401,022**	2,439,515
Accrued interest	**19,226**	21,234
	$4,697,980	$ 4,631,772

NOTE 10. OTHER LIABILITIES

	2017	2016
Accounts payable, accrued liabilities and other	**$ 34,189**	$ 30,520
Rewards loyalty program	**2,220**	2,017
Fair value of derivative liabilities (Note 6)	**569**	1,800
Loans and borrowings (Note 11)	**173**	2,096
Membership equity (Note 12)	**2,027**	2,034
Current income tax liability	**1,152**	4
Deferred income tax liability (Note 13)	**915**	1,241
	$ 41,245	$ 39,712

NOTE 11. LOANS AND BORROWINGS

	Authorized		**Outstanding**	
	2017	2016	**2017**	2016
Commercial paper	**$ 70,000**	$ 50,000	**$ -**	$ -
Line of credit (CAD)	**29,000**	29,000	**-**	-
Line of credit (USD)	**1,000**	1,000	**-**	-
Preauthorized revolving loan(s)	**30,000**	40,000	**-**	-
Mortgage payable	**-**	-	**-**	1,344
Other borrrowings	**-**	-	**173**	752
	$ 130,000	$ 120,000	**$ 173**	$ 2,096

Loans and borrowings include a Commercial Paper Funding Agreement with SaskCentral. The Credit Union has the ability to access borrowings funded by commercial paper at a rate equal to the then current R-1 Low commercial paper market rate plus 0.375%. SaskCentral has committed to ensure the continued availability of this facility commensurate with SaskCentral's ability to reissue this debt at acceptable market rates.

Interest on the Canadian dollar line of credit with SaskCentral is charged at a floating rate equal to SaskCentral's posted Canadian dollar prime rate less 0.50%. The effective rate at December 31, 2017 was 2.70% (2016 – 2.20%). Interest on the US dollar line of credit is charged at a floating rate equal to SaskCentral's posted US prime rate plus 0.50%. The effective rate at December 31, 2017 was 5.00% (2016 – 4.25%).

The Credit Union maintains a pre-authorized revolving loan facility with a Canadian chartered bank for an amount up to $30,000. Outstanding balances are charged interest at a fixed rate equal to the Canadian banker's acceptance rate plus 0.50% payable at maturity. A stand-by fee equal to 0.14% per annum is paid quarterly based on the average unused daily balance. The facility is secured by collateral in the form of insured residential mortgages in the amount of $33,000. This provides the lender a first priority security in all of the rights, title and interest in the mortgage collateral in the event of default. At December 31, the Credit Union satisfied all covenants in relation to the facility.

During the year, the Credit Union cancelled a pre-authorized, revolving loan agreement in the amount of $10,000. The facility charged interest at a floating rate equal to the one month CDOR plus 2.50% payable monthly and a stand-by fee equal to 0.15% per annum, payable monthly on the average unused daily balance.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 11. LOANS AND BORROWINGS - *continued*

Except as noted, all bank indebtedness agreements are secured by general security agreements registered against the assets of the Credit Union.

No interest expense associated with loans and borrowings has been capitalized. All interest costs have been expensed as incurred.

NOTE 12. MEMBERSHIP EQUITY

The authorized share capital is unlimited in amount and consists of membership shares with a par value equal to five dollars each.

In accordance with the Act, amounts allocated from Retained earnings and held for the credit of members in membership equity accounts are ranked equally with membership shares.

Memberships and shares to become a member are voluntary. Redemption of member equity accounts shall be with the approval of the Board or in a manner approved by the Board and in accordance with the Act. Characteristics of membership shares and member equity accounts include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

Membership shares and membership equity accounts are not guaranteed by the Credit Union Deposit Guarantee Corporation. The value of Membership equity is disclosed in Note 10.

NOTE 13. INCOME TAXES

Income taxes are included in the Consolidated Statement of Comprehensive Income as follows:

Current income tax:	**2017**	2016
Current income tax expense	**$ 8,614**	$ 6,653
Adjustments for under (over) provisions in prior periods	**(314)**	361
	$ 8,300	$ 7,014
Deferred income tax:		
Origination and reversal of temporary differences	**$ (974)**	$ (539)
Change in expected future income tax rate	**(1,434)**	-
Adjustments for under (over) provisions in prior periods	**309**	(944)
	$ (2,099)	$ (1,483)
	$ 6,201	$ 5,531

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 13. INCOME TAXES - *continued*

Reconciliation of the provision for income taxes:

	2017	2016
Profit before income tax	**$ 35,782**	$ 34,392
Combined federal and provincial income tax rate	**27%**	27%
Income taxes at statutory rate	**$ 9,661**	$ 9,286
Provision for income taxes adjusted for the effect of:		
Credit Union rate adjustment	**$ (2,191)**	$ (2,977)
Non-deductible (non taxable) items	**(444)**	(638)
Differences in expected income tax rates	**(1,231)**	281
Prior year adjustments to income tax provision	**(5)**	(584)
Unrecognized deferred income tax asset	**501**	141
Other	**(90)**	22
	$ 6,201	$ 5,531
Effective rate of income tax	**17%**	16%

In 2013, federal legislation changed impacting the additional deduction for credit unions. The change is being phased in from 2013 through 2017. The previously enacted federal income tax rate of 11% in 2012 increased to 11.62% in 2013, 12.6% in 2014, 13.4% in 2015, 14.2% in 2016 and 15% in 2017.

In 2017, provincial legislation changed impacting the small business income tax deduction for credit unions. This change is being phased in from 2017 through 2020. The previously enacted provincial income tax rate of 2% in 2016 increased to 4.4% in 2017, 7.0% in 2018, 9.5% in 2019 and 12% in 2020.

The deferred income tax asset is comprised of temporary differences attributable to the following:

Deferred income tax assets:	2017	2016
Loans	**$ 2,921**	$ 1,315
Deposit allowance	**2**	13
Leases	**1,049**	580
Loss carryforwards	**38**	48
Other	**112**	393
	$ 4,122	$ 2,349

The deferred income tax liability is comprised of temporary differences attributable to the following:

Deferred income tax liabilities:	2017	2016
Property and equipment	**$ 915**	$ 1,241

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 14. COMMITMENTS

The Credit Union has certain commitments that have not been provided for in the consolidated financial statements. These commitments are outlined below.

(a) Capital expenditure commitments not provided for:

	2017	2016
Capital expenditures	$ 11	$ 107

(b) Operating expenditure commitments not provided for:

Operating expenditure commitments include operating leases and community investments. The Credit Union has operating leases for various offices and equipment.

	2017	2016
Not later than 1 year	$ 2,524	$ 2,436
Later than 1 and not later than 5 years	3,958	4,868
Later than 5 years	394	752
	$ 6,876	$ 8,056

(c) Outstanding loan commitments not provided for:

	2017	2016
Undrawn lines of credit	$ 685,523	$ 661,808
Commitments to extend credit	227,509	191,968
Commercial letters of credit	9,393	7,778
	$ 922,425	$ 861,554

(d) Investment commitments not provided for:

	2017	2016
Venture capital	$ 12,709	$ 7,478

NOTE 15. LOANS UNDER ADMINISTRATION

The Credit Union earns fees for the administration of loans which are beneficially owned by other financial institutions. The Credit Union had the following loans under administration at December 31:

	2017	2016
Opening balance	$ 159,148	$ 146,374
Loans syndicated or advanced	4,046	28,874
Less: loan repayment	(35,974)	(12,295)
Less: loans repurchased	(22,755)	(3,805)
Closing balance	$ 104,465	$ 159,148

The Credit Union has no exposure to loss from these administered loans.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 16. INTEREST INCOME AND INTEREST EXPENSE – FINANCIAL INSTRUMENTS

The following table outlines the Credit Union's total interest income and expense calculated using the effective interest method for financial instruments.

	2017	2016
Interest revenue		
Available-for-sale		
Investments	**$ 2,915**	$ 1,474
Fair-value-through-profit-and-loss		
Held-for-trading		
Investments	**71**	155
Derivative related amounts	**(10)**	(50)
Held-to-maturity		
Investments	**595**	174
Loans and receivables		
Investments	**10,423**	8,591
Loans	**156,319**	154,374
	$ 170,313	$ 164,718
Interest expense		
Held-for-trading		
Derivative related amounts	**$ 116**	$ 345
Other financial liabilities		
Deposits	**44,208**	43,314
Loans and borrowings	**94**	147
	$ 44,418	$ 43,806

NOTE 17. OTHER INCOME

The components of Other income are as follows:

	2017	2016
Account service fees	**$ 6,308**	$ 6,238
Automated banking machine fees	**1,859**	1,961
Collections, insufficient funds and overdraft	**2,046**	2,097
Interchange fees	**3,358**	2,244
Loan administration, insurance and other fees	**6,596**	6,765
Financial advisory services	**8,864**	8,223
Unrealized and realized net gains on financial assets	**192**	906
Unrealized and realized gains on foreign exchange	**1,212**	1,186
Realized gains (losses) on disposal of property and equipment	**(148)**	3,071
Revenue from insurance agencies	**9,280**	9,306
Dividend income	**3,467**	3,543
Other	**1,733**	2,791
	$ 44,767	$ 48,331

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 18. CASH FLOW INFORMATION

Adjustments to operating cash flow	**2017**	2016
Non-controlling interest	**$ -**	$ 179
Provision for credit losses	**14,938**	14,188
Depreciation of property and equipment (Note 7)	**4,896**	5,418
Amortization and impairment of intangible assets	**1,983**	2,120
Other income	**1,128**	(7,603)
Interest revenue (Note 16)	**(170,313)**	(164,718)
Interest expense (Note 16)	**44,418**	43,806
Income tax expense (Note 13)	**6,201**	5,531
	$ (96,749)	$ (101,079)

Changes in operating assets and liabilities (excluding Cash and cash equivalents)		
Loans	**$(153,355)**	$ (209,926)
Deposits	**70,225**	299,131
Other assets	**(2,764)**	292
Other liabilities	**4,009**	(11,854)
	$ (81,885)	$ 77,643

NOTE 19. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

During 2017, Affinity Properties Ltd. acquired 36.36% of the issued and outstanding common shares of 101188741 Saskatchewan Ltd. from minority shareholders, resulting in 100% ownership of common shares. Affinity Properties Ltd. also acquired an additional 4.74% of the issued and outstanding preferred shares of 101188741 Saskatchewan Ltd. from minority shareholders, resulting in 68.37% ownership of preferred shares. As a result of these transactions, $920 was reclassified from Non-controlling interest to Retained earnings, representing historic losses for the years 2013 to 2016, adjusted for the book value ($53) of the common and preferred shares acquired. This adjustment is included in the Consolidated Statement of Changes in Equity.

NOTE 20. RELATED PARTY TRANSACTIONS

(a) Key management personnel

i. *Key personnel*

Key management personnel (KMP) are those charged with the authority and responsibility for planning, directing and controlling the activities of the Credit Union. KMP includes the Board of Directors, the Chief Executive Officer and Executive Vice Presidents and their close family members.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 20. RELATED PARTY TRANSACTIONS – *continued*

(a) Key management personnel - *continued*

ii. *Compensation of key management personnel*

Compensation shown as short term benefits include wages and salaries, paid annual leave and paid sick leave, variable compensation and value of fringe benefits received, but excludes out of pocket expense reimbursements. The aggregate compensation of key management personnel during the year comprising amounts paid or payable or provided for was as follows:

	2017	2016
Short term employee benefits	**$ 2,527**	$ 2,406
Post employment benefits	**168**	152
Director remuneration	**227**	243
	$ 2,922	$ 2,801

iii. *Loans to key management personnel*

The Credit Union's policy for lending to KMP is that all loans are approved under the same lending criteria applicable to members. Select KMP may receive concessional rates of interest on their loans and facilities, however, there are no benefits or concessional terms and conditions applicable to the Board of Directors or close family members of KMP. These benefits are included in the compensation figures above. Loans to KMP are included in loans on the Consolidated Statement of Financial Position.

There are no loans to KMP that are impaired.

iv. *Other transactions with key management personnel*

KMP have received interest on deposits with the Credit Union during the financial year as detailed below. Interest has been paid on terms and conditions similar to those available on similar transactions to members of the Credit Union.

The Credit Union's policy for receiving deposits from other related parties and in respect of other related party transactions is that all transactions are approved and deposits accepted on the same terms and conditions that apply to members for each type of deposit.

Transactions with key management personnel:	**2017**	2016
Aggregate value of loans	**$ 4,678**	$ 4,290
Aggregate value of negotiated revolving credit facilities	**$ 2,843**	$ 3,694
Less: amounts drawn down	**(1,100)**	(1,280)
Net balance available	**$ 1,743**	$ 2,414
Interest and other revenue earned on loans and revolving credit facilities	**$ 150**	$ 153
Aggregate value of term and savings deposits	**$ 6,449**	$ 5,252
Interest paid on deposits	**$ 55**	$ 51

There are no service contracts to which KMP are an interested party.

(b) Controlled entity transactions

Transactions and assets and liabilities between controlled entities are eliminated upon consolidation and therefore have not been specifically disclosed.

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT

The nature of the Credit Union's financial instruments exposes it to credit, concentration, market and liquidity risk.

(a) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations.

Credit risk may arise from principal and interest amounts on loans and investments. Refer to Note 3 and Note 4 for additional information on the credit quality of loans and the estimate of exposure to credit risk on loans.

The Credit Union manages loan credit risk through adherence to internal policies and procedures for credit granting and subsequent loan disbursements for each loan type.

In addition, Credit Union Deposit Guarantee Corporation establishes standards with which the Credit Union must comply. Credit risk management principles include:

i. Balancing risk and return through:

- ensuring that credit quality is not compromised for growth;
- diversifying credit risks in transactions, relationships, and portfolios;
- using credit risk rating and scoring systems, policies and tools;
- pricing appropriately for the credit risk taken;
- mitigating credit risk through preventive and detective controls.

ii. Avoiding all business activities that are not consistent with the Credit Union's values, code of conduct or policies.

The following committees are involved in the management of credit risks: Credit Risk Committee (CRCo), Strategic Risk Committee (SRCo), Asset and Liability Committee (ALCo), Audit and Risk Committee of the Board (ARCo) and a variety of other internal management committees. Working in combination, these committees approve credit risk limits; ensure that management has an adequate framework of policies, processes and procedures to manage credit risk and that these credit risk policies and procedures are complied with at the business and transaction levels.

Products and services are subject to risk review and approval processes. Proposals for new and amended credit products and services are comprehensively reviewed and approved under a risk assessment framework. Limits are used to ensure the loan portfolio is well diversified and within risk limits as approved by the Board of Directors. Credit limits are established to ensure adequate diversification and to reduce concentration risk between Agriculture, Consumer and Commercial portfolios. The current standard states that the mix of assets will not reduce the ratio of eligible capital to risk-weighted assets below 10.5%. In addition, CRCo approves targets set out by industry and building-type exposures. Policies are put in place to ensure there are maximum borrowing limits for individual borrowers.

All loans are subject to continuous management review to assess whether there is objective evidence that any loan or group of loans is impaired. At regularly scheduled meetings, ARCo receives delinquency reports providing an overview of the Credit Union risk profile, including trending information, significant risk issues and analysis of significant changes in exposures.

At December 31, 2017, the Credit Union's loan delinquency over ninety days, as a percentage of total loans was 1.21% (2016 – 0.94%).

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(a) Credit risk – *continued*

Credit risk may also arise from principal and interest amounts on investments. The Credit Union manages credit risk through adherence to internal policies and procedures for the acquisition of investments. Investment decisions are made with due diligence to avoid undue risk or loss while obtaining a reasonable return, with the primary investment objective being preserving the safety of the principal. All investment policies including risk limits have been approved by the Board of Directors. In addition, Credit Union Deposit Guarantee Corporation establishes standards within which the Credit Union must comply.

The Credit Union is exposed to credit risk from third party counterparties where the Credit Union holds securities in those entities. The table below shows the credit risk exposure on debt securities and derivative securities, excluding liquidity reserves and balances on deposit with Canadian deposit-taking institutions:

Rating	**2017**	2016
AAA (R-1 high)	**$ 19,871**	$ 21,368
AA (R-1 mid)	**50,543**	33,789
A (R-1 low)	**6,242**	8,227
BBB (R-2 mid) and below	**-**	-
Unrated	**5,709**	5,550
	$ 82,365	$ 68,934

All ratings are as provided by Dominion Bond Rating Service (DBRS). The largest concentration of the Credit Union's debt securities is in Canadian schedule 1 banks. The Credit Union identifies and implements appropriate monitoring and/or corrective action on investments that are expected to be downgraded to below investment grade.

Credit risk may also arise from unfunded commitments. The following financial instruments also expose the Credit Union to credit risk:

i. commitments to extend credit representing the unused portion of authorizations to extend credit in the form of loans (including lines of credit);

ii. commercial letters of credit.

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

Commercial letters of credit are instruments issued on behalf of a member authorizing a third party to draw funds on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any funds drawn that are not ultimately settled by the member. The amounts are collateralized by the goods to which they relate.

As at December 31, the Credit Union had outstanding but unfulfilled financial instruments subject to credit risk as disclosed in Note 14.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(a) Credit risk – *continued*

The Credit Union's maximum credit risk exposure from instruments that have been fulfilled, excluding any collateral and other amounts that do not qualify for offset under IAS 32, are set out below:

	2017	2016
Cash and overnight deposits with deposit-taking institutions	**$ 52,105**	$ 53,227
Term deposits and liquidity reserves with deposit-taking institutions	**615,306**	684,976
Other debt securities	**81,796**	67,145
Loans	**4,277,309**	4,120,819
Derivative financial instruments	**569**	1,790
Other assets (receivables, investment in associates)	**7,786**	5,107
	$5,034,871	$ 4,933,064

The Credit Union's maximum exposure to credit risk is the carrying value of the assets or, in the case of assets not recorded on the Consolidated Statement of Financial Position, the amount guaranteed or committed. In most cases the likely exposure is far less due to collateral and actions taken to mitigate the Credit Union's exposure.

The Credit Union routinely obtains collateral and security, such as in the case of residential or commercial mortgages with a charge on lands or a commercial loan with a floating charge over receivables and inventories. The Credit Union ensures that any collateral held is sufficiently liquid, legally effective and enforceable.

Collateral and reduction of Credit Union exposure is described below for each class of financial instrument:

- Cash on deposit, Canadian deposit-taking institutions – Due to the nature of the counterparties, collateral is generally not sought on these balances which are considered low risk.

- Financial assets designated as fair-value-through-profit-or-loss or held-for-trading – The credit risk of these assets is reflected in their fair values. Debt securities may be collateralized according to their terms.

- Derivatives – Credit risk is minimized through netting agreements whereby derivative assets and liabilities with the same counterparty may be offset. Collateral may also be sought depending on the credit worthiness of the counterparty and/or nature of the transaction.

- Financial assets designated as available-for-sale or held-to-maturity – No collateral or enhancements are obtained although collateral may be inherent in the structure of the asset.

- Investments designated as loans and receivables - No collateral or enhancements are obtained.

- Loans and advances to members:
  - Residential mortgage loans – secured by a fixed charge over real property, may also have a government guarantee (insured by CMHC or Genworth).
  - Other personal lending – secured by other personal assets or unsecured.
  - Commercial and agricultural mortgage loans – secured by a fixed charge over real property.
  - Other commercial and agricultural lending - secured by charges over business and farm assets, may also have private or government guarantees.

- The Credit Union applies the same risk management policies for purchased loans as it does for loans provided directly to its members. Collateral may be sought depending on the strength of the counterparty and/or nature of the transaction.

- Commitments – These are commitments to future lending and are subject to the Credit Union's normal lending policies depending on the members' circumstances.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(a) Credit risk – *continued*

Valuation of the collateral and security taken is according to policy, procedure and industry standards. Security structures and legal covenants are subject to regular review to ensure that they remain fit for the purpose and remain consistent with legislation and accepted local market practice.

Any properties repossessed are made available for sale in an orderly and timely fashion, with any proceeds realized being used to reduce or repay the outstanding loan.

(b) Concentration risk

Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. Therefore a single variable or event may beneficially or detrimentally impact the performance of a significant portion of the Credit Union's assets, thereby introducing volatility to the Credit Union's profit or loss. To mitigate and manage concentration risk, the Credit Union tracks concentrations of risk to individual borrowers and in a variety of portfolios and assesses the aggregate risk against pre-determined regulations, policies and / or targeted levels.

i. *Borrower concentration*

Aggregation of credit risk is conducted by monitoring the amount of debt provided to any one member, directly or indirectly through connected parties. The regulatory maximum credit provided to any one member must be less than 25% of eligible capital. As at December 31, 2017 this limit was $111,098 (2016 - $103,185). The Credit Union's maximum exposure as at December 31, 2017 was $68,844 (2016 - $67,915).

ii. *Loan industry concentration*

To mitigate loan concentration risk, the Credit Union has developed preferred loan type and loan industry concentration ranges. The development of loan concentration ranges balances risk with satisfying needs of the Credit Union membership, and is periodically reviewed and approved by CRCo and ARCo.

The following chart depicts the loan type concentration. Figures exclude lines of credit.

	CRCo Target	**2017**	2016
Consumer loans	**50-70%**	**55%**	56%
Commercial loans	**30-40%**	**27%**	26%
Agricultural loans	**10-20%**	**13%**	13%

iii. *Investment concentration*

All investments are categorized at the time of purchase into a pre-determined investment category. Current exposure in each category is reported to ALCo and ARCo on a quarterly basis. The following chart depicts investment concentration as at December 31:

	Target Maximum 2017	**2017**	2016
SaskCentral deposits / debentures	**No Limit**	**$ 481,981**	$ 454,728
Concentra deposits	**222,195**	**61,425**	103,828
SaskCentral /Concentra shares	**111,097**	**39,181**	39,181
Federal government guaranteed	**444,390**	**951**	1,020
Provincial government guaranteed	**444,390**	**23,490**	21,069
Local government guaranteed	**222,195**	**14,407**	11,435
Schedule 1 chartered bank guaranteed	**222,195**	**72,842**	122,922
Corporate	**222,195**	**-**	-
Co-operatives	**222,195**	**58,375**	56,282
Non-interest based investments	**44,439**	**20,893**	19,835
		$ 773,545	$ 830,300

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(b) Concentration risk *- continued*

iii. Investment concentration - continued

In addition to the aggregate limits outlined above, the Credit Union also has limits on the maximum allowable exposure by individual issuer. The Credit Union monitors individual exposures within the investment portfolio and reports to ALCo and ARCo on a quarterly basis.

Credit Union Deposit Guarantee Corporation also has restrictions that prohibit certain types of investments. As at December 31, 2017 there were no investment exposures in excess of the Credit Union's internal limits or any regulatory guidelines.

(c) Market risk

Market risk is the risk of loss on the value of a financial instrument that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices and credit spreads. The Credit Union is exposed to market risk in asset/liability management activities. The level of market risk to which the credit union is exposed varies depending on market conditions, in particular, the volatility and liquidity in the markets where the instruments are traded and expectations of future price and yield movements.

In order to manage both short-term (within 1 year) and long-term (over 1 year) interest rate risk, the Credit Union utilizes a statistical lattice based simulation model referred to as linear path space (LPS). This modeling methodology includes stress testing of changes in interest rates within the context of 201 different interest rate scenarios and is consistent with recommendations put forward by the Basel Committee of Banking Supervision.

The Board of Directors has approved the following policies related to market risk for the Credit Union:

i. *Short term interest rate risk* or Value at Risk (VaR) measures how exposed the Credit Union's earnings are to interest rate changes within a 1 year time frame. The LPS model uses the current market yield curve and simulates 201 future potential margin scenarios. By policy, not more than 8% of statistically expected net interest margin can be at risk within that time frame calculated with a 99% confidence level. As at December 31, 2017, this measure of short term interest rate risk resulted in a VaR of 3.68% (2016 – 2.63%). This measure indicates that, given a 99% confidence interval, the pretax change in margin will not exceed $5,050 (2016 - $3,266).

ii. *Long term interest rate risk* is measured using a modified duration of equity. This measures how expected changes in interest rates will expose the market value of equity. The model also captures current trends of the simple durations of all assets and liabilities. By policy, the market value of equity cannot be exposed by more than 10%. At December 31, 2017 the duration of the market value of equity was 0.06% (2016 – 0.62%).

At regularly scheduled meetings, ALCo, SRCo and ARCo receive a market risk report which includes 5 quarters of trending analysis, a report on significant changes and a comparison to policy.

Limitations of this model may occur in the presence of extreme outliers that are not represented by the 201 interest rate scenarios. Furthermore, the model measures the financial position of the Credit Union as at a point in time. Near term, significant changes in member behavior may cause the value of the measurement to move considerably in the short term.

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(c) Market risk - *continued*

Foreign exchange risk is the potential adverse impact on the Credit Union's earnings and economic value due to changes in foreign currency exchange rates. Risk arises from holding financial assets and liabilities denominated in a foreign currency, whereby the values of those assets and liabilities fluctuate as a result of changes in the value of the Canadian dollar relative to the value of the underlying foreign currency. The frequency and direction of rate changes, the extent of the foreign currency exposure and the ability of counterparties to honor their obligations to the Credit Union are all significant factors in exchange risk management. The exposure to foreign exchange risk is considered in the overall risk exposure to the Credit Union and managing foreign exchange risk is a fundamental component of the Credit Union's risk management policies.

To minimize foreign exchange exposures, the Credit Union has established policies to define the type of foreign currency denominated products and services that may be offered, eligible investment guidelines for investments denominated in foreign currencies and limits in relation to the net aggregate foreign currency risk exposure for the Credit Union. Due to limited exposure to foreign currencies other than the US dollar, the Credit Union's foreign exchange risk management practices only address foreign exchange risk related to the US dollar.

The Credit Union currently provides foreign currency exchange services for the US dollar, Euro, Mexican peso and British pound sterling. The Credit Union also offers US dollar denominated deposit accounts, term deposits and lines of credit; it is these accounts that give rise to the Credit Union's only significant foreign exchange risk exposure. In order to mitigate the exchange risk on these US dollar denominated products, the Credit Union maintains US dollar denominated investments and deposit accounts to offset fluctuations in the US dollar exchange rate. Credit Union policy has established the limit for the total aggregate foreign exchange exposure, the difference between US dollar denominated assets and liabilities, to a maximum of 2% of eligible capital (2016 – 5%).

Fluctuations in the total aggregate foreign exchange exposure are a direct result of the level of activity in the US dollar member products. The Credit Union manages the net foreign exchange position by acquiring or selling US dollar denominated assets in order to be in compliance with policy.

The Credit Union's foreign exchange exposure is reported to ALCo and ARCo at regularly scheduled meetings. Foreign currency exchange transactions and US dollar denominated products do not make up a significant portion of the Credit Union's total operations. As at December 31, the Credit Union's exposure to foreign currency was as outlined below:

	2017	2016
Exposure	**$ 998**	$ 1,015
Policy limit	**8,888**	20,637

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(d) Liquidity risk

Liquidity risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or cash equivalents in a timely and cost effective manner to meet commitments as they come due.

The following table outlines the Credit Union's maturity schedule at December 31, 2017 with all liabilities and demand deposits being drawn at the earliest date permitted by contract. All commitments to extend loans and lines of credit are also provided, classified by the earliest funding time frame provided by contract. This represents the Credit Union's unmitigated risk.

	2017				
	Non-derivative - maturity schedule				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
Financial assets	**$ 624,587**	**$ 487,885**	**$ 1,126,398**	**$ 2,732,088**	**$ 131,666**
Demand deposits	**$ 2,277,732**	**$ -**	**$ -**	**$ -**	**$ -**
Other deposits	**445,509**	**309,218**	**1,038,556**	**626,965**	**-**
Other non-derivative liabilities	**38,424**	**10**	**25**	**-**	**-**
Financial liabilities	**$ 2,761,665**	**$ 309,228**	**$ 1,038,581**	**$ 626,965**	**$ -**
	Derivative - maturity schedule				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
Assets	**$ 25**	**$ 212**	**$ 275**	**$ 57**	**$ -**
Liabilities	**$ 25**	**$ 212**	**$ 275**	**$ 57**	**$ -**
	Earliest funding time frame for commitments to extend credit				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
Undrawn lines of credit	**$ 685,523**	**$ -**	**$ -**	**$ -**	**$ -**
Commitments to extend credit and commercial letters of credit	**236,902**	**-**	**-**	**-**	**-**
	$ 922,425	**$ -**	**$ -**	**$ -**	**$ -**

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(d) Liquidity risk - *continued*

2016

Non-derivative - maturity schedule

	Less than 1 month	1 to 3 months	3 months to 1 year	1 - 5 years	Over 5 years
Financial assets	$ 625,239	$ 465,331	$1,221,741	$ 2,576,685	$ 110,035
Demand deposits	$ 2,171,023	$ -	$ -	$ -	$ -
Other deposits	417,859	306,350	1,173,532	563,008	-
Other non-derivative liabilities	39,181	42	95	-	-
Financial liabilities	$ 2,628,063	$ 306,392	$1,173,627	$ 563,008	$ -

Derivative - maturity schedule

	Less than 1 month	1 to 3 months	3 months to 1 year	1 - 5 years	Over 5 years
Assets	$ 20	$ 733	$ 545	$ 492	$ -
Liabilities	$ 20	$ 733	$ 555	$ 492	$ -

Earliest funding time frame for commitments to extend credit

	Less than 1 month	1 to 3 months	3 months to 1 year	1 - 5 years	Over 5 years
Undrawn lines of credit	$ 661,808	$ -	$ -	$ -	$ -
Commitments to extend credit and commercial letters of credit	199,746	-	-	-	-
	$ 861,554	$ -	$ -	$ -	$ -

The maturity analysis above can provide insight into the potential liquidity risk of the Credit Union. However, the risk that may be inferred by the preceding tables may be significantly altered by the following:

i. Member transactional patterns suggest that only 14% to 17% of demand deposits are volatile and the remainder were not accessed in any given month throughout 2017;

ii. Member transactional patterns in 2017 indicate that unaccessed but approved lines of credit were between 97% and 102% of the 2017 disclosed figure, indicating there is little volatility in the use of these facilities;

iii. The Credit Union has committed borrowing facilities on which it may draw (Note 11). The Credit Union also has the capacity to negotiate significantly more debt than what has been committed;

iv. The Credit Union has very diverse funding sources illustrated by the holding of a large number of consumer, commercial and agricultural accounts throughout the Province of Saskatchewan. The Credit Union also has access to brokered deposit networks;

v. Concentrations of liquidity risk are managed in the Credit Union's funding sources by limiting deposits by any one depositor and tracking large deposit maturities;

vi. A significant portion of the Credit Union's assets are callable upon demand;

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(d) Liquidity risk – *continued*

vii. The Credit Union has an established loan syndication program whereby loans are saleable to meet liquidity needs;

viii. The Credit Union has Approved Issuer status under the National Housing Act Mortgage-Backed Securities (NHA MBS) Program entitling the Credit Union to securitize residential insured mortgages to provide an additional source of liquidity;

ix. The Credit Union holds 10% of all deposits at SaskCentral in a statutory liquidity reserve.

As a result, the Credit Union's policy and assessment of liquidity risk reflects management's estimates, assumptions and judgments pertaining to current and prospective market conditions and the related member and counterparty behavior.

The Board of Directors and management have set minimum targets of necessary surplus operating liquidity over a one year time frame that provides a safeguard to withstand the stress of unusual events and current expected cash flows. They also set policies with regard to liquidity to define the risk tolerance parameters. Liquidity risk is managed by assessing normal day-to-day and seasonal funding requirements. These requirements are measured through a modeling tool of trended expected balances combined with contractual cash flows over a period of one year, plus contingent liquidity risk which assesses the impact of intended responses to sudden stressful events.

Net cash inflow or outflow is compared against, and is to be a multiple of, a number of liquidity generators. Cash use, which includes day-to-day and seasonal swings in cash balances and a conservative estimate of potential cash outflows due to maturities and/or changes in member behavior, is compared with the Credit Union's availability to liquidity generating vehicles. These vehicles include, but are not limited to, the Credit Union's current cash balances and other liquid investments as well as established borrowing facilities contracted to supplement liquidity requirements. Through policy, excess liquidity must be maintained in several time gaps from one month through one year. The primary measurement is the operating liquidity ratio which is calculated as available liquidity divided by potential cash use (as defined above). The following is the result as at December 31, 2017:

	1 month	2 months	3 months	6 months	1 year
Net cash source	**2.26 times**	**2.16 times**	**2.04 times**	**1.79 times**	**1.32 times**
Minimum target	1.50 times	1.50 times	1.50 times	1.25 times	1.25 times
Policy limit	1.40 times	1.30 times	1.20 times	1.00 times	0.75 times

At regularly scheduled meetings the ALCo, SRCo and ARCo review liquidity results and, where there are results for specific time intervals that are falling outside of the established targets, management presents plans for remediation.

Effective January 1, 2017, Credit Union Deposit Guarantee Corporation introduced prescribed liquidity adequacy measures and minimum liquidity requirements for Saskatchewan credit unions. These liquidity adequacy guidelines are based on the Basel III framework. This framework encompasses the recommendations for banking laws and regulations issued by the Basel Committee on banking supervision. These liquidity adequacy requirements set out guiding principles for an effective liquidity framework and the minimum requirements for the quantity and quality of liquid assets that the Credit Union is required to hold.

Regulation 18(1) of the Act requires that the Credit Union must maintain a liquidity reserve equal to 10% of its total liabilities in specified liquidity deposits with SaskCentral. As at December 31, 2017, the Credit Union complied with this requirement.

The Credit Union must also maintain a minimum liquidity coverage ratio (LCR) which will enable the Credit Union to withstand a 30-day liquidity stress event. The LCR is a ratio derived from the Credit Union's portfolio of eligible liquid assets and the Credit Union's funding requirements under a prescribed liquidity stress scenario.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 21. FINANCIAL INSTRUMENT RISK MANAGEMENT – *continued*

(d) Liquidity risk – *continued*

Under these standards, the Credit Union must hold a stock of unencumbered high quality liquid assets (HQLA) that is sufficient to cover the Credit Union's total net cash outflows over a 30-day period under the prescribed stress scenario. HQLA are assets that can be easily converted into cash at little or no loss of value and include eligible investments held as liquidity reserve deposits at SaskCentral. For purposes of the LCR calculation, assets are catergorized as either level 1 or level 2 to reflect their relative liquidity value under stressed conditions. Level 1 assets are the highest quality assets whereas Level 2 assets are considered less liquid. Each asset category is then assigned a weighting to determine their expected liquidity value. The LCR is calculated by dividing the liquidity weighted asset total by the Credit Union's net cash outflows over a 30-day period.

The LCR will be phased in over a 3-year period beginning with a minimum requirement of 80% in 2017, 90% in 2018 and 100% in 2019. The Credit Union has a policy limit that establishes an additional buffer over the minimum regulatory requirement. The policy will be phased in over the same 3-year period and will require the Credit Union to maintain a minimum LCR of 90% in 2017, 100% in 2018 and 120% beginning in 2019.

During the year the Credit Union was in compliance with all regulatory liquidity standards. The following table summarizes the Credit Union's LCR calculation as at December 31:

	2017		2016	
High quality liquid assets	**Market value**	**Weighted amount**	Market value	Weighted amount
Level 1 assets				
Cash on-hand	**$ 20,228**	**$ 20,228**	$ 19,947	$ 19,947
SaskCentral current account	**23,181**	**23,181**	22,755	22,755
Federal and provincial government guaranteed	**294,178**	**294,178**	238,256	238,256
		$ 337,587		$ 280,958
Level 2A assets				
Local government and other public sector entities	**$ 14,456**	**$ 12,287**	$ 11,579	$ 9,842
Qualifying corporate debt securities and covered bonds rated AA- or higher	**29,835**	**25,359**	29,685	25,232
Level 2B assets				
Qualifying corporate debt securities rated between A+ and BBB-	**33,383**	**16,691**	39,813	19,907
		$ 54,337		$ 54,981
Total high quality liquid assets		**$ 391,924**		$ 335,939
Cash outflows				
Retail and small business deposit run-off	**$2,759,123**	**$ 85,078**	$ 2,710,794	$ 78,331
Unsecured wholesale funding run-off	**1,919,475**	**294,594**	1,901,370	275,469
Drawdowns on committed credit facilities	**448,958**	**32,823**	410,680	29,283
Unconditionally cancellable credit facilities	**464,073**	**18,722**	443,096	17,740
Guarantees and letters of credit	**9,393**	**470**	7,778	389
Other contractual outflows	**-**	**-**	7,478	7,478
		$ 431,687		$ 408,690
Less: Cash inflows				
Retail and small business customers	**$ 19,437**	**$ 9,718**	$ 21,521	$ 10,760
Other wholesale inflows	**8,204**	**4,102**	8,493	4,247
Receivable from financial institutions	**70,335**	**70,335**	111,387	111,387
		$ 84,155		$ 126,394
Total cash outflows, net of cash inflows		**$ 347,532**		$ 282,296
Liquidity Coverage Ratio		**112.77%**		119.00%

The Credit Union also has a documented liquidity crisis management plan which clearly outlines strategies to address liquidity shortfalls in emergency situations. The plan includes procedures and action plans to respond to severe disruptions to the Credit Union's ability to fund its operations under a range of various stress scenarios. The plan is regularly reviewed and approved by the Board of Directors.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 22. CAPITAL MANAGEMENT

Credit Union Deposit Guarantee Corporation (the Corporation) prescribes capital adequacy measures and minimum capital requirements for the Credit Union. The capital adequacy guidelines issued by the Corporation are based on the Basel III framework. This framework encompasses the recommendations for banking laws and regulations issued by the Basel Committee on banking supervision. The objective of this framework is to create international standards that regulators can use when creating regulations as to how much capital financial institutions need to put aside to guard against a wide variety of financial and operational risks.

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 250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standards outlined by the Corporation. The minimum regulatory standards the Credit Union is required to maintain are as follows: (i) common equity Tier 1 capital to risk-weighted assets of 7.0%; (ii) Tier 1 capital to risk-weighted assets of 8.5%; and (iii) total eligible capital to risk-weighted assets of 10.5%. The Credit Union is also required to maintain a minimum leverage ratio of 5%, calculated as total eligible capital to total leveraged assets.

Tier 1 capital is defined as the 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 charge. At December 31, 2017, Tier 1 capital at the Credit Union consists entirely of common equity Tier 1 capital. Common equity Tier 1 capital consists of Retained earnings and Accumulated other comprehensive income with deductions for Intangible assets, unconsolidated substantial investments and Deferred income tax assets not arising from temporary differences.

The Credit Union's Tier 2 capital includes the collective impairment assessment for credit losses to a maximum of 1.25% of risk-weighted assets and qualifying membership shares that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital.

Leveraged assets equals total on-balance sheet assets adjusted for any deductions from eligible capital plus specified off-balance sheet exposures.

During the year the Credit Union was in compliance with all regulatory capital standards.

The Credit Union's capital plan, which is regularly reviewed and approved by the Board, conforms to this regulatory capital framework and is used to establish internal targets for capital adequacy. Internal capital targets were developed in part by considering current regulatory capital requirements and the practices of large Canadian schedule 1 banks. This includes targets for total capital to risk-weighted assets and leverage ratios. The Credit Union's internal capital targets are considerably higher than the minimum regulatory requirements but are considered to be prudent.

A number of other key performance metrics are also developed in conjunction with, and to support, the Credit Union's capital targets. These metrics include asset growth, return on capital and efficiency ratios.

The following table summarizes the Credit Union's key capital information.

Eligible capital	**2017**	2016
Total Tier 1 capital	**$ 436,476**	$ 406,802
Total Tier 2 capital	**7,914**	5,938
	$ 444,390	$ 412,740
Risk weighted assets	**$ 3,242,087**	$ 3,084,783

	Regulatory Standard	**Internal Target**	**2017**	2016
Tier 1 common equity to risk-weighted assets	**Min. 7.0%**	**-**	**13.46%**	13.19%
Total Tier 1 capital to risk-weighted assets	**Min. 8.5%**	**-**	**13.46%**	13.19%
Total capital to risk-weighted assets	**Min. 10.5%**	**12.50%**	**13.71%**	13.38%
Leverage (total capital / leveraged assets)	**Min. 5.0%**	**6.00%**	**8.19%**	7.55%

NOTE 22. CAPITAL MANAGEMENT – *continued*

The capital plan includes metrics based on the Credit Union's economic capital, taking into account the Credit Union's unique risk profile and the Board's appetite for risk. These metrics are a direct result of the Credit Union's on-going internal capital adequacy assessment process (ICAAP). The primary principle behind ICAAP is to provide a framework to support the Credit Union in assessing its overall capital adequacy in relation to its risk profile. The six main areas of ICAAP include: board oversight, sound assessment and planning, a comprehensive assessment of risks, stress testing, monitoring and reporting, and internal control review.

Within the Credit Union's enterprise risk management (ERM) framework, management and the Board review risk appetite and related tolerances regularly. Management then uses the risk appetite framework to develop supporting policies and procedures for ongoing risk monitoring and review. This includes the use of cross functional committees to review key risks, develop risk mitigation strategies and to recommend changes to Board policy. Within this context, the Credit Union's key risk categories have been defined as: strategic, credit, customer, operational, market, liquidity, and regulatory and legal. Economic capital requirements are determined by quantifying the Credit Union's residual risks identified through the ERM framework. Each residual risk is then subjected to stress testing which is quantified to determine the total aggregate economic capital requirement for the Credit Union.

The Credit Union's target for total capital to risk-weighted assets has been established as 2% plus the greater of (i) the regulatory minimum requirement or (ii) the economic capital requirement as determined by the Credit Union's ICAAP model. This ensures the minimum regulatory capital requirements are met and the Credit Union's aggregate capital is adequate in relation to the Credit Union's unique risk profile. At December 31st the Credit Union's economic capital requirement, as a percentage of risk weighted assets was 8.36% (2016 – 9.27%).

NOTE 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Methods and Assumptions

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

- The carrying values for cash, short-term investments, other financial assets and liabilities, accrued revenue and expenses and certain other assets and liabilities approximate their fair value due to their short term nature.

- Estimated fair values of remaining investments are based on quoted market prices when available (Level 1), quoted market prices of similar investments, the market price of the last transaction for that instrument in an active market or the proportionate net assets of associates, as applicable (Level 2). Venture capital funds are carried at the last disclosed net asset value (Level 3).

- For variable interest rate loans that re-price frequently, carrying values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations on the contractual repayment of the loans. The discount rates applied were based on the market rate for equitable classes or groupings as at December 31, 2017 (Level 2). Market rates are determined by employing posted lending rates plus or minus standard industry bonusing or discounting for each month of cash flow. The comparative carrying value of loans, advances and other receivables is net of specific provision for impairment.

- Fair value of deposits without a specified maturity term is the carrying value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits. Market rates are determined by employing posted guaranteed investment certificate rates plus or minus standard industry bonusing for each month of cash flow.

- For loans and borrowings at variable interest rates that re-price frequently, carrying values are assumed to be fair values.

- The fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity or the calculated value of the derivative contract using the current value of the applicable index (Level 2). The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 23. FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

The fair value of the financial instruments, their related carrying values and fair value hierarchy levels have been summarized in the tables that follow:

	2017					
	Cost	Carrying value	Fair value	Level 1	Level 2	Level 3
ASSETS						
Available-for-sale financial assets						
Investments						
Co-operative shares	$ 39,481	$ 39,481	$ 39,481	$ -	$ 39,481	$ -
Government debt	20,859	20,603	20,603	-	20,603	-
Corporate debt	8,516	8,474	8,474	-	8,474	-
Venture capital funds	15,992	20,183	20,183	-	-	20,183
Fair-value-through-profit-and-loss financial assets						
Held-for-trading financial assets						
Investments						
Government debt	435	437	437	-	437	-
Corporate debt	-	-	-	-	-	-
Derivative related amounts	-	569	569	-	569	-
Held-to-maturity financial assets						
Investments						
Government debt	17,606	17,606	17,308	-	17,308	-
Corporate debt	29,037	29,037	28,637	-	28,637	-
Loans and receivables						
Cash and cash equivalents	43,983	43,983	43,983	-	43,983	-
Investments						
Liquidity reserve	480,335	480,335	477,263	-	477,263	-
Demand and term deposits	154,486	154,486	154,599	-	154,599	-
Accrued interest, investments	2,903	2,903	2,903	-	2,903	-
Loans	4,292,852	4,277,309	4,249,409	-	4,249,409	-
Other financial assets	7,787	7,787	7,787	-	7,787	-
Non-financial assets						
All non-financial assets	131,635	90,839	90,839	-	-	-
		$ 5,194,032	$ 5,162,475	$ -	$ 5,051,453	$ 20,183
LIABILITIES						
Held-for-trading financial liabilities						
Derivative related amounts	$ -	$ 569	$ 569	$ -	$ 569	$ -
Other financial liabilities						
Deposits	4,697,980	4,697,980	4,703,147	-	4,703,147	-
Loans and borrowings	173	173	173	-	173	-
Other financial liabilities	36,259	36,259	36,259	-	36,259	-
Membership shares	2,027	2,027	2,027	-	2,027	-
Non-financial liabilities						
All non-financial liabilities	2,217	2,217	2,217	-	-	-
		$ 4,739,225	$ 4,744,392	$ -	$ 4,742,175	$ -

For the years ended December 31, 2017 and December 31, 2016 (in thousands of dollars)

NOTE 23. FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

	2016					
	Cost	Carrying value	Fair value	Level 1	Level 2	Level 3
ASSETS						
Available-for-sale financial assets						
Investments						
Co-operative shares	$ 39,491	$ 39,491	$ 39,491	$ -	$ 39,491	$ -
Government debt	21,051	20,934	20,934	-	20,934	-
Corporate debt	10,320	10,329	10,329	-	10,329	-
Venture capital funds	14,367	18,602	18,602	-	-	18,602
Fair-value-through-profit-and-loss financial assets						
Held-for-trading financial assets						
Investments						
Government debt	2,281	2,333	2,333	-	2,333	-
Corporate debt	750	752	752	-	752	-
Derivative related amounts	-	1,790	1,790	-	1,790	-
Held-to-maturity financial assets						
Investments						
Government debt	10,130	10,099	10,022	-	10,022	-
Corporate debt	17,157	17,150	16,983	-	16,983	-
Loans and receivables						
Cash and cash equivalents	42,805	42,805	42,805	-	42,805	-
Investments						
Liquidity reserve	453,078	453,035	456,018	-	456,018	-
Demand and term deposits	254,922	254,922	255,208	-	255,208	-
Accrued interest, investments	2,653	2,653	2,653	-	2,653	-
Loans	4,135,316	4,120,819	4,121,105	-	4,121,105	-
Other financial assets	5,107	5,107	5,107	-	5,107	-
Non-financial assets						
All non-financial assets	131,909	96,009	96,009	-	-	-
		$ 5,096,830	$ 5,100,141	$ -	$4,985,530	$ 18,602
LIABILITIES						
Held-for-trading financial liabilities						
Derivative related amounts	$ -	$ 1,800	$ 1,800	$ -	$ 1,800	$ -
Other financial liabilities						
Deposits	4,631,772	4,631,772	4,649,383	-	4,649,383	-
Loans and borrowings	2,096	2,096	2,096	-	2,096	-
Other financial liabilities	32,376	32,376	32,376	-	32,376	-
Membership shares	2,034	2,034	2,034	-	2,034	-
Non-financial liabilities						
All non-financial liabilities	1,406	1,406	1,406	-	-	-
		$ 4,671,484	$ 4,689,095	$ -	$4,687,689	$ -

The Credit Union recognizes transfers between levels of the fair value hierarchy at the end of the year during which the change occurred.

No transfer in the fair value hierarchy occurred in 2017.

NOTE 24. EVENTS SUBSEQUENT TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE

The membership of Porcupine Credit Union Limited voted in favor of merging with Affinity Credit Union as of January 1, 2018.

The assets and liabilities in their entirety will constitute a business, and will therefore be accounted for by using the acquisition method. The Credit Union will be the acquirer and obtain 100% of voting rights. The financial effect of this event has not yet been determined.

NOTE 25. COMPARATIVE FIGURES

In some instances, comparative figures have been reclassified in order to comply with current year's presentation.