Affinity Credit Union

Consolidated Financial Statements
for the year ended December 31, 2018

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 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
March 1, 2019

KPMG LLP
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Saskatoon Saskatchewan S7K 1P4
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INDEPENDENT AUDITORS' REPORT

To the Members of Affinity Credit Union

Opinion

We have audited the consolidated financial statements of Affinity Credit Union (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants
Saskatoon, Canada

March 1, 2019

Affinity Credit Union
Consolidated Statement of Financial Position
As at December 31 (in thousands of CDN $)

	Note	**2018**	2017
Assets			
Cash and cash equivalents		**44,925**	43,983
Financial investments	8	**854,943**	773,545
Loans	9	**4,670,814**	4,277,309
Other assets	10	**96,873**	99,195
Total Assets		**5,667,555**	5,194,032
Liabilities			
Deposits	13	**5,108,860**	4,697,980
Other liabilities	14	**56,632**	41,245
Total Liabilities		**5,165,492**	4,739,225
Equity			
Retained earnings		**502,063**	451,643
Accumulated other comprehensive income		**-**	2,816
Equity attributable to owners		**502,063**	454,459
Non-controlling interest		**-**	348
Total Equity		**502,063**	454,807
Total Liabilities and Equity		**5,667,555**	5,194,032

Commitments (Notes 8, 9, 11, 16)

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

Approved by the Board

Lise de Moissac

.. CFO

Scott Flavel

.. Director

Affinity Credit Union
Consolidated Statement of Comprehensive Income
Year ended December 31 (in thousands of CDN $)

	Note	**2018**	2017
Interest income			
Loans		**176,532**	156,319
Investments		**14,459**	13,994
		190,991	170,313
Interest expense			
Deposits		**58,275**	44,324
Borrowings		**80**	94
		58,355	44,418
Net interest		**132,636**	125,895
Provision for credit losses		**19,251**	14,938
Net interest income after provision for credit losses		**113,385**	110,957
Other income	18	**59,511**	44,767
Net interest and other income		**172,896**	155,724
Operating Expenses			
Personnel		**69,357**	72,531
General business		**33,579**	30,671
Occupancy		**9,939**	9,311
Organizational		**2,699**	3,347
Security		**4,244**	4,082
		119,818	119,942
Profit before income tax		**53,078**	35,782
Provision for income taxes	15	**10,716**	6,201
Profit		**42,362**	29,581
Other comprehensive income (loss)		**-**	(120)
Total comprehensive income		**42,362**	29,461

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 CDN $)

	2018				
	Retained earnings including contributed surplus	**Accumulated other comprehensive income**	**Equity attributable to owners**	**Non controlling interest**	**Total equity**
Balance, beginning of year	**451,643**	**2,816**	**454,459**	**348**	**454,807**
Addition to contributed surplus (Note 24)	**6,999**	**-**	**6,999**	**-**	**6,999**
Total profit	**42,362**	**-**	**42,362**	**-**	**42,362**
Acquisition of non-controlling interest without a change in control	**348**	**-**	**348**	**(348)**	**-**
Impact of adopting IFRS 9 at January 1, 2018 (Note 7)	**711**	**(2,816)**	**(2,105)**	**-**	**(2,105)**
Balance, end of year	**502,063**	**-**	**502,063**	**-**	**502,063**

	2017				
	Retained earnings including contributed surplus	Accumulated other comprehensive income	Equity attributable to owners	Non controlling interest	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	(867)	-	(867)	867	-
Balance, end of year	451,643	2,816	454,459	348	454,807

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 CDN $)

	Note	**2018**	2017
Cash flows from (used in) operating activities			
Total profit		**42,362**	29,581
Adjustments to operating cash flows	19	**(111,138)**	(96,749)
Changes in operating assets and liabilities	19	**(13,921)**	(81,885)
Cash interest received		**188,164**	169,467
Cash interest paid		**(50,595)**	(46,426)
Cash income taxes paid		**(9,941)**	(7,118)
		44,931	(33,130)
Cash flows from (used in) investing activities			
Proceeds from investments		**148,319**	227,390
Purchases of investments		**(189,253)**	(172,039)
Net cash and cash equivalents acquired through business combinations	24	**2,470**	-
Purchase of non-financial assets		**(2,708)**	(2,128)
Proceeds from disposal of non-financial assets		**1,913**	403
		(39,259)	53,626
Cash flows from (used in) financing activities			
Other liabilities		**(27)**	(586)
Sale of loans		**-**	4,046
Repurchase of loans	17	**(4,819)**	(22,755)
		(4,846)	(19,295)
Net increase in cash and cash equivalents		**826**	1,201
Net foreign exchange difference on cash held		**116**	(23)
Cash and cash equivalents, beginning of year		**43,983**	42,805
Cash and cash equivalents, end of year		**44,925**	43,983

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

Note 1. 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 4(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 7th Ave N
PO Box 1330
Saskatoon SK S7K 3P4

Note 2. Basis of Preparation

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, 2018 were approved and authorized for issue by the Board of Directors (Board) on March 1, 2019. Details of the Credit Union's accounting policies, including changes during the year, are included in Notes 4 and 5.

The consolidated financial statements have been prepared on the historic cost basis except certain financial instruments (Note 4) and investment properties are measured at fair value.

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

Note 3. Use of Estimates and Key Judgments

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

Assumptions underlying estimates and judgments are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The most significant uses of estimates and judgments relate to the Credit Union's assets as follows:

Note 4(c)(ii) – assessment of the business model impacting the classification of financial assets
Note 4(c)(iv) – estimates of fair value for financial instruments when there is no observable market price
Note 4(c)(v) – the measurement of expected credit losses

Note 4. 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 controlled entities, including any unrealized profits or losses, have been eliminated upon consolidation, and therefore have not been specifically disclosed. If necessary, adjustments are made to ensure consistency of accounting policies.

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 100% of the preferred shares of the minority shareholders of 101188741 Saskatchewan Ltd. This transaction occurred in conjunction with the sale of its primary asset, a building previously reported as investment property.

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

(b) Cash and Cash Equivalents

Cash and cash equivalents includes notes and coins on hand as well as deposits with other deposit taking institutions that have an initial term to maturity of less than three months. Cash and cash equivalents are carried at amortized cost (AC).

(c) Financial Instruments

The Credit Union's financial assets include loans and financial investments. Financial liabilities are comprised mainly of deposits. Risk management practices associated with financial instruments are disclosed in Note 21.

Loans
Loans include finance lease receivables, purchased loans, foreclosed assets, financial guarantees, financial commitments to advance on approved credit, and accrued interest on loans. Financial guarantees and financial commitments to advance on approved credit are reported to the extent that credit is funded.

In the event the Credit Union takes possession of collateral held as security against loans, the Credit Union's policy is to pursue timely realization of the collateral in an orderly manner. The Credit Union does not generally use the non-cash collateral for its own operations.

As part of its normal operating activities, the Credit Union syndicates loan receivables. When a loan is syndicated, the underlying asset is not recognized in the Credit Union's financial statements.

Note 4. Significant Accounting Policies – continued

(c) Financial Instruments - *continued*

Financial Investments

The Credit Union holds financial investments to meet liquidity requirements and interest rate risk management objectives. Financial investments are mainly comprised of interest bearing term deposits as well as government and corporate bonds. The Credit Union does not participate in active trading of financial investments.

Deposits

Deposits are comprised of demand and term deposits, which includes any registered product offerings.

i. Recognition

The Credit Union initially recognizes loans and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Credit Union becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recorded at fair value. Except for items at fair-value-through-profit-or-loss (FVTPL), amounts initially recorded are adjusted for directly attributable transaction costs.

ii. Classification

Financial Assets

Effective January 1, 2018, on initial recognition, a financial asset is classified for subsequent measurement using one of three measurement models (prior to January 1, 2018 one of four measurement models).

Loans and debt financial investments are measured at AC if it is not designated as FVTPL and the asset is held within a business model whose objective is to hold assets to collect contractual cash flows. The contractual terms of the financial asset must also give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt financial investments are measured at fair-value-through-other-comprehensive-income (FVOCI) if it is not designated as FVTPL and the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual terms of the financial asset must also give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. The Credit Union does not have any financial investments measured at FVOCI.

On initial recognition of equity financial investments that are not held for trading, the Credit Union may irrevocably elect FVOCI. This election is made on an investment-by-investment basis.

All other financial investments and derivatives are classified as FVTPL. Fair value adjustments are recorded within other income.

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

Business Model Assessment

The Credit Union makes an assessment of the objective of the business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes: the stated policies and objectives for the portfolio and the operation of those policies in practice, how the performance of the portfolio is evaluated, the risks that affect the performance of the business model and how those risks are managed, how managers of the business are compensated, and the frequency, volume, and timing of sales in prior periods as well as the reasons for such sales and its expectations about future sales activity.

Note 4. Significant Accounting Policies – continued

(c) Financial Instruments - *continued*

ii. Classification – *continued*

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

Assessment Whether Contractual Cash Flows are SPPI

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs.

In assessing whether the contractual cash flows are SPPI, the Credit Union considers the contractual terms of the instrument including assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Classification Prior to January 1, 2018

Prior to January 1, 2018, financial assets were classified as held-to-maturity (HTM), loans and receivables (LR), available-for-sale (AFS) or FVTPL. HTM investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union had the positive intent and ability to hold to maturity, and which were not designated as FVTPL or AFS. Loans were classified as loans and receivables. Financial investments classified as HTM and LR were measured at AC using the effective interest method.

AFS investments were non-derivative investments that were designated as AFS or were not classified as another category of financial assets. AFS classifications were measured at fair value with fair value changes recognized through other comprehensive income (OCI) and presented in accumulated other comprehensive income (AOCI).

FVTPL classifications were measured at fair value with fair value changes recognized immediately through profit or loss.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union’s business models during the current year.

Financial Liabilities

The Credit Union classifies its financial liabilities, including deposits, as measured at AC, with the exception of derivatives, which are measured at FVTPL.

iii. Derecognition

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

On derecognition of the financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recorded in profit or loss.

Note 4. Significant Accounting Policies – continued

(c) Financial Instruments - ***continued***

iv. Fair Value Measurement

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 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.

v. Allowance for Credit Losses

Effective January 1, 2018, the Credit Union recognizes loss allowances for expected credit losses (ECL) on debt instruments (including loans, certain financial investments, and certain other financial assets) that are not measured at FVTPL. No impairment loss is recognized on equity investments. Under the ECL model, an allowance is recorded on financial assets regardless of whether there has been an actual loss event.

The Credit Union recognizes a loss allowance at an amount equal to 12 month ECL, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). A lifetime ECL is recorded on performing financial assets which are considered to have experienced a significant increase in credit risk (Stage 2) and on credit impaired financial assets (Stage 3).

The main factors considered in determining a significant increase in credit risk include relative changes in probability of default since origination and certain other criteria such as 30 day past due and watch-list status.

The Credit Union assesses that assets are credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event (a loan overdue for 90 days is considered credit impaired);
- the restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security due to financial difficulties.

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information.

The PD represents the likelihood that a financial asset will not be repaid and will go into default in either a 12 month horizon for Stage 1 or lifetime horizon for Stage 2.

EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur.

LGD is the amount that may not be recovered in the event of default and takes into consideration the amount and quality of any collateral held as security.

Note 4. Significant Accounting Policies – continued

(c) Financial Instruments - *continued*

v. Allowance for Credit Losses – continued

The Credit Union considers past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses. In assessing information about possible future economic conditions, multiple economic scenarios have been utilized.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

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

See Note 21(a) for further discussion around credit risk and ECL.

Presentation of Allowance for ECL

In the Consolidated Statement of Financial Position, financial assets are presented on a net basis, where the loss allowances for ECL are deducted from the gross carrying amount of the assets.

Write-offs

Financial assets are written off when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or a source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union’s procedures for recovery of amounts due.

Impairment Policy Prior to January 1, 2018

The Credit Union assessed at each reporting date whether there was any objective evidence that a financial asset not carried at FVTPL was impaired. A financial asset was impaired and an impairment loss incurred if there was objective evidence that an event or events since initial recognition of the asset had adversely affected the amount or timing of future cash flows from the asset.

The Credit Union measured the amount of the loss as the difference between the carrying amount of the asset and the present value of the estimated future cash flows.

Impairment losses were assessed individually for financial assets that met individual assessment thresholds and collectively for assets that were not individually significant. In making collective assessments of impairment, financial assets were grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios were estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions not affecting the period of historical experience.

An individual measurement of impairment was based on management’s best estimate of the present value of the cash flows that were expected to be received. These cash flow estimates took 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.

Note 4. Significant Accounting Policies – continued

(c) Financial Instruments - *continued*

v. Allowance for Credit Losses – continued

The collective component was made up of loan impairment provisions for impaired loans that were below individual assessment thresholds. These were established on a portfolio basis using a present value methodology, taking into account historic loss experience and defaults based on portfolio trends.

(d) Property and Equipment

Property includes land, land improvements, and buildings. Equipment includes furniture, automobiles, and technological hardware. Property and equipment are carried at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Costs for repairs and maintenance are recognized as expenses in profit or loss in the period in which they are incurred.

Depreciation is calculated using the straight-line method which allocates the cost to their residual values over their estimated useful lives, as follows:

Property	8 - 40 years
Equipment	3 - 10 years
Leaseholds	2 - 20 years

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

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

(e) 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 as well as 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 that have a finite useful life are amortized over the estimated useful economic life, as follows:

Software	3 - 20 years
Other intangibles	6 - 18 years

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.

(f) Impairment of Non-financial Assets

The Credit Union performs impairment testing on property and equipment and intangible assets annually to determine whether there is any indication that an item of property and equipment or an intangible asset may be impaired. If any such indication exists, 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.

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 impairment loss is reversed to an amount not in excess of the initial carrying amount.

Note 4. Significant Accounting Policies – continued

(g) Income Tax

Income tax expense comprises current and deferred tax and are recognized in profit or loss.

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.

(h) Membership Equity

Membership equity is classified as a liability in accordance with its terms. 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 Corporation.

(i) Interest

Interest revenue and expense is 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. 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.

(j) Fees, Commission and Other Income

Fees, commissions and other income 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.

Fees and commission income and expense that are integral to the effective interest rate on a financial instrument are included in the effective interest rate. Loan and financial investment fees that are recognized using the effective interest method are included in their respective category balances in the Consolidated Statement of Financial Position.

Note 4. Significant Accounting Policies – continued

(k) 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.

(l) Employee Benefits

Employee benefits include all forms of consideration given by the Credit Union in exchange for services rendered by employees such as: salaries and wages, deductions at source, paid annual vacation or sick leave, employee recognition payments and variable compensation. Salaries and benefits are recognized as an expense and liability as they are earned by the employee 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.

The Credit Union contributes to a defined contribution superannuation fund, which provides benefits for employees upon retirement or death, where 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 an expense when incurred.

(m) 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 and liabilities 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. The transaction costs incurred for a business combination are expensed as incurred.

Note 5. Changes in Accounting Policies

Except for the changes below, the Credit Union has consistently applied the accounting policies as set out in Note 4 to all periods presented in these consolidated financial statements.

(a) IFRS 9 Financial Instruments

The Credit Union has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

Classification of Financial Assets and Financial Liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at AC, FVTPL, and FVOCI. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Credit Union classifies financial assets under IFRS 9, see Note 4(c)(ii).

The classification of financial liabilities for the Credit Union remains unchanged from IAS 39 to IFRS 9. An explanation of how the Credit Union classifies financial liabilities under IFRS 9 is provided in Note 4(c)(ii).

IFRS 9 replaces the 'incurred loss' model under IAS 39 with an 'expected credit loss' model. The new impairment model applies to loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Credit Union applies the impairment requirements of IFRS 9, see Note 4(c)(v).

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 5. Changes in Accounting Policies - continued

(a) IFRS 9 Financial Instruments - ***continued***

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The determination of the business model within which a financial asset is held has been developed based on the facts and circumstances that existed at the date of initial application.

(b) IFRS 15 Revenue Recognition

In 2018, the Credit Union adopted IFRS 15 which establishes the principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from the Credit Union's contracts with customers. The standard provides a single, principles based 5 step model for revenue recognition to be applied to contracts with customers except for revenue arising from items such as financial instruments and leases. The Credit Union has not been impacted by this new standard.

Note 6. Future Accounting and Reporting Changes

As at December 31, 2018, a number of 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 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. We are currently assessing the impact of adopting this standard on our consolidated financial statements.

Note 7. Financial Instruments

(a) Classification of Financial Instruments on the Date of Initial Application of IFRS 9

The original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Credit Union's financial assets and financial liabilities as at January 1, 2018 are as follows:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	LR	**AC**	43,983	**43,983**
Financial investments - debt	FVTPL	**AC**	437	**434**
Financial investments - debt	HTM	**FVTPL**	6,597	**6,259**
Financial investments - debt	HTM	**AC**	40,033	**40,018**
Financial investments - debt	LR	**AC**	637,725	**637,402**
Financial investments - debt	AFS	**AC**	29,089	**29,370**
Financial investments - equity	AFS	**FVTPL**	59,664	**59,772**
Loans	LR	**AC**	4,277,309	**4,274,729**
Derivative financial assets	FVTPL	**FVTPL**	569	**569**
Other financial assets	LR	**AC**	7,786	**7,776**
			5,103,192	**5,100,312**
Financial liabilities				
Deposits	AC	**AC**	4,697,980	**4,697,980**
Derivative financial liabilities	FVTPL	**FVTPL**	569	**569**
Other financial liabilities	AC	**AC**	36,432	**36,432**
Membership shares	AC	**AC**	2,027	**2,027**
			4,737,008	**4,737,008**

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 7. Financial Instruments - continued

(b) Classification of Financial Instruments on the Date of Initial Application of IFRS 9 - continued

A reconciliation of the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018 is as follows:

	IAS 39 carrying amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1, 2018
Financial assets				
Amortized cost				
Cash and cash equivalents	43,983	-	-	**43,983**
Financial investments:				
Opening balance	684,355	-	(338)	
From FVTPL		438	(3)	
From AFS		29,089	280	
To FVTPL		(6,597)	-	
Closing balance	684,355	22,930	(61)	**707,224**
Loans	4,277,309	-	(2,580)	**4,274,729**
Other financial assets	7,786	-	(10)	**7,776**
	5,013,433	22,930	(2,651)	**5,033,712**
Available-for-sale				
Financial investments:				
Opening balance	88,753	-	-	
To AC		(29,089)	-	
To FVTPL		(59,664)	-	
Closing balance	88,753	(88,753)	-	**-**
Fair-value-through-profit-or-loss				
Financial investments:				
Opening balance	437	-	-	
From AC		6,597	(338)	
From AFS		59,664	109	
To AC		(438)	-	
Closing balance	437	65,823	(229)	**66,031**
Derivative financial assets	569	-	-	**569**
	1,006	65,823	(229)	**66,600**
	5,103,192	**-**	**(2,880)**	**5,100,312**
Financial liabilities				
Amortized cost				
Deposits	4,697,980	-	-	**4,697,980**
Other financial liabilities	36,432	-	-	**36,432**
Membership shares	2,027	-	-	**2,027**
	4,736,439	-	-	**4,736,439**
Fair-value-through-profit-or-loss				
Derivative financial liabilities	569	-	-	**569**
	4,737,008	**-**	**-**	**4,737,008**

As a result of the transition to IFRS 9, the total remeasurement of financial instruments is $2,880 less the deferred income tax impact of $775 (Note 15), for a total of $2,105 adjusted through equity.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 7. Financial Instruments - continued

(b) Classification of Financial Instruments on the Date of Initial Application of IFRS 9 - continued

The effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the AC category under IFRS 9 is as follows:

From FVTPL financial assets under IAS 39	
Fair value at December 31, 2018	435
Fair value gain (loss) that would have been recognized during 2018 in profit or loss if the financial assets had not been reclassified	(2)
The effective interest rate determined on the date of initial application	3.73%
The interest revenue recognized during 2018	3
From AFS financial assets under IAS 39	
Fair value at December 31, 2018	28,878
Fair value gain (loss) that would have been recognized during 2018 in other comprehensive income if the financial assets had not been reclassified	(199)

The effect of the reclassification of financial liabilities from IAS 39 categories into the amortized cost category under IFRS 9 is nil.

The remeasurement of the expected credit loss allowance between IAS 39 and IFRS 9 for loans is $2,580 (beginning 2018 balance as per IFRS 9 - $31,694; 2017 ending balance as per IAS 39 - $29,114). The remeasurement impact of ECL for all other financial instruments is nominal.

Note 8. Financial Investments

The net carrying values of financial investments by category are presented in the tables below:

Amortized cost	**2018**	2017
Government debt	**44,777**	17,606
Corporate debt	**29,481**	29,037
Liquidity reserve	**504,078**	480,335
Term deposits	**201,556**	154,486
	779,892	681,464
Fair-value-through-profit-or-loss		
Government debt	**-**	21,040
Corporate debt	**6,405**	8,474
Co-operative shares	**42,152**	39,481
Venture capital funds	**23,156**	20,183
	71,713	89,178
	851,605	770,642
Accrued interest	**3,731**	2,903
ECL on investments	**(393)**	-
	854,943	773,545

The 2017 comparatives include HTM and LR in amortized cost; AFS is included in fair-value-through-profit-or-loss.

As at December 31, 2018, the Credit Union has commitments to invest in venture capital units in the amount of $18,899 (2017 - $12,709) that have not been provided for in the Consolidated Statement of Financial Position.

The effective interest rate on financial investments as at December 31, 2018 is 1.80% (2017 – 1.10%).

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 9. Loans

	2018			2017		
	Gross carrying value	**ECL allowance**	**Net carrying value**	Gross carrying value	Impairment allowance	Net carrying value
Consumer						
Mortgage guaranteed	**716,665**	**-**	**716,665**	674,933	246	674,687
Mortgage conventional	**1,397,970**	**818**	**1,397,152**	1,308,530	529	1,308,001
Non-mortgage	**519,026**	**6,900**	**512,126**	508,075	4,284	503,791
	2,633,661	**7,718**	**2,625,943**	2,491,538	5,059	2,486,479
Commercial						
Mortgage	**1,216,681**	**25,295**	**1,191,386**	1,095,902	17,883	1,078,019
Non-mortgage	**139,649**	**9,445**	**130,204**	134,680	2,992	131,688
	1,356,330	**34,740**	**1,321,590**	1,230,582	20,875	1,209,707
Agricultural						
Mortgage	**569,417**	**356**	**569,061**	462,747	81	462,666
Non-mortgage	**138,780**	**414**	**138,366**	105,277	321	104,956
	708,197	**770**	**707,427**	568,024	402	567,622
Foreclosed assets	**4,869**	**1,340**	**3,529**	4,121	873	3,248
Accrued interest	**15,645**	**3,320**	**12,325**	12,158	1,905	10,253
	4,718,702	**47,888**	**4,670,814**	4,306,423	29,114	4,277,309

At December 31, 2018, the Credit Union has commitments to extend credit, including undrawn lines of credit, financial guarantees, and commercial letters of credit, in the amount of $943,870 (2017 - $922,425) that have not been provided for in the Consolidated Statement of Financial Position. The earliest funding timeframe for these commitments by contract is on demand.

The expected credit loss provision on loan commitments issued at December 31, 2018 is $1,166. As at December 31, 2017, the Credit Union did not have any provisions on loan commitments outstanding.

The effective interest rate on loans as at December 31, 2018 is 4.09% (2017 – 3.84%).

Note 10. Other Assets

	2018	2017
Investment properties	**1,019**	2,164
Prepaid, receivables and other	**8,570**	10,460
Fair value of derivative assets	**55**	569
Property and equipment (Note 11)	**62,262**	64,076
Intangible assets (Note 12)	**16,590**	17,804
Deferred income tax asset (Note 15)	**8,377**	4,122
	96,873	99,195

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 11. Property and Equipment

	2018			
	Property	**Equipment**	**Leaseholds**	**Total**
Cost				
Opening balance	**59,473**	**13,098**	**14,982**	**87,553**
Additions	**938**	**1,154**	**333**	**2,425**
Additions from business combinations	**591**	**14**	**29**	**634**
Disposals	**(72)**	**(461)**	**-**	**(533)**
Fully depreciated assets written off	**-**	**(2,956)**	**(28)**	**(2,984)**
Closing balance	**60,930**	**10,849**	**15,316**	**87,095**
Accumulated depreciation & impairment				
Opening balance	**(10,947)**	**(7,658)**	**(4,872)**	**(23,477)**
Depreciation	**(1,297)**	**(2,198)**	**(1,169)**	**(4,664)**
Disposals	**11**	**313**	**-**	**324**
Fully depreciated assets written off	**-**	**2,956**	**28**	**2,984**
Closing balance	**(12,233)**	**(6,587)**	**(6,013)**	**(24,833)**
Net book value	**48,697**	**4,262**	**9,303**	**62,262**

	2017			
	Property	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

At December 31, 2018, the Credit Union has capital expenditure commitments in the amount of $2,597 (2017 - $11) that have not been provided for in the Consolidated Statement of Financial Position.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 12. Intangible Assets

(a) Software and Other Preferred Arrangements Arising on Business Combinations

	2018		
	Software	**Other intangibles**	**Total**
Cost			
Opening balance	**16,982**	**1,755**	**18,737**
Additions	**283**	**-**	**283**
Additions from business combinations	**17**	**21**	**38**
Disposals	**(200)**	**-**	**(200)**
Fully amortized assets written off	**(870)**	**-**	**(870)**
Closing balance	**16,212**	**1,776**	**17,988**
Accumulated amortization & impairment			
Opening balance	**(12,693)**	**(770)**	**(13,463)**
Amortization	**(1,315)**	**(170)**	**(1,485)**
Disposals	**137**	**-**	**137**
Fully amortized assets written off	**870**	**-**	**870**
Closing balance	**(13,001)**	**(940)**	**(13,941)**
Net book value	**3,211**	**836**	**4,047**

	2017		
	Software	Other intangibles	Total
Cost			
Opening balance	16,642	1,755	18,397
Additions	883	-	883
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)
Fully amortized assets written off	543	-	543
Closing balance	(12,693)	(770)	(13,463)
Net book value	4,289	985	5,274

(b) Insurance Related Intangibles

The Credit Union owns nine subsidiary insurance agencies. Each agency was purchased for an amount greater than the net work-ing capital and share value, giving rise to a license related indefinite life intangible asset with a total carrying value of $12,543 (2017 - $12,530).

Note 13. Deposits

	2018	2017
Demand deposits	**2,432,517**	2,277,732
Term deposits	**2,649,357**	2,401,022
Accrued interest	**26,986**	19,226
	5,108,860	4,697,980

The effective interest rate on deposits as at December 31, 2018 is 1.47% (2017 – 0.94%).

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 14. Other Liabilities

	2018	2017
Accounts payable, accrued liabilities and other	**44,411**	34,189
Rewards loyalty program	**4,340**	2,220
Fair value of derivative liabilities	**55**	569
Loans and borrowings	**-**	173
Membership equity	**2,044**	2,027
Current income tax liability	**4,706**	1,152
Deferred income tax liability (Note 15)	**1,076**	915
	56,632	41,245

Note 15. Income Taxes

Reconciliation of the provision for income taxes:

	2018	2017
Profit before income tax	**53,078**	35,782
Combined federal and provincial income tax rate	**27%**	27%
Income taxes at statutory rate	**14,331**	9,661
Provision for income taxes adjusted for the effect of:		
Credit Union rate adjustment	**(1,789)**	(2,191)
Non-deductible and non-taxable items	**(1,016)**	(444)
Differences in expected income tax rates	**31**	(1,231)
Prior year adjustments to income tax provision	**348**	(5)
Change in unrecognized deferred income tax asset	**(1,185)**	501
Other	**(4)**	(90)
	10,716	6,201
Effective rate of income tax	**20%**	17%

Provision for income taxes consists of the following:	**2018**	2017
Current income tax	**13,529**	8,300
Deferred income tax	**(2,813)**	(2,099)
	10,716	6,201

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.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 15. Income Taxes – continued

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

Deferred income tax assets:	**2018**	2017
Loans	**5,854**	2,921
Deposit allowance	**-**	2
Leases	**938**	1,049
Loss carryforwards	**930**	38
Other	**655**	112
	8,377	4,122
Deferred income tax liabilities:		
Property and equipment	**1,076**	915
Net deferred income tax asset	**7,301**	3,207

Reconciliation of the change in net deferred income taxes is as follows:

	2018	2017
Opening balance	**3,207**	1,108
Recognized in net income	**2,813**	2,099
Recognized directly to equity due to IFRS 9	**775**	-
Acquired on amalgamation with Porcupine Credit Union	**506**	-
Closing balance	**7,301**	3,207

Note 16. Commitments

The Credit Union has the following operating expenditure commitments that are not provided for in the consolidated financial statements. The operating expenditure commitments include operating leases for various offices and equipment and community investments.

	2018	2017
Not later than 1 year	**2,489**	2,524
Later than 1 and not later than 5 years	**4,506**	3,958
Later than 5 years	**1,819**	394
	8,814	6,876

Note 17. Loans Under Administration

	2018	2017
Opening balance	**104,465**	159,148
Loans syndicated or advanced	**-**	4,046
Less: loan repayment	**(9,259)**	(35,974)
Less: loans repurchased	**(4,819)**	(22,755)
Closing balance	**90,387**	104,465

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

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 18. Other Income

	2018	2017
Fees	**18,027**	18,337
Financial advisory services	**9,720**	8,872
Net investment gains on financial assets	**6,664**	212
Revenue from insurance agencies	**9,650**	9,280
Dividend income	**7,975**	3,467
Other	**7,475**	4,599
	59,511	44,767

Note 19. Cash Flow Information

Adjustments to operating cash flow	2018	2017
Provision for credit losses	**19,251**	14,938
Depreciation of property and equipment (Note 11)	**4,664**	4,896
Amortization and impairment of intangible assets	**1,472**	1,983
Other income	**(14,605)**	1,128
Interest revenue	**(190,991)**	(170,313)
Interest expense	**58,355**	44,418
Income tax expense (Note 15)	**10,716**	6,201
	(111,138)	(96,749)

Changes in operating assets and liabilities (excluding cash and cash equivalents)		
Loans	**(336,994)**	(153,355)
Deposits	**308,944**	70,225
Other assets	**1,862**	(2,764)
Other liabilities	**12,267**	4,009
	(13,921)	(81,885)

Note 20. Related Party Transactions

(a) Key Management 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, the Chief Executive Officer and Executive Vice Presidents and their close family members.

(b) Compensation of KMP

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

	2018	2017
Short term employee benefits	**2,380**	2,527
Post employment benefits	**639**	390
Termination	**374**	-
Director remuneration	**179**	227
	3,572	3,144

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 20. Related Party Transactions – continued

(c) Loans to KMP

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 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.

Loans to KMP:	**2018**	2017
Aggregate value of loans	**3,802**	4,678
Aggregate value of negotiated revolving credit facilities	**1,964**	2,843
Less: amounts drawn down	**(451)**	(1,100)
Net balance available	**1,513**	1,743
Interest and other revenue earned on loans and revolving credit facilities	**116**	150

(d) Other Transactions with KMP

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.

Deposits with KMP:	**2018**	2017
Aggregate value of term and savings deposits	**3,834**	6,449
Interest paid on deposits	**50**	55

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

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 financial assets.

The Credit Union manages credit risk through adherence to internal policies and procedures. In addition, the Corporation establishes standards within 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.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(a) Credit Risk – *continued*

The following committees are involved in the management of credit risk: 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 oversee credit risk limit approvals, adequacy in the framework of policies, processes and procedures to manage credit risk, and compliance with these credit risk policies and procedures at the business and transaction levels.

Products and services, including proposals for new and amended credit products and services, are comprehensively reviewed and approved under a risk assessment framework.

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, 2018, the Credit Union's loan delinquency over ninety days, as a percentage of total loans was 1.17% (2017 – 1.21%).

Credit Quality

As part of managing enterprise risk, the Credit Union employs risk rating models for agricultural and commercial loans. These models rate the strength of the individual borrower by assessing financial metrics and management capability. There is also a security rating for each loan. Borrower ratings are established prior to approving a new loan, are updated with each periodic credit review, and are re-evaluated in the event of credit arrears or other indications of borrower distress.

Risk ratings determine the level of approval required within the organization, with higher risk loans requiring an elevated level of approval. Consolidated risk ratings are tracked and reported to management at least quarterly, with target ranges for average risk ratings set by the Board annually. The composite risk rating on the Credit Union's entire portfolio remained within the Board approved target range at December 31, 2018. The commercial portfolio ended the year just above the target risk appetite which can be largely attributed to the natural aging process of credit and exposure to economic influences. Industry swings that align with recent Saskatchewan sector turmoil were reflected within risk ratings rather than a wholesale increase throughout the entire portfolio. By comparison, the agriculture portfolio remained within target appetite as fewer economic impacts to that sector were experienced.

For consumer loans and mortgages, Affinity obtains individual beacon scores as a tool in assessing borrower risk prior to granting a loan. These beacon scores are updated periodically for the purpose of assessing increased credit risk within the loan impairment model.

The following tables show additional information about the credit quality of loans and investments:

	2018				2017
Consumer loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Total
Low risk	**1,295,277**	**4,841**	**-**	**1,300,118**	1,237,954
Medium risk	**1,092,851**	**45,241**	**-**	**1,138,092**	1,057,120
High risk	**79,068**	**43,617**	**-**	**122,685**	125,176
Impaired	**-**	**-**	**27,111**	**27,111**	20,657
Not rated	**44,530**	**1,125**	**-**	**45,655**	50,631
	2,511,726	**94,824**	**27,111**	**2,633,661**	2,491,538
Allowance for credit losses	**2,336**	**2,054**	**3,328**	**7,718**	5,059
Net carrying value	**2,509,390**	**92,770**	**23,783**	**2,625,943**	2,486,479

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(a) Credit Risk - *continued*

	2018				2017
Commercial loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Total
Low risk	**306,635**	**3,693**	**-**	**310,328**	284,001
Medium risk	**652,154**	**30,337**	**-**	**682,491**	462,361
High risk	**130,953**	**37,262**	**-**	**168,215**	146,742
Impaired	**-**	**-**	**49,123**	**49,123**	40,602
Not rated	**143,526**	**2,647**	**-**	**146,173**	296,876
	1,233,268	**73,939**	**49,123**	**1,356,330**	1,230,582
Allowance for credit losses	**6,805**	**2,816**	**25,119**	**34,740**	20,875
Net carrying value	**1,226,463**	**71,123**	**24,004**	**1,321,590**	1,209,707

	2018				2017
Agricultural loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Total
Low risk	**334,790**	**5,528**	**-**	**340,318**	275,689
Medium risk	**221,138**	**18,223**	**-**	**239,361**	196,222
High risk	**39,270**	**15,669**	**-**	**54,939**	33,845
Impaired	**-**	**-**	**13,432**	**13,432**	10,117
Not rated	**60,015**	**132**	**-**	**60,147**	52,151
	655,213	**39,552**	**13,432**	**708,197**	568,024
Allowance for credit losses	**261**	**194**	**315**	**770**	402
Net carrying value	**654,952**	**39,358**	**13,117**	**707,427**	567,622

Financial investments	**2018**	2017
AAA (R-1 high)	**24,515**	19,815
AA (R-1 mid)	**77,473**	80,639
A (R-1 low)	**179,809**	129,779
BBB (R-2 mid) and below	**-**	-
Unrated	**569,808**	540,409
	851,605	770,642

All ratings for financial investments are provided by Dominion Bond Rating Service (DBRS). Unrated financial investments include unrated liquidity deposits held at SaskCentral and non-debt (equity) instruments.

Note 21. Financial Instrument Risk Management - continued

(a) Credit Risk - *continued*

Collateral Held and Other Credit Enhancements

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.

Valuation of the collateral and security taken is in accordance with 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.

Residential Mortgage Security Values

Credit Union lending practices are governed by the Standards of Sound Business Practice (SSBP) issued by the Corporation. All mortgage loans granted by the Credit Union have been subject to the limitations of these standards which (in part) read as follows:

A loan made by a credit union on residential property cannot exceed 80% of fair market value; and a loan made by a credit union on real property other than residential, cannot exceed 75% of fair market value, unless the loan:

- is insured by Canada Mortgage and Housing Corporation or another insurance company authorized to carry on the business of mortgage insurance in Canada and licensed in the province of Saskatchewan;
- is secured by a specific charge on additional properties or securities; or
- is guaranteed by a government agency.

As a result, at inception of each conventional mortgage loan, the maximum loan to value (LTV) is 80%. For amortizing mortgages, this loan to value improves over time, subject to fluctuation of market values. The market values in the Credit Union's geographic footprint using the home price index have seen some fluctuation over the past 10 years, however the 10 year trend in the Credit Union's major markets of Regina and Saskatoon has ranged from an 8.5% increase (Saskatoon) to a 22.5% increase (Regina).

Since August 2015, any new non-amortizing mortgage loans and lines of credit secured by residential real estate properties have been limited to a maximum LTV of 65%.

Amounts Arising from ECL

See accounting policy Note 4(c)(v) for inputs, assumptions, and techniques used for estimating ECL.

The Credit Union assigns a credit risk grade that reflects our exposure to a default event (PD) based on available information about the borrower. This information is in the form of external data from credit reference agencies (beacon scores) and internally generated risk ratings based on information obtained during periodic reviews of customer files.

A comparison between the PD at recognition and the PD at the end of the reporting period, factoring in macro-economic variables, is completed to assess whether a significant increase in credit risk has occurred for each instrument. As a backstop, the Credit Union typically considers that a significant increase in credit risk occurs when an asset is more than 30 days past due. If an instrument is deemed to have significantly increased in credit risk, it will be categorized as Stage 2 and is subject to lifetime ECL.

The Credit Union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Credit Union has identified key drivers of credit risk and credit losses for each category of loans and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The macro-economic variables employed by the Credit Union include: forecasts for prime rate, unemployment rate, real GDP, and the home price index.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(a) Credit Risk - *continued*

Allowance for Impairment

The following table shows the continuity in the loss allowance by product type:

	2018			
	Stage 1	Stage 2	Stage 3	Total
Consumer loans	2,511,726	94,824	27,111	2,633,661
Loss allowance reconciliation:				
Balance, beginning of year per IFRS 9	1,923	2,193	2,922	7,038
Transfer to Stage 1	746	(594)	(152)	-
Transfer to Stage 2	(49)	91	(42)	-
Transfer to Stage 3	(9)	(123)	132	-
Net remeasurement of loss allowance	(694)	564	(494)	(624)
Loans originations	737	171	339	1,247
Derecognitions and maturities	(318)	(248)	(1,287)	(1,853)
Write-offs	-	-	2,381	2,381
Recoveries of previous write-offs	-	-	(471)	(471)
Balance, end of year	2,336	2,054	3,328	7,718
Net carrying value	2,509,390	92,770	23,783	2,625,943

	2018			
	Stage 1	Stage 2	Stage 3	Total
Commercial loans	1,233,268	73,939	49,123	1,356,330
Loss allowance reconciliation:				
Balance, beginning of year per IFRS 9	3,904	234	17,261	21,399
Transfer to Stage 1	78	(36)	(42)	-
Transfer to Stage 2	(224)	224	-	-
Transfer to Stage 3	(73)	(1)	74	-
Net remeasurement of loss allowance	1,764	2,277	5,900	9,941
Loans originations	1,930	122	1,029	3,081
Derecognitions and maturities	(574)	(4)	(1,127)	(1,705)
Write-offs	-	-	2,037	2,037
Recoveries of previous write-offs	-	-	(13)	(13)
Balance, end of year	6,805	2,816	25,119	34,740
Net carrying value	1,226,463	71,123	24,004	1,321,590

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(a) Credit Risk - *continued*

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Agriculture loans	**655,213**	**39,552**	**13,432**	**708,197**
Loss allowance reconciliation:				
Balance, beginning of year per IFRS 9	**175**	**98**	**206**	**479**
Transfer to Stage 1	**36**	**(36)**	**-**	**-**
Transfer to Stage 2	**(8)**	**8**	**-**	**-**
Transfer to Stage 3	**(1)**	**(4)**	**5**	**-**
Net remeasurement of loss allowance	**(18)**	**128**	**166**	**276**
Loans originations	**109**	**10**	**-**	**119**
Derecognitions and maturities	**(32)**	**(10)**	**(14)**	**(56)**
Write-offs	**-**	**-**	**-**	**-**
Recoveries of previous write-offs	**-**	**-**	**(48)**	**(48)**
Balance, end of year	**261**	**194**	**315**	**770**
Net carrying value	**654,952**	**39,358**	**13,117**	**707,427**

Comparative amounts for 2017 represent allowance for credit losses and reflect measurement basis under IAS 39 as follows:

	2017		
	Specific allowance	Collective assessment	Total
Balance, beginning of year	15,379	3,905	19,284
Impairment loss recognized	12,957	1,981	14,938
Amounts written off	(6,752)	-	(6,752)
Recoveries of previous write-off	605	-	605
Change in interest accrued on impaired loans	1,039	-	1,039
Balance, end of year	23,228	5,886	29,114

For the year ending December 31, 2018, the provision for ECL on financial investments is $26 (2017 – $0) and the provision for ECL on other financial assets is $15 (2017 - $7).

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2018 and that are still subject to enforcement activity is $1,067.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(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, 2018 this limit was $125,358 (2017 - $111,098). The Credit Union's maximum exposure as at December 31, 2018 was $61,387 (2017 - $68,844).

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:

	CRCo Target	**2018**	2017
Consumer loans	**50-70%**	**56%**	58%
Commercial loans	**30-40%**	**29%**	29%
Agricultural loans	**10-20%**	**15%**	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, including accrued interest, as at December 31:

	Policy limit 2018	**2018**	2017
Statutory liquidity	**No limit**	**506,303**	481,981
SaskCentral shares	**50,143**	**34,755**	33,949
Concentra shares	**25,072**	**7,398**	5,232
Concentra, interest based	**250,716**	**96,687**	61,425
Central One, interest based	**250,716**	**74,976**	58,375
Federal government, interest based	**No limit**	**1,031**	951
Provincial government, interest based	**250,716**	**31,539**	23,490
Local government, interest based	**125,358**	**12,437**	14,407
Schedule 1 chartered bank, interest based	**501,432**	**66,633**	72,842
Corporate issuers, interest based	**125,358**	**25**	-
Non-interest based investments	**50,143**	**24,748**	23,236
		856,532	775,888

Non-interest based investments include investment properties (Note 10) and investments in associates, which are included within Other assets. For 2018, the value of investment in associates is $177 (2017 - $179).

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(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, in varying degrees, to market risk in asset/liability management activities.

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 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, 2018, this measure of short term interest rate risk resulted in a VaR of 0.60% (2017 – 3.68%). This measure indicates that, given a 99% confidence interval, the pretax change in margin will not exceed $804 (2017 - $5,050).

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, 2018 the duration of the market value of equity was 0.51% (2017 – 0.06%).

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.

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.

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.

In order to mitigate the exchange risk on US dollar denominated deposit accounts, term deposits and lines of credit, 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 to be a maximum of 2% of eligible capital.

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. As at December 31, the Credit Union’s exposure to foreign currency is outlined below:

	2018	2017
Exposure	**735**	998
Policy limit	**10,029**	8,888

(d) Liquidity Risk

Liquidity risk is the potential for loss if the Credit Union is unable to meet financial commitments in a timely manner at reasonable prices as they become due. Financial commitments include liabilities to depositors and suppliers as well as commitments to fund new loans and investments. Managing liquidity risk is essential to maintaining depositor confidence and it is the Credit Union’s policy to ensure that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(d) Liquidity Risk - *continued*

The Credit Union's enterprise risk management framework includes Board approved risk appetite statements and policies for liquidity risk. Board policies establish prudent limits to ensure the Credit Union maintains the minimum liquidity requirements prescribed by the Act and the Corporation's SSBP. The Credit Union maintains a documented liquidity risk management framework to monitor compliance with regulatory requirements, Board policy and operating procedures that establish limits and restrictions for the liquidity management function. Under this framework ALCo and ARCo receive reports at all regular meetings to monitor liquidity risk and the Credit Union's liquidity position.

The Credit Union's assessment of liquidity risk reflects management's judgment, estimates and assumptions pertaining to current and prospective market conditions as well as member behavior. Wherever possible, these estimates and assumptions are based on trend analysis and other historical data. This includes volatility in demand account balances derived from historical transactional patterns, renewal rates on term deposits and typical usage of revolving credit facilities by members.

Regulation 18(1) of the Act requires the Credit Union to maintain a liquidity reserve equal to 10% of its total liabilities in specified liquidity deposits with SaskCentral. The Credit Union complied with this requirement throughout 2018.

The Corporation also has prescribed liquidity adequacy requirements the Credit Union must comply with. These requirements outline the guiding principles for an effective liquidity management framework and establish the minimum requirements for the quantity and quality of liquid assets that the Credit Union is required to hold.

Under these requirements the Credit Union must maintain a minimum liquidity coverage ratio (LCR). This is a ratio of high quality liquid assets (HQLA) to net cash outflows under a prescribed 30-day stressed liquidity scenario. The LCR is being phased in over a 3-year period with a minimum requirement of 80% in 2017, 90% in 2018 and 100% in 2019. The Credit Union policy limit establishes an additional buffer over the minimum regulatory requirement. This policy will also be phased in over the same 3-year period and requires 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 the minimum regulatory LCR and policy limit. The following table summarizes the Credit Union's LCR calculation as at December 31:

	2018		2017	
High quality liquid assets	**Carrying value**	**Weighted amount**	Carrying value	Weighted amount
Level 1 assets				
Cash on hand	**18,505**	**18,505**	20,228	20,228
SaskCentral current account	**26,180**	**26,180**	23,181	23,181
Federal and provincial government guaranteed	**315,517**	**315,517**	294,178	294,178
		360,202		337,587
Level 2A assets				
Local government and other public sector entities	**14,814**	**12,592**	14,456	12,287
Qualifying corporate debt securities and covered bonds rated AA- or higher	**40,538**	**34,457**	29,835	25,359
Level 2B assets				
Qualifying corporate debt securities rated between A+ and BBB-	**43,149**	**21,575**	33,383	16,691
		68,624		54,337
Total high quality liquid assets		**428,826**		391,924
Cash outflows				
Retail and small business deposit run-off	**2,975,529**	**89,882**	2,759,123	85,078
Unsecured wholesale funding run-off	**2,106,194**	**297,827**	1,919,475	294,594
Drawdowns on committed credit facilities	**425,635**	**30,344**	448,958	32,823
Unconditionally cancellable credit facilities	**509,870**	**20,657**	464,073	18,722
Guarantees and letters of credit	**8,365**	**418**	9,393	470
		439,128		431,687
Less: Cash inflows				
Retail and small business customers	**23,679**	**11,839**	19,437	9,718
Other wholesale inflows	**8,985**	**4,493**	8,204	4,102
Receivable from financial institutions	**83,259**	**83,259**	70,335	70,335
		99,591		84,155
Total cash outflows, net of cash inflows		**339,537**		347,532
Liquidity Coverage Ratio		**126.30%**		112.77%

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(d) Liquidity Risk - *continued*

Credit Union policy also includes minimum levels for operating liquidity over a one year time frame. The policy defines risk tolerance parameters and establishes trigger events that will require management to initiate an action plan to restore the required level of liquid assets. Operating liquidity is monitored by assessing day-to-day and seasonal funding requirements under a normal operating environment using a financial model that combines contractual cash flows over a one year time horizon with a contingency for an unusual stress event. Available liquid assets and authorized borrowing facilities are assessed against the estimated cash outflows from contractual maturities, including an increased deposit run-off rate to simulate a stress event. Policy limits use an operating liquidity ratio calculated as available liquidity to total potential cash outflows across multiple time frames. The following is the result as at December 31, 2018:

	1 month	2 months	3 months	6 months	1 year
Net cash source	**2.68 times**	**2.47 times**	**2.31 times**	**1.88 times**	**1.38 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

ALCo and ARCo review operating liquidity results at all regularly scheduled meetings. The minimum target level acts as a trigger event and management must present a plan for remediation for each time interval that falls outside of the minimum target level.

The Credit Union's key funding strategy is to continue to expand its membership base and attract retail deposits. The Credit Union has a diverse portfolio of consumer, commercial and agricultural deposit accounts. This strategy is supported through increased depositor confidence knowing their deposits are 100% guaranteed by the Corporation.

Even with continued success in growing the member deposit base, the Credit Union has developed a diverse source of alternative funding programs to support the liquidity management function. These include:

- maintaining external credit facilities, including a line of credit, to support daily liquidity needs and unforeseen liquidity events;
- access to brokered deposit networks;
- approved issuer status under the National Housing Act mortgage-backed securities program that provides the Credit Union with the ability to securitize residential insured mortgages;
- an established loan syndication program to facilitate the sale of other loans and mortgages.

The liquidity management framework includes limits and restrictions in relation to alternative funding sources which include needing Board approval prior to pledging assets for collateral; policy limits on the aggregate amount of stand-by debt facilities management can negotiate and deposit concentration limits for both brokered deposits and large deposits.

The Credit Union has $130 million of authorized credit facilities available. This includes a $30 million operating line of credit and a $70 million commercial paper facility with SaskCentral. Both agreements are secured by general security agreements registered against the Credit Union's assets. The Credit Union also has a committed revolving loan facility with a Canadian chartered bank for $30 million which is secured by collateral in the form of insured residential mortgages in the amount of $33 million.

The Credit Union has the capacity to negotiate an additional $872,863 in debt facilities under Board policy and regulatory limits, if required. As at December 31, 2018, the Credit Union does not have any outstanding balances under these credit facilities (2017 - $0). Any interest costs associated with these facilities are expensed as incurred.

The Credit Union also has a documented liquidity crisis management plan which clearly outlines strategies to address liquidity shortfalls in emergency situations. This includes procedures and action plans to respond to a severe liquidity event that would disrupt the Credit Union's ability to fund its operations under a range of various stress scenarios. The plan defines a liquidity survival horizon using a ratio of available liquidity to projected cash outflows under a severe stress event. A management response is required if the expected survival horizon falls below the minimum threshold in the liquidity crisis management plan. The plan is regularly reviewed by ALCo and approved by the Board.

The following table outlines the Credit Union's maturity schedule at December 31 with all liabilities and demand deposits being drawn at the earliest date permitted by contract.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 21. Financial Instrument Risk Management - continued

(d) Liquidity Risk - *continued*

	2018				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**
Financial assets	**647,535**	**480,092**	**1,160,449**	**3,201,109**	**86,838**
Total deposits	**2,795,170**	**318,182**	**1,294,740**	**700,768**	**-**
Other financial liabilities	**55,464**	**27**	**19**	**-**	**-**
Financial liabilities	**2,850,634**	**318,209**	**1,294,759**	**700,768**	**-**

	2017				
	Less than 1 month	1 to 3 months	3 months to 1 year	1 - 5 years	Over 5 years
Financial assets	624,612	488,097	1,126,673	2,732,145	131,666
Total deposits	2,723,241	309,218	1,038,556	626,965	-
Other financial liabilities	38,449	222	300	57	-
Financial liabilities	2,761,690	309,440	1,038,856	627,022	-

Note 22. Capital Management

The minimum capital requirements for the Credit Union are prescribed by the Corporation's SSBP – Capital Adequacy Requirements. Those requirements are based on the Basel III framework which encompasses the recommendations 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.

The Credit Union is required to measure capital adequacy using a standard approach 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 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 eligible capital to leveraged assets.

Tier 1 capital is considered the highest quality of capital due to its permanent nature. Tier 2 capital is secondary capital as it falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charges. The Credit Union's tier 1 capital consists entirely of common equity Tier 1 capital, which is comprised primarily of retained earnings.

Eligible Tier 2 capital includes any impairment allowance 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 reviewed and approved by the Board on an annual basis, conforms to this regulatory framework and is used to establish internal targets for capital adequacy. These internal targets are established primarily in consideration of the minimum regulatory capital requirements and the Board's risk appetite. As such, the Credit Union has established minimum capital requirements that exceed the prescribed regulatory minimum.

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.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 22. Capital Management – continued

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

Eligible capital	**2018**	2017
Total Tier 1 capital	**485,298**	436,476
Total Tier 2 capital	**16,134**	7,914
	501,432	444,390
Risk weighted assets	**3,585,791**	3,242,087

	Regulatory Standard	**Internal Target**	**2018**	2017
Tier 1 common equity to risk-weighted assets	**Min. 7.0%**	**-**	**13.53%**	13.46%
Total Tier 1 capital to risk-weighted assets	**Min. 8.5%**	**-**	**13.53%**	13.46%
Total capital to risk-weighted assets	**Min. 10.5%**	**12.50%**	**13.98%**	13.71%
Leverage (total capital / leveraged assets)	**Min. 5.0%**	**6.00%**	**8.46%**	8.19%

In addition to the minimum regulatory capital requirements, the Credit Union's capital plan includes an ongoing assessment of the Credit Union's economic capital requirements which takes into account the Credit Union's unique risk profile and the Board's appetite for risk. This internal capital adequacy assessment process (ICAAP) provides a framework to evaluate the Credit Union's overall capital adequacy in relation to its own risk profile. The primary components of the ICAAP methodology 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 to determine the total aggregate economic capital requirement for the Credit Union.

The Credit Union's target for total eligible 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 31, 2018, the Credit Union's economic capital requirement, as a percentage of risk weighted assets was 8.78% (2017 – 8.36%).

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.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 23. Fair Value of Financial Instruments - continued

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, 2018 (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 and other receivables is net of ECL.

- 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.

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

	2018				
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Fair value**
Financial assets					
Amortized cost					
Cash and cash equivalents	**44,925**	**-**	**44,925**	**-**	**44,925**
Financial investments	**783,230**	**-**	**783,081**	**-**	**783,081**
Loans	**4,670,814**	**-**	**4,619,664**	**-**	**4,619,664**
Other financial assets	**5,286**	**-**	**5,286**	**-**	**5,286**
Fair-Value-Through-Profit-or-Loss					
Financial investments	**71,713**	**-**	**48,557**	**23,156**	**71,713**
Other financial assets	**55**	**-**	**55**	**-**	**55**
	5,576,023	**-**	**5,501,568**	**23,156**	**5,524,724**
Financial liabilities					
Amortized cost					
Deposits	**5,108,860**	**-**	**5,100,861**	**-**	**5,100,861**
Other financial liabilities	**55,455**	**-**	**55,455**	**-**	**55,455**
Fair-Value-Through-Profit-or-Loss					
Other financial liabilities	**55**	**-**	**55**	**-**	**55**
	5,164,370	**-**	**5,156,371**	**-**	**5,156,371**

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 23. Fair Value of Financial Instruments – continued

	2017				
	Carrying value	Level 1	Level 2	Level 3	Fair value
Financial Assets					
Available-for-Sale					
Financial investments	88,741	-	68,558	20,183	88,741
Fair-Value-Through-Profit-or-Loss					
Held-for-Trading					
Financial investments	437	-	437	-	437
Other financial assets	569	-	569	-	569
Held-to-Maturity					
Financial investments	46,643	-	45,945	-	45,945
Loans and Receivables					
Cash and cash equivalents	43,983	-	43,983	-	43,983
Financial investments	637,724	-	634,765	-	634,765
Loans	4,277,309	-	4,249,409	-	4,249,409
Other financial assets	7,787	-	7,787	-	7,787
	5,103,193	-	5,051,453	20,183	5,071,636
Financial Liabilities					
Held-for-Trading					
Other financial liabilities	569	-	569	-	569
Amortized Cost					
Deposits	4,697,980	-	4,703,147	-	4,703,147
Other financial liabilities	38,459	-	38,459	-	38,459
	4,737,008	-	4,742,175	-	4,742,175

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

No transfers in the fair value hierarchy occurred in 2018.

Note 24. Business Combinations

On January 1, 2018, Affinity Credit Union acquired 100% of the voting equity interests of Porcupine Credit Union Limited (Porcupine) as a result of a business combination as defined under IFRS 3.

The acquisition occurred through a member vote and subsequent share for share exchange whereby each of the members of Porcupine exchanged their shares for new shares in Affinity Credit Union. As a result of the share exchanges, Affinity Credit Union was considered the acquirer in the business combination under the guidance in IFRS 10. The assets and liabilities of Porcupine were merged with the assets and liabilities of Affinity Credit Union, as a result of the amalgamation.

For the years ended December 31, 2018 and December 31, 2017 (in thousands of CDN $)

Note 24. Business Combinations - continued

Fair Valuation of Acquired Assets:

No cash was transferred, and no contingent consideration was provided, however, an exchange of shares was performed as part of the transaction on the date of acquisition. The acquisition date fair value of the acquiree's equity interest and net identifiable assets and liabilities is outlined below.

	Porcupine
Cash and cash equivalents	2,470
Financial investments	24,808
Loans	71,007
Other assets	1,210
Deposits	(92,431)
Other liabilities	(65)
	6,999
Contributed surplus	6,999
	6,999

No goodwill was recognized in the above noted business combination.

Note 25. Comparative Figures

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