CONEXUS CREDIT UNION

Consolidated Financial Statements
December 31, 2015

Contents

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Conexus Credit Union were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many accounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with the 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 Financial Reporting Standards (IFRS). Financial and operating data elsewhere in the annual report are consistent with the information contained in the consolidated 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, policy and procedure 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 the appropriate legislation and conflict of interest rules. It is also supported by 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 Conduct Review 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 Conduct Review Committee include reviewing our existing internal control procedures, planned revisions to those procedures and advising the directors on auditing matters and financial reporting issues. Our chief internal auditor has full and unrestricted access to the Audit and Conduct Review 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, 1998*. Its purpose is to guarantee members' funds on deposit with Saskatchewan credit unions and provide preventative services, that include ongoing financial monitoring, regular reporting and consultation.

Deloitte LLP Chartered Professional Accountants, appointed by the members of Conexus Credit Union upon the recommendation of the Audit and Conduct Review Committee and board of directors, 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 Conduct Review Committee to discuss their related findings.

Eric Dillon

Chief Executive Officer

Neil Cooper

Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Members of Conexus Credit Union 2006

We have audited the accompanying consolidated financial statements of Conexus Credit Union 2006, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in members' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Conexus Credit Union 2006 as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Professional Accountants

Regina, Saskatchewan
February 23, 2016

Consolidated Statement of Financial Position

(In thousands of CDN $)
As at December 31, 2015

	Note	2015	2014
Assets			
Cash and cash equivalents	3	180,179	53,562
Derivative financial instruments	4	8,015	8,834
Investment securities	5	687,505	619,955
Investment in associates	6	520	1,004
Loans and advances	7,8	4,488,575	4,334,073
Property, plant and equipment	10	56,791	45,865
Intangible assets	11	3,459	3,892
Deferred tax assets	22	373	2,592
Other assets	12	15,923	17,241
Goodwill	11	1,234	1,234
Total assets		5,442,574	5,088,252
Liabilities			
Borrowings	13	-	1,734
Derivative financial instruments	4	5,102	5,515
Secured debt	9	860,454	676,402
Deposits	14	4,091,499	3,936,830
Current tax liabilities		2,430	46
Deferred tax liabilities	22	-	1,431
Membership shares and member equity accounts	15	24,560	26,586
Other liabilities	16	45,379	57,641
Subordinated debenture	17	19,953	19,922
Total liabilities		5,049,377	4,726,107
Members' equity			
Accumulated other comprehensive income		1,913	720
Retained earnings		391,284	361,425
Total members' equity		393,197	362,145
Total liabilities and members' equity		5,442,574	5,088,252

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD:

Glenn Hepp, Chair, Board of Directors

Wayne Kabatoff, Chair, Audit and Conduct Review Committee

Consolidated Statement of Comprehensive Income

(In thousands of CDN $)
For the year ended December 31, 2015

	Note	2015	2014
Interest income	19	186,237	185,436
Interest expense	19	60,050	62,220
Net interest income		126,187	123,216
Loan impairment charges		3,269	4,268
Net interest income after impairment charges		122,918	118,948
Other income	20	43,789	43,037
Net interest income and other income		166,707	161,985
Operating expenses			
Personnel	21	76,136	72,083
General business	21	36,746	36,557
Occupancy	21	10,409	9,448
Member security	21	3,837	3,742
Organizational	21	2,034	1,979
Total operating expenses		129,162	123,809
Profit for the year before income tax		37,545	38,176
Income tax expense	22	7,686	6,462
Profit for the year		29,859	31,714
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Net unrealized gains (losses) on available-for-sale financial assets		1,555	402
Net adjustments for realized net (gains) losses		(362)	(20)
Other comprehensive income for the year, net of tax		1,193	382
Total comprehensive income for the year		31,052	32,096

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Members' Equity

(In thousands of CDN $)
As at December 31, 2015

	2015	2014
Accumulated other comprehensive income		
Balance at beginning of year	720	338
Other comprehensive income:		
Net change in fair value of available-for-sale financial assets (net of tax of ($281)(2014 - ($65)))	1,193	382
Balance at end of year	1,913	720
Retained earnings		
Balance at beginning of year	361,425	329,713
Profit for the year	29,859	31,714
Acquisition adjustments through business combination and other	-	(2)
Balance at end of year	391,284	361,425
Total members' equity	393,197	362,145

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

(In thousands of CDN $)
For the year ended December 31, 2015

	Note	2015	2014
Cash flows provided by (used in) operating activities			
Profit for the year		29,859	31,714
Adjustments for non-cash items:			
Loan impairment charges		3,269	4,268
Amortization of property, plant and equipment	10	5,095	4,591
Amortization of intangible assets	11	2,073	2,074
Gain on disposal of property, plant and equipment		(1)	-
Net interest income	19	(126,187)	(123,216)
Dividends on investment securities	20	(2,566)	(1,603)
Unrealized and realized (gains) losses on investment securities	20	(2,396)	(1,606)
Income from investment in associates	20	(519)	(1,004)
Income tax expense	22	7,686	6,462
Changes in operating assets and liabilities:			
Loans and advances	7	(158,610)	(378,469)
Secured debt	9	184,052	220,118
Subordinated debt	17	31	19,922
Deposits	14	157,940	88,335
Derivative financial assets	4	819	(1,491)
Derivative financial liabilities	4	(413)	639
Other assets	12	1,318	(2,676)
Other liabilities	16	(12,262)	26,834
Other non-cash operating items		(5,251)	(1,625)
Interest received		178,579	178,532
Interest paid		(63,429)	(60,911)
Income tax paid		(4,729)	(4,776)
Cash flows provided by (used in) operating activities		194,358	6,112
Cash flows provided by (used in) investing activities			
Interest received		8,811	8,270
Dividends received	20	2,566	1,603
Volume bonus and dividend received from investment in associate	6	1,003	1,027
Purchases of investment securities		(283,845)	(359,561)
Proceeds on sale of investment securities		224,646	292,733
Purchase of property, plant and equipment	10	(16,025)	(6,968)
Proceeds from sale of property, plant and equipment		5	-
Purchase of intangible assets	11	(1,640)	(1,155)
Cash flows provided by (used in) investing activities		(64,479)	(64,051)
Cash flows provided by (used in) financing activities			
Repayment of borrowings	13	(1,734)	1,734
Membership shares redeemed		(2,026)	(1,401)
Cash flows provided by (used in) financing activities		(3,760)	333
Net increase (decrease) in cash and cash equivalents during the year		126,119	(57,606)
Net foreign exchange difference on cash held		498	92
Cash and cash equivalents, beginning of year	3	53,562	111,076
Cash and cash equivalents, end of year	3	180,179	53,562

See accompanying notes to the consolidated financial statements

1. INCORPORATION AND GOVERNING LEGISLATION

Conexus Credit Union 2006 (the Credit Union), was established and continued pursuant to *The Credit Union Act, 1998* of the Province of Saskatchewan. The Credit Union serves members and non-members in the Province of Saskatchewan. The address of the Credit Union's registered office is 1960 Albert Street, Regina, Saskatchewan, Canada.

Credit Union Deposit Guarantee Corporation (CUDGC) is the primary regulator for Saskatchewan credit unions. CUDGC is given its mandate through provincial legislation, *The Credit Union Act, 1998*, for the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. Since 1953, CUDGC has successfully met its obligations. CUDGC establishes standards of sound business practice that are aligned with federal and international regulatory approaches and monitors credit unions to ensure they are operating according to those standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and revised standards in the current year

Changes to IFRS standards which became effective in 2015 include various minor changes and amendments to existing standards. These changes have all been reviewed to determine their effect on the Credit Union. It has been determined that none of these minor changes and amendments resulted in any changes to the consolidated financial statements of the Credit Union.

Basis of preparation

These consolidated financial statements have been prepared in accordance with the applicable governing legislation for each entity, which conform in all material respects to IFRS.

The consolidated financial statements for the year ended December 31, 2015, were authorized for issue by the board of directors on February 23, 2016.

These consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and financial instruments classified as fair value through profit or loss and available-for-sale, which have been measured at fair value. The methods to measure fair value are presented in Note 25.

The consolidated financial statements are presented in Canadian dollars (CDN $), the functional currency, and have been rounded to the nearest thousand, unless stated otherwise.

Use of estimates and key judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Accordingly, actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

Valuation of financial instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques explained in Note 25. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include consideration of liquidity, future cash flows, current market yields and other risks affecting the specific instrument.

Determination of allowance for credit losses

The individual allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the cash flows the Credit Union expects to receive. These estimates are based on a number of factors, including the net realizable value of the underlying collateral.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The collective allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective allowance, management considers historical averages for write-offs, greater than 90 day delinquencies and portfolio balances. Current delinquencies greater than 90 days are used as the loss trigger event. See the impairment of loans and advances under the significant accounting policies contained in this note for further discussion of allowance for credit losses.

Consolidation of controlled entities
The determination of control for purposes of consolidation requires management judgment on the definition of control. For further discussion of consolidation refer to the heading basis of consolidation contained in this note.

Assessment of significant influence
Currently the Credit Union holds $29,490 in membership shares of SaskCentral, or 21.3% (2014 - $29,490; 21.8%) of the total issued and outstanding membership shares. The Credit Union does not have significant influence over the strategic, operating and financial policies of SaskCentral, including decisions about dividends and other distributions. In addition, aside from liquidity deposits required by Credit Union Deposit Guarantee Corporation (CUDGC), there are no material transactions between the Credit Union and SaskCentral, no exchange of managerial personnel and technical information is not shared. Therefore, management has determined that the Credit Union does not have significant influence over SaskCentral.

The Credit Union holds 20.1% (2014 – 20.1%) of the total issued and outstanding units of Apex Investment Limited Partnership (Apex I). The Credit Union does not have significant influence over strategic, operating and financial policies of Apex I, including decisions about dividends and other distributions. Therefore, management has determined that the Credit Union does not have significant influence over Apex I.

The Credit Union holds a 40% ownership in CU Dealer Finance Corp (CUDF) and a 25% ownership in Apex Investment GP Inc. The Credit Union does have influence over the strategic, operating and financial policies of these entities including decisions regarding dividends and other distributions. Therefore, management has determined that the Credit Union has significant influence but not control over these entities.

Useful lives of property, plant, equipment and intangible assets
Estimates must be utilized in evaluating the useful lives of all property, plant, equipment and intangible assets for calculation of the amortization for each class of assets. For further discussion of the estimation of useful lives, refer to the heading property, plant and equipment and intangible assets contained in this note.

The significant accounting policies adopted by the Credit Union follow:

Basis of consolidation
The consolidated financial statements contain the assets, liabilities, income and expenses of subsidiaries after eliminating inter-company transactions and balances.

Investment securities, in which the Credit Union does not control, but exercises significant influence, are accounted for using the equity method. Under this method, the Credit Union records its initial investment at cost and then records its equity share of any post acquisition net income or loss. Dividends received are recorded as a reduction of the investment, which is included in investment in associates in the Consolidated Statement of Financial Position.

Entities are consolidated when the substance of the relationship between the Credit Union and the entity indicates control. Control exists if the Credit Union has all of the following:

- Power over the investee, meaning the ability to direct the relevant activities of the entity;
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the Credit Union's returns.

Whenever there is a change in the substance of the relationship between the Credit Union and the investee, the Credit Union performs a reassessment of consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Included in the consolidated financial statements are the following entities:

Subsidiaries
The Credit Union has 100% ownership in Conexus Insurance Ltd. and Protexus Holdings Corp.

Significant influence investments
The Credit Union has a 40% (2014 – 40%) ownership in CU Dealer Finance Corp (CUDF) and a 25% (2014 – 25%) ownership in Apex Investment GP Inc. (Apex), which were incorporated under the laws of the Province of Saskatchewan, Canada.

Other controlled entities
The Credit Union has determined that Pivot Trust is an entity that the Credit Union controls and therefore consolidates.

Classification and measurement of financial instruments
Financial assets and liabilities are recognized on the Consolidated Statement of Financial Position at the trade date. All financial instruments are measured initially at fair value. Subsequent measurement is determined by the financial instrument's classification. Classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments based on management's intentions.

Transaction costs
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Transaction costs may include fees and commissions paid to agents or brokers, levies by regulatory agencies and transfer taxes and duties. Transaction costs related to financial instruments not classified as fair value through profit or loss (FVTPL) are added to or deducted from the fair value on initial recognition. For financial instruments classified as FVTPL transaction costs are expensed as incurred.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on point paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Financial instrument classifications
Fair value through profit or loss (FVTPL)
This category comprises two sub-categories: financial assets held-for-trading (HFT) and financial assets designated by the Credit Union as FVTPL upon initial recognition.

A financial instrument is classified as HFT if it is acquired principally for the purpose of selling or repurchasing it in the near-term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as HFT unless they are designated as hedging instruments.

Changes in fair value of HFT financial instruments are recognized in the Consolidated Statement of Comprehensive Income as other income.

Financial instruments (assets or liabilities) designated as FVTPL are recognized initially at fair value with transaction costs expensed as incurred. Gains and losses arising for changes in fair value are included in the Consolidated Statement of Comprehensive Income as other income.

Although IFRS allows any financial instrument to be irrevocably designated as FVTPL, the Credit Union may only use this option providing that management of these financial instruments is in accordance with a documented risk management and investment strategy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables (LR)
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near-term.

Initial measurement is at fair value with subsequent measurement at amortized cost using the effective interest method less any accumulated impairment losses. Interest income on LR is recognized on the Consolidated Statement of Comprehensive Income as net interest income. Any impairment losses are recorded as loan impairment charges on the Consolidated Statement of Comprehensive Income.

Held-to-maturity (HTM)
HTM assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union has the intention and ability to hold to maturity. These are initially recognized at fair value including transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest on HTM financial assets is included in net interest income on the Consolidated Statement of Comprehensive Income.

Available-for-sale (AFS)
AFS assets are non-derivative financial assets and are intended to be held for an indefinite period of time and are not classified as HFT, FVTPL, LR or HTM financial assets. They are measured at fair value with unrealized gains and losses reported in other comprehensive income (OCI) on the Consolidated Statement of Comprehensive Income. Where no reliable quoted market price exists, the assets are held at cost less any accumulated impairment losses. Gains or losses are recognized in net income when the asset is derecognized or impaired.

Other liabilities (OL)
Financial liabilities not classified as FVTPL fall into this category. These are measured initially at fair value and subsequently at amortized cost using the effective interest method.

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

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

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

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, deposits at call and other short-term highly liquid investments with original maturities of three months or less. They are subject to insignificant risk of changes in fair value and are used by the Credit Union in the management of its short-term commitments. Cash and cash equivalents are classified as FVTPL. Due to their short-term nature, the recorded amounts of cash and cash equivalents are considered to be the fair value.

Derivative financial instruments
Derivative financial instruments are financial contracts whose values are derived from an underlying interest rate, foreign exchange rate, equity, commodity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions such as interest rate swaps and index-linked options for asset/liability management purposes. Such derivatives include contracts with Concentra Financial Services Association that reposition the Credit Union's interest rate risk profile and hedge agreements with SaskCentral to offset exposure to indices associated with index-linked deposit products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Credit Union has chosen not to use hedge accounting; therefore, all derivatives are classified as HFT and are recorded at fair value in the Consolidated Statement of Financial Position. Unrealized and realized gains and losses are recognized as other income on the Consolidated Statement of Comprehensive Income. Derivative interest income and expenses are calculated on an accrual basis and the net amount is recorded as interest income or expense on the Consolidated Statement of Comprehensive Income. Derivative financial instruments with a positive fair value are reported as assets and derivative financial instruments with a negative fair value are reported as liabilities in the Consolidated Statement of Financial Position.

When available, quoted market prices are used to determine the fair value of derivative financial instruments. Otherwise, fair value is determined using pricing models that consider current market prices and the contractual prices of underlying instruments, the time value of money, yield curves, volatility and credit risk factors.

An embedded derivative is a feature within a contract that causes a modification to the cash flows in response to a change in a specified interest rate, foreign currency rate, price or an index of rates or prices. The Credit Union bifurcates an embedded derivative from the host contract if the host contract is not FVTPL or if the embedded derivative and the host contract are not closely related. This embedded derivative is then classified as HFT and accounted for the same as other derivatives above.

Further details on derivatives are provided in Note 4.

Investment securities

Fair value through profit or loss
Investment securities classified as financial assets at FVTPL are designated as such upon initial recognition. These investment securities are designated as FVTPL if the Credit Union manages such investment securities and makes purchases and sales decisions based on their fair value in accordance with the Credit Union's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. In subsequent periods, these investment securities are measured at fair value with unrealized gains or losses recognized in other income on the Consolidated Statement of Comprehensive Income.

Available-for-sale
Investment securities that are not classified as FVTPL or HTM, are classified as AFS. The Credit Union's equity investments and certain debt securities classified as AFS are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the marketplace. Subsequent to initial recognition, these investment securities are measured at fair value, with any unrealized gains or losses recognized in OCI. When an investment security is derecognized, the cumulative gain or loss in OCI is transferred to profit or loss. The Credit Union reviews AFS investment securities for impairment and when declines in fair value are deemed to be significant or prolonged the investment securities would then be measured at net realizable value. These permanent impairment losses are recorded in interest income on the Consolidated Statement of Comprehensive Income.

Held-to-maturity
Investment securities classified as HTM are financial assets with fixed or determinable payments and fixed maturity that the Credit Union has the intention and ability to hold to maturity. Subsequent to initial recognition these investment securities are measured at amortized cost using the effective interest method, unless there is a permanent decline in value, in which case the investment securities would then be measured at net realizable value.

Loans and receivables
Investment securities classified as LR are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition these investment securities are measured at amortized cost using the effective interest method, unless there is a permanent decline in value, in which case they would be measured at net realizable value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates
Investment in associates are entities which the Credit Union has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Credit Union holds between 20 and 50 percent of the voting power of another entity.

Investment in associates are accounted for using the equity method and are recognized initially at cost. The Credit Union's share of these entities' profits or losses is recognized in other income on the Consolidated Statement of Comprehensive Income.

For summarized financial information on the Credit Union's investment in associates see Note 6.

Loans and advances
Loans and advances (loans) are financial assets with fixed or determinable payments that are not quoted in an active market. Loans the Credit Union does not intend to sell immediately or in the near future are classified as LR.

Loans are initially recognized at fair value which is the cash consideration to originate or purchase the loan including any transaction costs. Subsequently, they are measured at amortized cost using the effective interest method, less allowance for impairment plus accrued interest. Interest on loans is reported as interest income in the Consolidated Statement of Comprehensive Income.

Foreclosed assets held for resale are initially recorded at the lower of the investment recorded in the impaired loan and its estimated net realizable value. Subsequently, they are measured at the lower of carrying amount and fair value less costs to sell. Items in foreclosed assets typically include: commercial buildings and properties, agricultural land or equipment, residential mortgages and vehicles. Foreclosed assets are considered to be assets held in the course of realization of impaired loans. The Credit Union aims to sell foreclosed properties as soon as they can be made ready for sale. Properties are typically not used in the operations of the Credit Union.

Impairment of loans and advances
All loans are subject to a continuous management review process to assess whether there is objective evidence that a loan or group of loans is impaired. Impairment of a loan is recognized when objective evidence is available that a loss event has occurred after the initial recognition of the loan and has an impact on the estimated future cash flows.

The Credit Union first assesses whether objective evidence of impairment exists individually for loans that are individually significant or meet default criteria outlined in board approved policy. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed loan, it includes the loan in a portfolio of loans with similar risk profiles and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

The amount of impairment loss is measured as the difference between the carrying amount and the present value of future cash flows discounted at the loan's original effective interest rate. When management cannot reasonably determine the loan's future cash flows, it estimates the recoverable amount as the current market value of the loan's collateral net of expected selling costs. The carrying amount is reduced through the use of an allowance account and the amount of the loss is recognized in loan impairment charges in the Consolidated Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is recorded in interest income on the Consolidated Statement of Comprehensive Income.

The collective impairment is based on a portfolio of loans with similar credit risk characteristics and estimated on the basis of average historical loss experience. The loss trigger event in determining the collective allowance is loans delinquent in excess of 90 days. Historical loss experiences are correlated to the loss trigger events by aggregated loan portfolios. A loan loss factor for each loan portfolio was determined based on a 10 year average of historical write-offs and loan delinquencies greater than 90 days when available. The loan loss factor, in addition to the current loan portfolio balances and related delinquencies greater than 90 days, is used to calculate the collective impairment. The methodology and assumptions used for estimating collective impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Credit Union.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account to a maximum of the original carrying value. The amount of the reversal is recognized in the Consolidated Statement of Comprehensive Income.

Restructured loans
Restructured loans are loans greater than 90 days delinquent that have been restructured outside the Credit Union's normal lending practices as it relates to extensions, amendments and consolidations. Management continually reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

Securitization
The Credit Union securitizes groups of assets by transferring them to a third party primarily to create liquidity for the Credit Union. All loans securitized by the Credit Union have been on a fully serviced basis. The Credit Union considers both the degree of transfer of risk and rewards on assets transferred to another entity and the degree of control exercised by the Credit Union over the other entity:

- When the Credit Union, in substance, controls the entity to which financial assets have been transferred, the entity is included in the consolidated financial statements and the transferred assets are recognized in the Credit Union's Consolidated Statement of Financial Position.
- When the Credit Union transfers financial assets to an unconsolidated entity and it retains substantially all of the risk and rewards relating to the transferred financial assets, the transferred assets and associated liability for the consideration received are recognized in the Credit Union's Consolidated Statement of Financial Position. The associated liability, secured by the transferred assets, is carried at amortized cost.
- When the Credit Union transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognized from the Credit Union's Consolidated Statement of Financial Position. The Credit Union generally retains an interest in the transferred assets such as servicing rights and various forms of recourse including rights to excess spread and credit enhancements. Retained interests are classified as AFS investment securities and carried at fair value. Gains or losses on securitization depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognized and the retained interests based on their relative fair values at the date of transfer. Changes in fair value of gains and losses deemed to be temporary are recorded in other comprehensive income and those deemed to be other than temporary are recorded in other income. A service liability is recorded at fair value and is amortized to other income over the term of the transferred assets.

Transaction costs incurred in the establishment of a securitization issuance that does not qualify for derecognition are amortized using the effective interest method over the expected life of the transferred assets. In addition, the Credit Union receives residual income from the securitization programs once all associated costs have been met. The residual income is recognized in net interest income on the Consolidated Statement of Comprehensive Income. Transaction costs incurred in the establishment of a securitization issuance that does qualify for derecognition are expensed as incurred.

Details of the transfer of financial assets to third parties are disclosed in Note 9.

Syndication
The Credit Union syndicates groups of assets with various other financial institutions primarily to create liquidity and manage regulatory capital for the Credit Union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union's Consolidated Statement of Financial Position. All loans syndicated by the Credit Union have been on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets. Fee income is recognized in other income on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

(In thousands of CDN $)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Wealth management services*

The Credit Union offers members access to a wide variety of investments through Credential Asset Management Inc., Credential Securities Inc., Credential Direct® and Credential Financial Strategies Inc. Assets under administration are recorded separately from the Credit Union's assets and are not included in the Consolidated Statement of Financial Position. As at December 31, 2015, funds managed totalled $997,736 (2014 - $878,366).

Property, plant and equipment

Land is measured at cost. Other items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Land is not amortized. Amortization of other items of property, plant and equipment is calculated using the straight-line method to write down the cost of the assets to their residual values over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The estimated useful lives are as follows:

Buildings	10 to 40 years
Computer equipment	4 to 5 years
Furniture, equipment and vehicles	5 years
Leasehold improvements	5 to 10 years

Amortization of property, plant and equipment is included under either general business expense or occupancy expense on the Consolidated Statement of Comprehensive Income. The assets' residual values are reviewed annually and adjusted if appropriate. Assets are reviewed annually for impairment and tested when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on the disposal of property, plant and equipment are determined by comparing the net proceeds and the carrying amount of the asset. These are included in the Consolidated Statement of Comprehensive Income in the year of disposal.

Goodwill

Goodwill is measured as the excess of the fair value of consideration given over the Credit Union's proportionate share of the fair value of the net identifiable assets acquired in a business combination at the date of acquisition. Goodwill is carried at cost less accumulated impairment loss, if any.

Goodwill is not amortized, but reviewed annually for impairment. The Credit Union tests goodwill impairment at the cash-generating unit (CGU) level when practical. If the Credit Union determines that using the CGU is not practical then goodwill impairment is assessed at the entity level. If an impairment is found to exist, further investigation is performed to determine the level of impairment and any loss is recognized directly in profit or loss on the Consolidated Statement of Comprehensive Income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Intangible assets

The Credit Union has intangible assets consisting of franchise fees, customer lists obtained from the purchase of subsidiaries, core deposits from the acquisition of other credit unions and software. Franchise fees, customer lists, core deposits and software are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the related intangible asset as follows:

Franchise fees	10 to 20 years
Customer lists	10 to 20 years
Core deposits	13 years
Software	3 to 5 years

Amortization of intangible assets is included under general business expense on the Consolidated Statement of Comprehensive Income. Intangible assets are reviewed at least annually for impairment and tested when conditions exist which indicate impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Credit Union does not have any intangible assets with indefinite lives. The Credit Union has not recognized any internally generated intangible assets.

Income taxes

The Credit Union accounts for income taxes using the asset and liability method. Under this method, the provision for income taxes is calculated based on income tax laws and rates enacted and substantively enacted as at the Consolidated Statement of Financial Position date. The income tax provision is comprised of current income taxes and deferred income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of current year operations. Deferred income tax assets and liabilities arise from changes during the year in temporary differences between the accounting and tax basis of assets and liabilities. A deferred income tax asset is recognized to the extent that the benefit of losses and deductions available to be carried forward to future years for tax purposes are probable.

Other assets

Prepayments and certain receivables included in other assets are non financial instruments and initially recorded at fair value. Subsequently, they are measured at consideration remaining or amounts due, less any impairment losses. Receivables included in other assets that are financial instruments are classified as LR and initially recorded at fair value. Subsequently, they are measured at amortized cost using the effective interest method, less any impairment losses.

Impairment of assets

The Credit Union assesses impairment of all assets with the exception of FVTPL assets at the end of each reporting period. An impairment checklist which checks for impairment indicators is completed for each type of similar asset. If an impairment indicator is found to exist, further investigation is performed to determine the level of impairment. Any impairments determined are recorded as a decrease to the related asset on the Consolidated Statement of Financial Position and a corresponding expense on the Consolidated Statement of Comprehensive Income.

The amount of the impairment loss may decrease in a subsequent period. If this decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit and loss except in the case of AFS equity instruments, which is recognized in OCI. The impairment loss is reversed to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost or carrying value would have been had the impairment not been recognized.

Other financial liabilities

Borrowings, secured debt, deposits, membership shares and member equity accounts, certain other liabilities and subordinated debentures are initially recognized at fair value which is the consideration received net of any transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method.

Subordinated debentures

Financing and transaction costs relating to the issuance of subordinated debentures are amortized to interest expense over the expected life of the related subordinated debenture using the effective interest method.

Short-term employee benefits

Liabilities are recorded for employee benefits including salaries and wages, statutory payroll contributions, paid annual vacation leave and bonuses that are expected to be settled within 12 months of the Consolidated Statement of Financial Position date. These represent present obligations resulting from employees’ services provided to the Consolidated Statement of Financial Position date and are included in other liabilities. The expected cost of bonus payments is recognized as a liability when the Credit Union has a present legal or constructive obligation to pay as a result of past events and the obligation can be reliably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when:

- The Credit Union has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation; and
- A reliable estimate can be made of the amount.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market conditions and risks specific to the liability and are recorded as liabilities in the Consolidated Statement of Financial Position and corresponding expenses in the Consolidated Statement of Comprehensive Income.

Foreign currency denominated assets and liabilities

Any assets or liabilities denominated in foreign currencies are translated to Canadian dollars at the rate of exchange at the Consolidated Statement of Financial Position date. All differences arising on the translation are recorded in other income on the Consolidated Statement of Comprehensive Income.

Recognition of income

Interest income

Interest income arising from loans and investment securities is recognized in the Consolidated Statement of Comprehensive Income using the effective interest method. Interest income continues to be recognized for financial instruments that have become impaired. Management subsequently assesses and determines if the interest is collectible through their impairment of loans and investment securities processes.

Derivative interest income and expenses are calculated on an accrual basis and the net amount is recorded as derivative interest revenue or expense.

Loan origination income such as application fees, processing fees, search fees, disbursement fees, renewal fees, credit check fees, registration fees, personal property security registration fees and amendment fees - is deferred and recognized in the Consolidated Statement of Comprehensive Income as an increase in interest income on a yield basis over the expected life of the related loans. Loan origination expenses such as mortgage acquisition costs and referral incentives paid are also deferred and recognized in the Consolidated Statement of Comprehensive Income as a decrease in interest income on a yield basis over the expected life of the related loans. The balance outstanding of the deferred origination income (expense) is recognized on the Consolidated Statement of Financial Position as a decrease (increase) in the value of loans.

Other income

<u>Fee and commission income</u>

Fees, other than loan origination fees, are recognized as other income in the year the related service is provided. These fees include annual review fees, payment deferral fees, mortgage prepayment bonus fees, letter of credit fees, small business loans fees and outgoing mortgage transfer fees.

When the Credit Union acts in the capacity of an agent rather than as the principal in a transaction, the income recognized is the amount of commission paid to the Credit Union.

<u>Unrealized and realized gains (losses) on derivative financial instruments</u>

For derivatives, increases and decreases in fair values are recorded in other income as unrealized and realized gains and losses on derivative financial instruments.

<u>Investment security gains and losses</u>

For investment securities classified as FVTPL, increases and decreases in fair values are recorded in other income as unrealized gains and losses on investment securities. Realized investment securities gains and losses are recorded when the related investment securities are sold. These amounts are recorded in other income on the Consolidated Statement of Comprehensive Income.

For investment securities classified as AFS, unrealized gains and losses resulting from temporary changes in fair values are recorded, net of taxes, in other comprehensive income. Fair value declines that are other than temporary are moved from other comprehensive income into other income. Gains and losses on these investment securities are recognized in other income when sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For investment securities classified as HTM, gains and losses on these investment securities are recognized at the time of maturity in other income.

Dividend income
Dividend income is recognized in other income when the dividend is declared.

Income from investment in associates
The Credit Union's share of the profit and loss of CUDF, and Apex, is recognized in other income. CUDF income is earned and distributed based on the volume of loans funded as outlined in the shareholder agreement.

Foreign exchange revenue
Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Realized gains and losses resulting from translation are recorded in other income on the Consolidated Statement of Comprehensive Income.

The Credit Union offers currency exchange services and receives income based on the spread between the buy currency exchange rate and the sell currency exchange rate. The income is recorded as other income on the Consolidated Statement of Comprehensive Income when transactions are completed.

Wealth management income*
The Credit Union offers members access to a wide variety of investments and services through Credential Asset Management Inc., Credential Securities Inc., Credential Direct® and Credential Financial Strategies Inc. The Credit Union receives commission income based on the volume of business with each of these companies. These commissions are recognized as other income when earned.

Other income
Other income is recognized on the accrual basis in the fiscal period in which it is earned.

Recognition of expenses

Interest expense
Interest expense arising from deposits and interest bearing liabilities is recognized in the Consolidated Statement of Comprehensive Income using the effective interest method.

Operating expenses

Occupancy expenses
Payments made under operating leases (rent) are recognized in the Consolidated Statement of Comprehensive Income and expensed over the term of the lease.

Transaction costs
Transaction costs relating to AFS assets and FVTPL assets or liabilities are recorded as expenses in the Consolidated Statement of Comprehensive Income as they are incurred.

Transaction costs relating to HTM assets and other liabilities are included in the determination of amortized cost using the effective interest method.

Pension costs
The Credit Union contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a post-employment benefit plan under which the Credit Union pays fixed contributions into a separate entity. The contributions are held in trust by the Co-operative Superannuation Society and are not recorded in the Consolidated Statement of Financial Position. As a defined contribution pension plan, the Credit Union has no future liability or obligation for future contributions to fund benefits to plan members.

Credit Union contributions to the plan are expensed as incurred. The annual pension expense from operations of $3,830 (2014 - $3,629) is included in personnel expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other operating expenses

Other operating expenses are recognized on the accrual basis in the fiscal period in which they are incurred.

Future accounting changes

A number of new standards and amendments are not yet effective for the year ended December 31, 2015 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Credit Union, except as discussed below:

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* finalized in July 2014, brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board (IASB)'s project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 eliminates the five financial instrument classifications currently used under IAS 39. Instead there are three new classifications as follows:

- Amortized cost is utilized when the objective of the financial instrument is strictly to collect contractual cash flows of principal and interest.
- Fair value through other comprehensive income (FVOCI) is used when the objective is achieved by both collecting contractual cash flows and selling the financial asset.
- Fair value through profit or loss (FVTPL) assets are held for trading and managed on a fair value basis.

For impairment measurement IAS 39 requires an incurred loss model which delays recognition of credit losses until there is evidence of a trigger event. IFRS 9 requires an expected credit loss model where an entity will base its measurement of expected credit losses on reasonable and supportable information that is available without undue cost or effort, and includes historical, current and forecast information. Credit losses will be recorded at each reporting date to reflect any changes in credit risk since initial recognition. This will affect the measurement of the individual and collective loan allowances at the Credit Union.

In general, under IFRS 9 treatment of financial liabilities remains essentially unchanged from IAS 39. With the exception of financial liabilities classified as FVTPL where changes in fair value are required to be presented in other comprehensive income.

The effective date of IFRS 9 is for fiscal periods beginning on or after January 1, 2018. The Credit Union is currently assessing what impact that the application of IFRS 9 will have on amounts reported on the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers specifies how an entity will recognize revenue from contracts with customers as well as additional disclosure requirements. It provides a five-step process for revenue recognition and is effective for periods beginning on or after January 1, 2018. Early adoption of this standard is also permitted but would be subject to regulatory approval by CUDGC. The standard does not apply to financial instruments as these currently fall under IAS 39 and in the future under IFRS 9 above. Because the majority of the Credit Union's revenue is earned from financial instrument contracts, this standard is not expected to have a material impact on the consolidated financial statements.

Leases

The accounting requirements for leases are expected to change in the future. There is currently an exposure draft issued by the IASB where all leases with the exception of very short term and small items may be required to be recognized on the balance sheet. Once a new standard is issued the Credit Union will determine how this may affect the consolidated financial statements.

*Mutual funds are offered through Credential Asset Management Inc. and mutual funds and other securities are offered through Credential Securities Inc. and Credential Direct® , a division of Credential Securities Inc., which operates as a separate business unit. Credential Securities Inc. is a Member of the Canadian Investor Protection Fund. Credential Financial Strategies Inc. is a member company under Credential Financial Inc., offering financial planning, life insurance and investments to members of credit unions and their communities. ®Credential is a registered mark owned by Credential Financial Inc. and is used under licence.

(In thousands of CDN $)

3. CASH AND CASH EQUIVALENTS

	2015	2014
Cash on hand	26,673	29,976
Restricted cash	5,859	2,338
Deposits at call - SaskCentral	85,853	21,248
Provincial government short-term investment	61,794	-
Total cash and cash equivalents	180,179	53,562

Restricted cash is comprised of cash reserves for the auto loan securitization and NHA mortgage backed securities programs and is not available for use in the Credit Union's day-to-day operations.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at December 31 and are indicative of either the market risk or the credit risk.

	Maturities of derivatives (notional amount)					Net fair value			
				2015	2014	2015		2014	
	Under 1 year	1 to 5 years	Over 5 years	Total	Total	Assets	Liabilities	Assets	Liabilities
Derivatives at held-for-trading									
Interest rate swaps	-	20,932	26,840	47,772	42,242	-	2,347	94	1,332
Index-linked options	8,352	30,528	-	38,880	34,259	2,755	2,755	4,183	4,183
Embedded purchase option	-	-	-	-	-	5,260	-	4,557	-
Total	8,352	51,460	26,840	86,652	76,501	8,015	5,102	8,834	5,515

The Credit Union enters into derivative transactions for risk management purposes.

Interest rate swaps

The Credit Union currently enters into interest rate swaps with Concentra Financial Services Association to manage exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows based on agreed upon rates to a notional amount. Generally, counterparties exchange a fixed and floating interest rate payment to manage exposure to interest rate risk by modifying the interest rate characteristics of assets or liabilities.

Index-linked options

The Credit Union offers index-linked deposit products to its members that pay interest to the depositors at the end of the term, based on stock market index performance. The Credit Union has entered into index-linked options with SaskCentral that have equivalent maturities to offset the exposure associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from SaskCentral payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

Embedded purchase option

The Credit Union has an agreement with a third party in which it acts as an agent to sell credit cards. The agreement lasts for three years and renews automatically unless either party provides notice to terminate. The agreement contains an option for the Credit Union to acquire the underlying loans associated with the credit cards. The Credit Union has determined this embedded purchase option is a derivative financial instrument.

There are currently no risk management purpose derivatives held or issued that receive hedge accounting treatment.

(In thousands of CDN $)

5. INVESTMENT SECURITIES

The Credit Union's investments are recognized in the Consolidated Statement of Financial Position in accordance with financial instrument designation categories. The Credit Union's recorded values are as follows:

	2015	2014
Fair value through profit or loss		
SaskCentral - statutory liquidity deposits	153,371	72,347
Other securities	17,747	16,641
Accrued interest	2	2
Total fair value through profit or loss	171,120	88,990
Available-for-sale		
SaskCentral - shares	29,490	29,490
SaskCentral - statutory liquidity deposits	266,483	334,063
Chartered bank guaranteed	151,711	139,035
Federal and provincial government	55,163	23,534
Other securities	11,071	2,180
Accrued interest	1,929	2,135
Total available-for-sale	515,847	530,437
Loans and receivables		
Other securities	538	528
Total loans and receivables	538	528
Total investment securities	687,505	619,955

The Credit Union's investment securities portfolio is comprised of a large number of investment securities carrying a wide variety of terms, conditions and issuers held for the purpose of liquidity management and effective utilization of excess funds.

There were no impairment losses for investment securities for the year ended December 31, 2015 (2014 – $nil).

SaskCentral – statutory liquidity deposits

Pursuant to Regulation 18(1)(a), of *The Credit Union Regulations, 1999*, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, Credit Union Deposit Guarantee Corporation (CUDGC) requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2015, the Credit Union met the requirement.

SaskCentral – shares

Currently the Credit Union holds $29,490 in membership shares of SaskCentral, or 21.3% (2014 - $29,490; 21.8%) of the total issued and outstanding membership shares. As defined in *The Credit Union Act, 1998,* the Credit Union has a substantial investment in SaskCentral, and pursuant to *The Credit Union Regulations, 1999*, the Credit Union has been authorized by CUDGC to hold this investment. The voting rights, characteristics, and value of membership shares are set out in the bylaws of SaskCentral. Membership shares of SaskCentral carry an issuance and redemption price of 10 dollars per share.

(In thousands of CDN $)

6. INVESTMENT IN ASSOCIATES

The Credit Union holds a 40% ownership in CU Dealer Finance Corp (CUDF) and a 25% ownership in Apex Investment GP Inc. (Apex). Management has determined that the Credit Union has significant influence, but not control, over CUDF and Apex.

CUDF was incorporated under the *Business Corporations Act* of Saskatchewan in 2005 and operates as an automotive loan brokerage entity that provides application, processing and adjudication services for loan products to its shareholders. The address of the registered office is 550 Henderson Drive, Regina, Saskatchewan, Canada. Other credit unions hold the remainder of the ownership in CUDF as follows: Affinity Credit Union 2013 40% and Innovation Credit Union 20%. Annual earnings of CUDF are distributed to shareholders in the form of a volume bonus based on loans funded.

CUDF observes an informal risk management policy by maintaining the majority of its capital in liquid assets. The carrying amount of cash, investments, accounts receivable, accounts payable and accrued liabilities is approximated by their fair value due to their short-term nature. CUDF also manages liquidity risk resulting from its accounts payable and accrued liabilities by maintaining liquid assets. CUDF is not exposed to significant interest, currency or credit risks arising from its financial instruments held. Therefore, the Credit Union is not exposed to significant risks by holding an ownership interest in CUDF.

The following table summarizes CUDF aggregate financial information:

	2015	2014
Assets	1,619	2,773
Liabilities	1,187	2,343
Total revenue	5,845	6,952
Total profit (1)	1,230	2,431
Share of profits (2)	519	1,004

(1) CUDF's total profit excludes the volume bonus expense to owners

(2) The Credit Union's share of profits is distributed based on the volume of loans funded of 42.21% (2014 - 41.29%) and includes a volume bonus and dividend payment

The following table reconciles the Credit Union's investment in CUDF:

	2015	2014
Balance - beginning of year	1,004	1,027
Share of profits	519	1,004
Distributions received	(1,003)	(1,027)
Balance - end of year	520	1,004

Apex was incorporated pursuant to the provisions of the *Business Corporations Act* of Saskatchewan in 2007. Its purpose is to serve as the general partner for Apex Investment Fund Limited Partnership. The role of the general partner is to direct, oversee and manage the business affairs of the limited partnership in accordance with the Limited Partnership Agreement. Other credit unions hold the remainder of the ownership as follows: Cornerstone Credit Union Financial Group Limited holds 25%, Affinancial Services Group Inc. holds 25% and Innovation Credit Union holds the remaining 25%. There are no significant risks encountered by Apex in the normal course of operations.

The Credit Union does not have any assets, liabilities, revenues, profits or share of profits to report from Apex in 2015 and 2014. There are no significant risks encountered by Apex in the normal course of operations.

There are currently no quoted market prices available and no reliable fair value for CUDF and Apex that can be estimated. The Credit Union has not incurred any contingent or future liabilities relating to its investment in associates.

(In thousands of CDN $)

7. LOANS AND ADVANCES

Loans and advances by portfolio at amortized cost

	2015	2014
Consumer loans		
Mortgage guaranteed	1,032,587	992,911
Mortgage conventional	831,919	799,708
Non mortgage	679,161	668,042
Total consumer loans	2,543,667	2,460,661
Commercial loans		
Mortgage	1,061,547	1,037,373
Non mortgage	373,690	374,551
Government guaranteed	23,287	23,242
Total commercial loans	1,458,524	1,435,166
Agricultural loans		
Mortgage	238,395	192,913
Non mortgage	161,621	162,648
Government guaranteed	62,440	58,704
Total agricultural loans	462,456	414,265
Gross loans and advances	4,464,647	4,310,092
Amortized loan origination fees	3,581	4,776
Foreclosed property held for resale	10,951	10,148
Accrued interest receivable	12,500	13,339
Individual allowance for credit losses	(2,610)	(3,720)
Collective allowance for credit losses	(494)	(562)
Total loans and advances	4,488,575	4,334,073

Loans and advances (loans) are at amortized cost unless stated otherwise.

The Credit Union has entered into securitization transactions on residential mortgages and auto loans that do not qualify for derecognition. As at December 31, 2015, the total amount of securitized loans outstanding included in the loan balances above was $874,286 (2014 - $684,023). Further detail on securitized assets is disclosed in Note 9.

The Credit Union has also entered into syndication transactions with other financial institutions that do qualify for derecognition. As at December 31, 2015, the total amount of syndicated loans outstanding not included in the loan balances above was $691,020 (2014 - $594,339).

(In thousands of CDN $)

7. LOANS AND ADVANCES (continued)

Maturity analysis based on remaining term to maturity

	2015	2014
Scheduled for repayment		
Overdrafts and line of credit facilities	535,583	533,367
Under 1 year	1,739,620	1,758,001
1 year to under 5 years	2,154,425	1,986,563
5 years and over	35,019	32,161
	4,464,647	4,310,092

Security held against loans and advances

	2015	2014
Fully or partially secured by tangible mortgage assets	3,528,229	3,371,976
Fully or partially secured by tangible non mortgage assets	723,213	729,953
Unsecured	213,205	208,163
	4,464,647	4,310,092

It is not practical to fair value all security as at the Consolidated Statement of Financial Position date due to the variety, number and condition of assets. The security information is based at time of loan origination or more current information when available.

8. IMPAIRED AND PAST DUE LOANS AND ADVANCES

Reconciliation of the allowance for credit losses

	2015	2014
Individual allowance for credit losses		
Balance - beginning of year	3,720	10,636
Credit losses for the year:		
Charge for loan impairment	2,905	3,660
Interest accrued on impaired loans and advances	432	835
Amounts written off	(4,447)	(11,411)
Balance - end of year	2,610	3,720
Collective allowance for credit losses		
Balance - beginning of year	562	789
Acquisition allowance	-	-
Recovery of loan impairment	(68)	(227)
Balance - end of year	494	562
Total allowance for credit losses	3,104	4,282

(In thousands of CDN $)

8. IMPAIRED AND PAST DUE LOANS AND ADVANCES (continued)

Impaired and allowance for credit losses by portfolio

	2015				2014			
	Impaired	Individual allowance	Collective allowance	Net impaired	Impaired	Individual allowance	Collective allowance	Net impaired
Consumer loans								
Mortgage guaranteed	-	-	(5)	(5)	-	-	(4)	(4)
Mortgage conventional	189	(135)	(4)	50	-	-	(1)	(1)
Non mortgage	1,353	(982)	(193)	178	1,181	(765)	(146)	270
Total consumer loans	1,542	(1,117)	(202)	223	1,181	(765)	(151)	265
Commercial loans								
Mortgage	300	-	(43)	257	-	-	(29)	(29)
Non mortgage	1,742	(1,057)	(203)	482	3,294	(2,866)	(321)	107
Government guaranteed	307	(139)	(42)	126	-	-	(57)	(57)
Total commercial loans	2,349	(1,196)	(288)	865	3,294	(2,866)	(407)	21
Agricultural loans								
Mortgage	-	-	(1)	(1)	-	-	(2)	(2)
Non mortgage	-	-	(2)	(2)	-	-	(1)	(1)
Government guaranteed	151	(96)	(1)	54	151	(89)	(1)	61
Total agricultural loans	151	(96)	(4)	51	151	(89)	(4)	58
Gross loans and advances	4,042	(2,409)	(494)	1,139	4,626	(3,720)	(562)	344
Foreclosed property held for resale	-	(201)	-	(201)	-	-	-	-
Accrued interest receivable	262	-	-	262	1,242	-	-	1,242
Total loans and advances	4,304	(2,610)	(494)	1,200	5,868	(3,720)	(562)	1,586

It is not practical to fair value all security as at the Consolidated Statement of Financial Position date due to the variety, number and condition of assets.

Analysis of loans that are impaired with individual allowance based on age of repayments past due

	2015		2014	
	Impaired	Individual allowance	Impaired	Individual allowance
Scheduled for repayment				
Under 1 year	3,706	(2,051)	1,836	(1,140)
1 year to under 5 years	598	(358)	1,041	(955)
5 years and over	-	-	2,991	(1,625)
	4,304	(2,409)	5,868	(3,720)

(In thousands of CDN $)

8. IMPAIRED AND PAST DUE LOANS AND ADVANCES (continued)

Loans with repayments past due but not regarded as impaired

Net impaired loans exclude certain past due loans where payment of interest or principal is contractually in arrears but where payment in full is expected. A loan is considered past due when the counterparty has not made payment by the contractual due date. Details of such past due loans (delinquencies) not included in the impaired amount are as follows:

				2015	2014
	1-30 days	31-90 days	More than 90 days	Total	Total
Past due loans					
Consumer	22,347	6,871	2,847	32,065	27,884
Commercial	3,792	3,500	2,375	9,667	8,147
Agriculture	650	3,207	227	4,084	4,612
Accrued interest	144	193	259	596	491
	26,933	13,771	5,708	46,412	41,134

Other disclosures for impaired and past due loans

	2015	2014
- Assets acquired via enforcement of security	3,316	1,013
- Interest earned on impaired loans	432	835
- Interest revenue forgone on impaired loans	1,005	2,344

It is not practical to disclose all possession of collateral the Credit Union holds as security due to the variety and number of assets. The policy of the Credit Union is to sell the assets at the earliest reasonable opportunity after measures to assist the customer to repay the debts have been exhausted.

9. SECURITIZATION

In the ordinary course of business, the Credit Union enters into transactions that result in the transfer of financial assets to third parties. The following table summarizes the carrying amounts and the secured debt for each type of securitization:

	2015		2014	
	Carrying amount	Secured debt	Carrying amount	Secured debt
Residential mortgages	718,411	715,454	528,148	531,402
Auto loans	155,875	145,000	155,875	145,000
Total securitization	874,286	860,454	684,023	676,402

The above residential mortgages are included in the consumer loans mortgage guaranteed totals in Notes 7 and 8. The auto loans are included in the consumer non-mortgage totals in Notes 7 and 8.

(In thousands of CDN $)

9. SECURITIZATION (continued)

The following table summarizes the carrying amounts and the secured debt maturities:

	2015		2014	
	Carrying amount	**Secured debt**	**Carrying amount**	**Secured debt**
Less than 1 year	32,360	32,152	25,683	25,500
1 year and over	841,926	828,302	658,340	650,902
Total securitization	874,286	860,454	684,023	676,402

Residential mortgages

The Credit Union has transferred an amortizing ownership interest in various qualifying residential mortgage receivables to Canadian Housing Trust, a multi-seller special purpose trust under the Canadian Mortgage Bond Program (CMB), as well as to various investors through the National Housing Act (NHA) Mortgage-Backed Securities Program. As at December 31, 2015, $718,411 (2014 - $528,148) had been transferred. The Credit Union retains the responsibility for servicing the qualifying residential mortgage receivables. Under both programs, the Credit Union has an obligation to forward principal and interest amounts from the original loan to Canada Mortgage and Housing Corporation monthly whether or not it receives payments from mortgagers. The Credit Union has retained substantially all of the risk and rewards associated with the transferred assets. These assets are recognized within loans and advances and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in secured debt on the Consolidated Statement of Financial Position. The associated liability at December 31, 2015, is recorded net of unamortized transaction costs of $2,957 (2014 - $2,267). In addition, for certain transfers above, the Credit Union has entered into interest rate swaps with Concentra Financial Services Association and investment securities of $nil (2014 - $5,587) are held in trust as required by CMB reinvestment guidelines.

Auto loans

The Credit Union has transferred a revolving ownership interest in the auto loan receivable portfolio to Pivot Trust. The Credit Union retains the responsibility for servicing the auto loan receivables. Principal cash flows attributable to Pivot Trust are reinvested into qualifying auto loans and subsequently transferred to Pivot Trust. As at December 31, 2015, $155,875 (2014 - $155,875) had been transferred. The Credit Union controls Pivot Trust as the Credit Union receives a majority of the benefits such as rights to excess spread and is exposed to risks of Pivot Trust as its residual assets relate solely to the Credit Union's aggregate auto loans and credit enhancements. The Credit Union has the ability to exercise control over Pivot Trust by making the predetermination of activities for the benefit of the Credit Union. Accordingly, the Credit Union consolidates Pivot Trust. Auto loan receivables are recognized within loans and advances and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in secured debt on the Consolidated Statement of Financial Position. The associated liability at December 31, 2015 is recorded net of a credit enhancement in the form of overcollateralization provided to Pivot Trust of $10,875 (2014 - $10,875).

The following table illustrates the fair value of the transferred assets, the associated liabilities and the resulting net position:

	2015	**2014**
Fair value of transferred assets	885,130	689,172
Less: fair value of secured debt	877,748	683,895
Net position	7,382	5,277

(In thousands of CDN $)

10. PROPERTY, PLANT AND EQUIPMENT

2015

	Land	**Buildings**	**Computer equipment**	**Furniture, equip. and vehicles**	**Leasehold improvements**	**Total**
Cost:						
Balance at December 31, 2014	6,992	42,985	10,015	5,816	13,754	79,562
Additions	1,188	9,961	1,979	1,357	1,540	16,025
Disposals	-	(54)	(1,151)	(1,349)	(2,097)	(4,651)
Balance at December 31, 2015	8,180	52,892	10,843	5,824	13,197	90,936
Accumulated amortization and impairment losses:						
Balance at December 31, 2014	-	14,895	6,749	4,016	8,037	33,697
Disposals	-	(54)	(1,151)	(1,349)	(2,093)	(4,647)
Amortization	-	1,603	1,544	802	1,146	5,095
Balance at December 31, 2015	-	16,444	7,142	3,469	7,090	34,145
Carrying amounts:						
Balance at December 31, 2014	6,992	28,090	3,266	1,800	5,717	45,865
Balance at December 31, 2015	8,180	36,448	3,701	2,355	6,107	56,791

2014

	Land	**Buildings**	**Computer equipment**	**Furniture, equip. and vehicles**	**Leasehold improvements**	**Total**
Cost:						
Balance at December 31, 2013	3,457	42,357	9,980	5,118	13,525	74,437
Additions	3,535	628	1,674	895	236	6,968
Disposals	-	-	(1,639)	(197)	(7)	(1,843)
Balance at December 31, 2014	6,992	42,985	10,015	5,816	13,754	79,562
Accumulated amortization and impairment losses:						
Balance at December 31, 2013	-	13,660	6,767	3,539	6,983	30,949
Disposals	-	-	(1,639)	(197)	(7)	(1,843)
Amortization	-	1,235	1,621	674	1,061	4,591
Balance at December 31, 2014	-	14,895	6,749	4,016	8,037	33,697
Carrying amounts:						
Balance at December 31, 2013	3,457	28,697	3,213	1,579	6,542	43,488
Balance at December 31, 2014	6,992	28,090	3,266	1,800	5,717	45,865

The carrying amount of property, plant and equipment includes assets under construction at December 31, 2015, of $nil (2014 - $30).

There were impairment losses for property, plant and equipment for the year ended December 31, 2015, of $nil (2014 - $nil).

(In thousands of CDN $)

11. GOODWILL AND INTANGIBLE ASSETS

2015	Goodwill	Core deposits	Customer lists	Software	Total
Cost:					
Balance at December 31, 2014	1,234	841	4,708	8,392	15,175
Additions	-	-	-	1,640	1,640
Disposals	-	-	-	(1,616)	(1,616)
Balance at December 31, 2015	1,234	841	4,708	8,416	15,199
Accumulated amortization and impairment losses:					
Balance at December 31, 2014	-	130	4,402	5,517	10,049
Disposals	-	-	-	(1,616)	(1,616)
Amortization	-	65	270	1,738	2,073
Balance at December 31, 2015	-	195	4,672	5,639	10,506
Carrying amounts:					
Balance at December 31, 2014	1,234	711	306	2,875	5,126
Balance at December 31, 2015	1,234	646	36	2,777	4,693

2014	Goodwill	Core deposits	Customer lists	Software	Total
Cost:					
Balance at December 31, 2013	1,234	841	4,708	7,240	14,023
Additions	-	-	-	1,155	1,155
Disposals	-	-	-	(3)	(3)
Balance at December 31, 2014	1,234	841	4,708	8,392	15,175
Accumulated amortization and impairment losses:					
Balance at December 31, 2013	-	65	4,042	3,871	7,978
Disposals	-	-	-	(3)	(3)
Amortization	-	65	360	1,649	2,074
Balance at December 31, 2014	-	130	4,402	5,517	10,049
Carrying amounts:					
Balance at December 31, 2013	1,234	776	666	3,369	6,045
Balance at December 31, 2014	1,234	711	306	2,875	5,126

The carrying amount of intangible assets includes assets under development at December 31, 2015, of $230 (2014 - $nil). There were impairment losses for intangible assets for the year ended December 31, 2015, of $nil (2014 - $nil).

Goodwill is tested for impairment annually. For further details on the impairment process see Note 2. There were impairment losses for goodwill for the year ended December 31, 2015, of $nil (2014 - $nil).

(In thousands of CDN $)

12. OTHER ASSETS

	2015	2014
Prepayments	750	842
Receivables	15,173	16,399
Total other assets	15,923	17,241

13. BORROWINGS

SaskCentral and Concentra

The Credit Union has an authorized line of credit with SaskCentral in the amount of $75,000 (2014 - $75,000) in Canadian funds and an authorized line of credit with Concentra Financial Services Association (Concentra) in the amount of $7,000 in U.S. funds (2014 - $7,000). The interest rate on the Canadian account is the SaskCentral prime interest rate plus or minus the applicable discount or margin. The U.S. account is based on the Concentra U.S. prime interest rate plus or minus the applicable discount or margin. At the end of the year, the amount outstanding was $nil for the Canadian account and $nil for the U.S. account (2014 - $nil for the Canadian account and $1,734 for the U.S. account). A General Security Agreement and an assignment of book debts are pledged as security on both lines of credit.

The Credit Union has a secured revolving credit line with Concentra in the amount of $50,000 (2014 - $25,000). The interest rate on this secured credit line is one-month CDOR plus or minus the applicable discount or margin. At the end of the year, the amount outstanding was $nil (2014 - $nil). This revolving credit line is being secured by insured residential mortgages.

Caisse Centrale Desjardins

The Credit Union has an authorized credit facility with Caisse Central Desjardins (CCD). The facility is a 364 day revolving credit facility available in Canadian funds renewable annually, with a maximum credit available of $50,000 (2014 - $50,000).

The credit facility is structured as either due on demand or repayable for periods of one to three months for each advance. Interest is calculated and depended on the facility, security and duration chosen. The credit facility is being secured by insured residential mortgages or uninsured residential mortgages.

At the end of the year, the amount outstanding was $nil (2014 - $nil).

14. DEPOSITS

	2015	2014
Demand	2,330,830	2,162,956
Term	1,103,716	1,153,249
Registered plans	641,450	601,851
Accrued interest	15,503	18,774
Total deposits	4,091,499	3,936,830

(In thousands of CDN $)

15. MEMBERSHIP SHARES AND MEMBER EQUITY ACCOUNTS

The authorized share capital is unlimited in amount and consists of shares with a par value of $5 per share. In accordance with legislation, amounts held to the credit of a member in a member equity account as allocated retained earnings become membership shares issued by the Credit Union on an equal basis. Member equity accounts are as provided for by *The Credit Union Act, 1998 (Act)* and administered according to the bylaws and policy of the Credit Union, which sets out the rights, privileges, restrictions and conditions. These accounts are classified as liabilities rather than equity due to the conditions prescribed by *The Act.* Members have the right to withdraw or terminate membership at any time and there is no provision for holders of member shares to receive the remaining property of the Credit Union on liquidation or dissolution. Upon withdrawal or termination of membership, the Credit Union must pay to the member all shares and other interests, subject to charge and set-off for debt of the member to the Credit Union. These accounts are not guaranteed by Credit Union Deposit Guarantee Corporation (CUDGC).

At the approval of the board of directors, earnings are allocated to members on the basis of patronage, having the meaning patronage allocations. Patronage allocations are credited either to members' equity accounts or deposit accounts (in the form of cash distributions). Patronage allocations credited to members' equity accounts are recorded in membership shares and member equity accounts on the Consolidated Statement of Financial Position.

In 2014 the Credit Union implemented a no-fee account for members called FreeStyle. This account provides significant, ongoing financial benefits to members of the Credit Union and is the primary alternative for the distribution of excess earnings back to members, as a result a patronage allocation has not been declared in 2015 (2014 - $nil).

The following table summarizes share capital information:

	2015	**2014**
Membership shares at January 1 (required for membership)	569	560
New membership shares	39	40
Redeemed membership shares	(28)	(31)
Membership shares at December 31 (required for membership)	580	569
Member equity accounts at January 1 (based on patronage)	26,017	27,427
Patronage allocated	-	-
Patronage paid to members	(2,037)	(1,410)
Member equity accounts at December 31 (based on patronage)	23,980	26,017
Total membership shares and member equity accounts at December 31	24,560	26,586

(In thousands of CDN $)

16. OTHER LIABILITIES

	2015	2014
Accounts payable	6,058	5,833
Payroll related amounts	7,706	7,303
Insurance underwriters payable	802	981
Outstanding settlement items	29,765	42,540
Unclaimed balances	863	869
Deferred income	185	115
Total other liabilities	45,379	57,641

17. SUBORDINATED DEBENTURE

The Credit Union has a Subordinate Credit Agreement with Caisse Central Desjardins (CCD) in the amount of $20,000. The Series One variable rate subordinated debenture is an unsecured obligation and is subordinate in right of payment and interest to all deposit liabilities, other liabilities and certain other creditors. The debenture is for a 10 year term starting on January 30, 2014 and matures on January 30, 2024. It is redeemable at the option of the Credit Union on the fifth anniversary date after issuance which is January 30, 2019. Redemptions are subject to the consent and approval of the Credit Union Deposit Guarantee Corporation (CUDGC). At the end of the year, the amount outstanding was $19,953 (2014 - $19,922).

The Credit Union has the option of selecting an interest rate of either CCD prime interest rate plus 3.75% or various lengths of Canadian Dealer Offered Rate (CDOR) plus 4.75%. The Credit Union can convert between either interest rate option subject to 30 days notification to CCD. At the end of the year, the interest rate option selected was 30 day CDOR plus 4.75% or 5.63% (2014 – 6.05%), payable quarterly.

The Series One variable rate subordinated debenture qualifies as tier 2 capital for regulatory purposes.

18. CAPITAL MANAGEMENT

Objectives and policies

The Credit Union's objectives in managing capital is to generate value for members, while exceeding regulatory minimums, meet operational requirements, absorb unexpected losses while meeting regulatory minimums, and signal financial strength.

The Credit Union manages capital in accordance with its capital management plan and board approved capital policies. The capital plan is developed in accordance with the regulatory capital framework and is reviewed and approved annually by the board of directors.

Regulatory capital

Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of Saskatchewan credit unions, has prescribed capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III capital standards framework established by the Bank for International Settlements and adopted by financial institutions around the globe, including Canadian banks.

CUDGC currently prescribes four standardized tests to assess the capital adequacy of credit unions: total eligible capital to risk-weighted assets (risk-weighted capital ratio); common equity tier 1 capital to risk-weighted assets; total tier 1 capital to risk-weighted assets; and minimum leverage ratio. Regulatory standards require credit unions to maintain a minimum for each of the capital adequacy tests as follows: risk-weighted capital ratio of 8%, common equity tier 1 capital to risk-weighted assets of 4.5%, total tier 1 capital to risk-weighted assets of 6% and minimum leverage ratio of 5%.

Risk-weighted assets are calculated in accordance with the rules established by CUDGC for balance sheet and off-balance sheet risks. Credit risk, derivatives and off-balance sheet commitments, and operational risk are considered in calculating risk-weighted assets. Based on the prescribed risk of each type of asset, a weighting is assigned.

Common equity tier 1 capital is defined as a credit unions' primary capital and is comprised of the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Common equity tier 1 capital at the Credit Union includes retained earnings, contributed surplus, and accumulated other comprehensive income. Total tier 1 capital is common equity tier 1 capital less deductions for goodwill, intangible assets, unconsolidated substantial investments and certain deferred tax assets.

Tier 2 capital at the Credit Union includes collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital, and subordinated debentures.

The risk-weighted capital ratio is calculated as the sum of total tier 1 and tier 2 capital divided by risk-weighted assets. The minimum leverage ratio is calculated as the sum of total tier 1 and tier 2 capital divided by total assets less deductions from capital plus specified off-balance sheet exposures.

CUDGC also prescribes an internal capital adequacy assessment process (ICAAP) to address unique credit union conditions. ICAAP is an integrated process that evaluates capital adequacy, and is used to establish capital targets that take into consideration the strategic direction (business plan) and risk appetite of the credit union. ICAAP seeks to identify the material risks requiring capital and quantify the amount of capital that should be held in relation to those risks. Enterprise-wide stress testing and scenario analysis are also used to assess the impact of various stress conditions on the Credit Union's risk profile and capital requirements.

(In thousands of CDN $)

18. CAPITAL MANAGEMENT (continued)

If a credit union is not in compliance with CUDGC Standards or Regulatory Guidance Documents including capital requirements, CUDGC may take any necessary action. Necessary action may include, but is not limited to:

- Reducing or restricting a credit union's authorities and limits;
- Subjecting a credit union to preventative intervention;
- Issuing a compliance order;
- Placing a credit union under supervision or administration; or
- Issuing an amalgamation order

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	2015
Eligible capital	
Common equity tier 1 capital	388,147
Additional tier 1 capital	-
Total tier 2 capital	45,004
Total eligible capital	433,151
Risk-weighted assets	
Investment securities	101,499
Consumer loans	828,151
Commercial and agricultural loans	1,742,912
Other assets and derivatives	90,815
Commitments	136,556
Capital charge for operating risk	305,586
Total risk-weighted assets	3,205,519
Total eligible capital to risk-weighted assets	13.51%
Common equity tier 1 capital to risk-weighted assets	12.11%
Total tier 1 capital to risk-weighted assets	12.11%
Minimum leverage ratio	7.68%

(In thousands of CDN $)

19. INTEREST INCOME AND INTEREST EXPENSE

	2015	2014
Interest income		
Cash and cash equivalents	202	286
Investment securities - fair value through profit or loss	947	1,157
Investment securities - available-for-sale	7,432	7,303
Investment securities - held-to-maturity	-	23
Investment securities - loans and receivables	24	22
Loans and advances	177,632	176,645
Total interest income	186,237	185,436

Interest expense		
Borrowings	388	584
Derivative financial instruments	495	368
Secured debt	17,175	13,956
Deposits	40,817	46,183
Subordinated debenture	1,175	1,129
Total interest expense	60,050	62,220
Net interest income	126,187	123,216

20. OTHER INCOME

	2015	2014
Account service fees	6,516	7,418
Loan fees	3,192	3,533
Loan insurance fees	3,653	4,127
Automated banking machine (ABM) fees	2,528	2,480
Insurance commission income	3,586	3,488
Unrealized and realized gains (losses) on derivative financial instruments	(348)	978
Unrealized and realized gains (losses) on fair value through profit or loss investment securities	1,949	1,585
Realized gains (losses) on available-for-sale investment securities	447	21
Dividend income	2,566	1,603
Income from investment in associates	519	1,004
Foreign exchange revenue	1,402	1,447
Payment card revenue	2,082	1,972
Credit card service charge revenue	1,128	995
Fixed asset revenue	506	538
Gain on sale of property, plant and equipment	1	-
Wealth management income	7,334	6,581
Other	6,728	5,267
Total other income	43,789	43,037

(In thousands of CDN $)

21. OPERATING EXPENSES

	2015	2014
Personnel		
Wages, salaries and short term incentive	63,086	59,982
Statutory payroll contributions	3,174	2,984
Pension costs	3,830	3,629
Other personnel expenses	6,046	5,488
Total personnel	76,136	72,083

	2015	2014
General business		
Cost of commission sales subsidiaries	89	-
Amortization of intangibles	2,073	2,074
Community investment	1,474	1,648
Amortization of computer, furniture and equipment	2,346	2,295
Stationery, telephone and postage	3,499	3,557
Automated banking machine (ABM) costs	1,506	1,542
Computer and related costs	7,666	7,453
Wealth management expenses	2,733	2,820
Courier	327	619
Marketing, research and communications	1,541	1,935
Loan processing	2,241	2,443
Rewards programs	1,256	1,284
Other general business	9,995	8,887
Total general business	36,746	36,557

	2015	2014
Occupancy		
Rent	3,767	3,396
Amortization of buildings and leasehold improvements	2,749	2,296
Property taxes	1,075	904
Other occupancy	2,818	2,852
Total occupancy	10,409	9,448

	2015	2014
Member security		
Deposit guarantee assessment	3,526	3,447
Fidelity and other insurance	311	295
Total member security	3,837	3,742

	2015	2014
Organizational		
SaskCentral dues	1,472	1,478
Officials remuneration and training	437	433
Other organizational	123	65
Annual meeting	2	3
Total organizational	2,034	1,979

(In thousands of CDN $)

22. INCOME TAX

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

	2015	**2014**
Components of income tax expense		
Current income tax expense		
Current tax on profit for current year	6,484	5,250
Deferred income tax expense		
Origination and reversal of temporary differences	1,202	1,212
	7,686	6,462

Income taxes are included in other comprehensive income as follows:

	2015	**2014**
Net unrealized gains (losses) on available-for-sale investment securities		
Current income tax expense (recovery)	(374)	(69)
Reclassification of (gains) losses on available-for-sale investment securities to income		
Current income tax expense (recovery)	93	4
	(281)	(65)

Total income tax reported in the consolidated financial statements:

	2015	**2014**
	7,405	6,397

Reconciliation of income tax expense:

	2015	**2014**
Profit before income tax	37,545	38,176
Combined federal and provincial income tax rate	27.0%	27.0%
Income taxes at statutory rate	10,137	10,307
Income tax expense adjusted for the effect of:		
Non-deductible expenses	102	73
Non-taxable dividend income	(48)	(52)
Credit Union rate reduction	(2,421)	(3,695)
Deferred income tax expense resulting from tax rate changes	(338)	(77)
Other	254	(94)
	7,686	6,462
Effective rate of tax	20%	17%

(In thousands of CDN $)

22. INCOME TAX (continued)

The deferred tax asset is comprised of the following:

	2015	2014
Deferred tax assets		
Property, plant and equipment	1,766	2,292
Loss carryforwards	66	233
Loans and advances	124	151
Other	-	(84)
Total deferred tax assets	1,956	2,592

The deferred tax liability is comprised of the following:

	2015	2014
Deferred tax liabilities		
Derivative financial instruments	1,420	1,221
Loans and advances	117	192
Other	46	18
	1,583	1,431

Net deferred tax asset	373	1,161

Deferred tax assets of $1,956 (2014 - $2,592) are presented on the Consolidated Statement of Financial Position net of deferred tax liabilities of $1,583 (2014 - $1,431) in the current year. The net deferred tax asset at the end of the year is $373 (2014 - $1,161). The change in the deferred tax asset is recognized in the Consolidated Statement of Comprehensive Income as a charge to income tax expense.

In 2013 federal legislation changed impacting the additional deduction for credit unions. The change is being phased in from 2013 through 2017. The previously enacted federal tax rate of 11% in 2012 increased to 11.62% in 2013, 12.6% in 2014, 13.4% in 2015, 14.2% in 2016 and 15% in 2017, for income eligible for the additional credit union deduction. For income not eligible for the additional credit union deduction the rate remains at 15%. The provincial rate of 2% has not changed for income eligible for the additional credit union deduction. Income not eligible for the additional credit union deduction remains at a provincial rate of 12%.

(In thousands of CDN $)

23. RELATED PARTY TRANSACTIONS

Key management persons (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Control is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities. The KMP of the Credit Union includes the executive leadership team and members of the board who held offices during the financial year.

The Credit Union defines related parties as follows:

- Spouses, common-law partners or any relative living in the same residence as a KMP;
- All children of a KMP and their spouse or common-law partners whether dependent or independent; or
- Corporations or business entities controlled by a KMP or any of the above related parties.

Remuneration of KMP

The aggregate compensation of KMP during the year includes amounts paid or payable and was as follows:

	2015	**2014**
Short-term employee benefits	2,932	2,632
Other long-term benefits	63	16
Director remuneration	346	349
	3,341	2,997

In the above table, remunerations shown as short-term employee benefits includes wages, salaries, statutory government contributions, paid annual leave and paid sick leave, performance-based incentive and the value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

Travel and training costs to members of the board in 2015 were $102 (2014 - $83).

The Credit Union's executive leadership team earned salaries, performance-based incentive and benefits as follows:

	2015				**2014**			
	Salaries	Performance incentive	Benefits	Total	Salaries	Performance incentive	Benefits	Total
Chief Executive Officer	480	168	83	731	480	149	83	712
Chief Financial Officer (1)	235	81	58	374	225	56	57	338
Chief Financial Officer (2)	41	-	9	50	-	-	-	-
Chief Risk Officer	219	65	55	339	215	53	54	322
Chief Operating Officer	253	93	72	418	241	68	70	379
Executive VP - Governance and Strategy (3)	142	68	42	252	205	49	52	306
Executive VP - Human Resources	209	51	53	313	205	56	52	313
Executive VP - Marketing and Communications	189	46	49	284	185	45	48	278
Executive VP - Technology	169	26	39	234	-	-	-	-
	1,937	598	460	2,995	1,756	476	416	2,648

(1) CFO retirement February 2016
(2) New CFO started October 2015 with transition period
(3) Vacant from September 2015 to December 2015

The performance-based incentive amounts are accrued as an expense in the fiscal year earned, and paid to the individuals in the following year. The above table represents the timing of when amounts are actually paid as opposed to when they are accrued as personnel expenses on the consolidated statement of comprehensive income.

(In thousands of CDN $)

23. RELATED PARTY TRANSACTIONS (continued)

Loans to KMP

The Credit Union's policy for lending to KMP is that all loans are provided based on the same lending criteria applicable to customers. The members of executive management identified as KMP may receive concessional rates of interest on their loans equal to or greater than the prescribed lending rate issued by the Canada Revenue Agency. These lending criteria and concessional rates of interest are available to all Credit Union employees.

There are no benefits or concessional terms and conditions applicable to related parties of KMP unless the related parties have joint borrowings with a KMP in which case concessional rates of interest may apply.

No loan impairment losses have been recorded against KMP balances outstanding during the year (2014 – $nil) or their related parties (2014 – $nil).

The aggregate balances to KMP and related parties include all consumer, agricultural and commercial lending during the year as follows:

	2015	2014
Loans outstanding at, beginning of year	6,326	27,226
Loans issued during the year	1,245	1,841
Loan repayments during the year	1,383	4,026
Loans outstanding at, end of year	6,188	25,041
Total interest income earned	198	935

Deposits from KMP

The Credit Union's policy for receiving deposits from KMP is that all deposits are accepted on the same terms and conditions which apply to customers. Interest has been paid on terms and conditions no more favourable than those available to customers.

The aggregate deposit balances to KMP and related parties during the year was as follows:

	2015	2014
Total term, savings and demand deposits	3,672	6,905
Total interest expense on deposits	29	40

Other transactions with KMP

As of December 31, 2015, no other known or potential conflict of interest transactions or circumstances were conducted between KMP and the Credit Union that would be outside of normal market practices or pricing.

(In thousands of CDN $)

23. RELATED PARTY TRANSACTIONS (continued)

Subsidiaries

The following table presents the name, location of head office, percentage and recorded value of voting shares owned by the Credit Union of each subsidiary:

Name	Head office	Percentage of voting shares owned by the Credit Union	Recorded value of voting shares owned by the Credit Union (1)
Conexus Insurance Ltd.	Regina, Saskatchewan	100%	100
Protexus Holdings Corp.	Regina, Saskatchewan	100%	15,000,004

(1) In dollars

Transactions between the Credit Union and its subsidiaries are eliminated on consolidation and not disclosed in the consolidated financial statements.

Significant influence investments

The Credit Union provides banking services and various support services to CU Dealer Finance Corp. (CUDF) including management, technology, accounting, human resources, property management, marketing and communication services.

The following table presents related party transactions between the Credit Union and CUDF :

	2015	2014
On deposit with the Credit Union	1,613	2,756
Due from the Credit Union	6	-
Interest and service charges paid to the Credit Union	1	1
Dividends paid to the Credit Union	176	193
Volume bonus paid to the Credit Union	827	834
Fee for service paid to the Credit Union	210	130
Interest received from the Credit Union	8	16

The Credit Union has a 25% (2014 – 25%) ownership in Apex Investment GP Inc. (Apex). There were no transactions between the Credit Union with Apex during the year.

(In thousands of CDN $)

24. INTEREST RATE SENSITIVITY

The following table details the Credit Union's exposure to interest rate risk as measured by the mismatch or gap, between the maturities or re-pricing dates of interest rate sensitive assets and liabilities, both on and off the Consolidated Statement of Financial Position. Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities and financial assets are not matched.

Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, represent the weighted average effective yield.

	2015							
	Yield	Floating	1 to under 3 months	3 months to under 1 year	1 year to under 5 years	5 years and over	Non-interest sensitive	Total
Assets								
Cash and cash equivalents	0.10%	74,109	24,989	-	-	-	81,081	180,179
Derivative financial instruments	-	-	236	475	2,044	-	5,260	8,015
Investment securities	1.52%	230,824	33,627	78,803	295,562	-	48,689	687,505
Investment in associates	-	-	-	-	-	-	520	520
Loans and advances	4.01%	1,265,956	164,638	588,656	2,369,110	72,196	28,019	4,488,575
Property, plant and equipment	-	-	-	-	-	-	56,791	56,791
Intangible assets	-	-	-	-	-	-	3,459	3,459
Deferred tax assets	-	-	-	-	-	-	373	373
Other assets	-	-	-	-	-	-	15,923	15,923
Goodwill	-	-	-	-	-	-	1,234	1,234
		1,570,889	223,490	667,934	2,666,716	72,196	241,349	5,442,574
Liabilities								
Derivative financial instruments	-	-	236	475	4,391	-	-	5,102
Secured debt	1.96%	-	1,632	30,521	792,107	39,151	(2,957)	860,454
Deposits	0.91%	1,758,211	238,091	496,729	911,416	-	687,052	4,091,499
Current tax liabilities	-	-	-	-	-	-	2,430	2,430
Membership shares and member equity accounts	-	-	-	-	-	-	24,560	24,560
Other liabilities	-	-	-	-	-	-	45,379	45,379
Subordinated debenture	5.75%	-	20,000	-	-	-	(47)	19,953
		1,758,211	259,959	527,725	1,707,914	39,151	756,417	5,049,377
Members' equity								
Accumulated other comprehensive income	-	-	-	-	-	-	1,913	1,913
Retained earnings	-	-	-	-	-	-	391,284	391,284
		-	-	-	-	-	393,197	393,197
Asset/liability gap		(187,322)	(36,469)	140,209	958,802	33,045	(908,265)	-
Notional amount of derivatives								
Pay side instruments	2.42%	-	(3,877)	(4,474)	(51,461)	(26,840)	-	(86,652)
Receive side instruments	0.66%	-	51,649	4,474	30,529	-	-	86,652
Off balance sheet gap		-	47,772	-	(20,932)	(26,840)	-	-
Interest rate gap position		(187,322)	11,303	140,209	937,870	6,205	(908,265)	-

(In thousands of CDN $)

24. INTEREST RATE SENSITIVITY (continued)

2014	Yield	Floating	1 to under 3 months	3 months to under 1 year	1 year to under 5 years	5 years and over	Non-interest sensitive	Total
Assets								
Cash and cash equivalents	0.02%	5,796	-	-	-	-	47,766	53,562
Derivative financial instruments	-	-	845	689	2,743	-	4,557	8,834
Investment securities	1.68%	104,142	33,204	109,137	325,718	-	47,754	619,955
Investment in associates	-	-	-	-	-	-	1,004	1,004
Loans and advances	4.61%	1,303,963	158,462	548,252	2,213,017	81,712	28,667	4,334,073
Property, plant and equipment	-	-	-	-	-	-	45,865	45,865
Intangible assets	-	-	-	-	-	-	3,892	3,892
Deferred tax assets	-	-	-	-	-	-	2,592	2,592
Other assets	-	-	-	-	-	-	17,241	17,241
Goodwill	-	-	-	-	-	-	1,234	1,234
		1,413,901	192,511	658,078	2,541,478	81,712	200,572	5,088,252
Liabilities								
Borrowings	4.25%	1,734	-	-	-	-	-	1,734
Derivative financial instruments	-	-	845	705	2,687	1,278	-	5,515
Secured debt	2.17%	-	3,824	27,415	602,241	45,189	(2,267)	676,402
Deposits	1.15%	1,619,728	148,118	616,261	910,203	-	642,520	3,936,830
Current tax liabilities	-	-	-	-	-	-	46	46
Deferred tax liabilities	-	-	-	-	-	-	1,431	1,431
Membership shares and member equity accounts	-	-	-	-	-	-	26,586	26,586
Other liabilities	-	-	-	-	-	-	57,641	57,641
Subordinated debenture	6.05%	-	20,000	-	-	-	(78)	19,922
		1,621,462	172,787	644,381	1,515,131	46,467	725,879	4,726,107
Members' equity								
Accumulated other comprehensive income	-	-	-	-	-	-	720	720
Retained earnings	-	-	-	-	-	-	361,425	361,425
		-	-	-	-	-	362,145	362,145
Asset/liability gap		(207,561)	19,724	13,697	1,026,347	35,245	(887,452)	-
Notional amount of derivatives								
Pay side instruments	2.88%	-	(9,084)	(15,748)	(23,901)	(27,768)	-	(76,501)
Receive side instruments	1.57%	-	46,319	7,451	22,731	-	-	76,501
Off balance sheet gap		-	37,235	(8,297)	(1,170)	(27,768)	-	-
Interest rate gap position		(207,561)	56,959	5,400	1,025,177	7,477	(887,452)	-

(In thousands of CDN $)

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table represents the fair values of the Credit Union's financial instruments, including derivatives. The following methods and assumptions were used to estimate fair values of financial instruments:

The fair values of short-term financial instruments, including cash and cash equivalents, other receivables, other assets and other liabilities are approximately equal to the carrying values.

Fair values of investment securities are based on quoted market prices when available, discounted cash flow calculations based on interest rates being offered for similar investment securities or quoted market prices of similar investments.

For variable interest rate loans and advances that reprice frequently, fair values are approximated by carrying values. Fair values of other loans and advances are estimated using discounted cash flow calculations at market interest rates for groups of loans and advances with similar terms and credit risk.

Carrying values approximate fair values for deposits, loans payable and membership shares and member equity accounts without specified maturity terms. Fair values for secured debt, other deposits, loans payable and subordinated debenture with specific maturity terms are estimated using discounted cash flow calculations at market interest rates for similar terms.

The fair value of derivative financial instruments is estimated by reference to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

The undernoted fair values, presented for information only, reflect conditions that existed only at the respective reporting dates and do not necessarily reflect future value or the amounts the Credit Union might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

		2015			2014		
	Hierarchy Level	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets							
Cash and cash equivalents	1 & 2	180,179	180,179	-	53,562	53,562	-
Derivative financial instruments	2 & 3	8,015	8,015	-	8,834	8,834	-
Investment securities	2	687,505	687,505	-	619,955	619,955	-
Loans and advances	2	4,477,825	4,556,083	78,258	4,323,880	4,384,888	61,008
Other assets	2	15,075	15,075	-	16,300	16,300	-
		5,368,599	5,446,857	78,258	5,022,531	5,083,539	61,008
Liabilities							
Borrowings	2	-	-	-	1,734	1,734	-
Derivative financial instruments	2	5,102	5,102	-	5,515	5,515	-
Secured debt	2	860,454	877,748	17,294	676,402	683,895	7,493
Deposits	2	4,091,499	4,107,802	16,303	3,936,830	3,945,036	8,206
Membership shares and member equity accounts	2	24,560	24,560	-	26,586	26,586	-
Other liabilities	2	44,819	44,819	-	57,066	57,066	-
Subordinated debenture	2	19,953	19,955	2	19,922	19,924	2
		5,046,387	5,079,986	33,599	4,724,055	4,739,756	15,701

(In thousands of CDN $)

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table represents the hierarchy of financial instruments the Credit Union measures at fair value in the Consolidated Statement of Financial Position:

	2015			
	Total	**Quoted prices in active markets (Level 1)**	**Other observable inputs (Level 2)**	**Unobservable inputs (Level 3)**
Financial assets				
Cash and cash equivalents	180,179	118,385	61,794	-
Derivative financial instruments	8,015	-	2,755	5,260
Investment securities - fair value through profit or loss				
SaskCentral - statutory liquidity deposits	153,371	-	153,371	-
Other securities	17,747	-	17,747	-
Accrued interest	2	-	2	-
Total investment securities - fair value through profit or loss	171,120	-	171,120	-
Investment securities - available-for-sale				
SaskCentral - shares	29,490	-	29,490	-
SaskCentral - statutory liquidity deposits	266,483	-	266,483	-
Chartered bank guaranteed	151,711	-	151,711	-
Federal and provincial government	55,163	-	55,163	-
Other securities	11,071	-	11,071	-
Accrued interest	1,929	-	1,929	-
Total investment securities - available-for-sale	515,847	-	515,847	-
	875,161	118,385	751,516	5,260
Financial liabilities				
Derivative financial instruments [1]	5,102	-	5,102	-
	5,102	-	5,102	-

[1] Derivatives are the only liabilities measured at fair value on the Consolidated Statement of Financial Position.

The following table reconciles the Credit Union's Level 3 fair value measurements from December 31, 2014 to December 31, 2015:

Fair value measurements using Level 3 inputs	
Balance at December 31, 2014	4,557
Unrealized gain (loss) on embedded purchase option	703
Balance at December 31, 2015	5,260

(In thousands of CDN $)

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2014	Total	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets				
Cash and cash equivalents	53,562	53,562	-	-
Derivative financial instruments	8,834	-	4,277	4,557
Investment securities - fair value through profit or loss				
SaskCentral - statutory liquidity deposits	72,347	-	72,347	-
Other securities	16,641	-	16,641	-
Accrued interest	2	-	2	-
Total investment securities - fair value through profit or loss	88,990	-	88,990	-
Investment securities - available-for-sale				
SaskCentral - shares	29,490	-	29,490	-
SaskCentral - statutory liquidity deposits	334,063	-	334,063	-
Chartered bank guaranteed	139,035	-	139,035	-
Federal and provincial government	23,534	-	23,534	-
Other securities	2,180	-	2,180	-
Accrued interest	2,135	-	2,135	-
Total investment securities - available-for-sale	530,437	-	530,437	-
	681,823	53,562	623,704	4,557
Financial liabilities				
Derivative financial instruments [1]	5,515	-	5,515	-
	5,515	-	5,515	-

[1] Derivatives are the only liabilities measured at fair value on the Consolidated Statement of Financial Position.

The following table reconciles the Credit Union's Level 3 fair value measurements from December 31, 2013 to December 31, 2014:

Fair value measurements using Level 3 inputs	
Balance at December 31, 2013	7,531
SaskCentral subordinate debt redemption	(4,780)
Unrealized gain (loss) on embedded purchase option	1,806
Balance at December 31, 2014	4,557

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The gain (loss) included in other comprehensive income is recorded in the Consolidated Statement of Comprehensive Income as net unrealized gains (losses) on available-for-sale financial assets. The unrealized gain (loss) on the embedded purchase option is recorded in the Consolidated Statement of Comprehensive Income as other income.

Included in the above level 3 amount is an embedded purchase option of $5,260 (2014 - $4,557) in derivative financial instruments. The Credit Union has entered into an agreement with a third party in which it acts as an agent to sell credit cards. As part of this agreement the Credit Union has the option to acquire the underlying loans associated with the credit cards. This purchase option is considered an embedded derivative financial instrument, which is recorded at fair value.

Fair value can be calculated using various valuation techniques. The preferable method is an active quoted market price, but there is no active market for the above purchase option. Therefore, a discounted cash flow calculation was used to determine fair value. This calculation estimates all future cash flows from the purchase of the credit card business for the next 10 years to arrive at total future cash flows. These cash flows are discounted using a net present value calculation at a discount rate equal to the weighted average cost of equity for the Credit Union. The weighted average cost of equity (WACE) is 7.32% (2014 – 7.66%) for the Credit Union.

The WACE is calculated under the assumption that financial information from the 5 largest Canadian banks' can be used to determine the Credit Union's WACE. Related assumptions include using the 5 banks total market value and levered equity beta to arrive at a debt to capital ratio and unlevered equity beta of 0.42 (2014 – 0.46) that is comparable to the Credit Union. Other significant assumptions used in the WACE calculation include: the risk-free rate is the Government of Canada bond greater than 10 years rate of 1.55% (2014 – 1.81%), the equity risk premium is 7.00% (2014 - 6.25%), the size premium is 2.69% (2014 - 2.81%) and member shares and equity of the Credt Union are considered debt.

Reasonable changes to the above unobservable inputs would not result in a significant change in the recorded fair values of the level 3 items.

(In thousands of CDN $)

26. CLASSIFICATION AND SIGNIFICANCE OF FINANCIAL INSTRUMENTS

The following table illustrates the classification and significance of financial instruments, in accordance with the methods and policies previously described in Note 2.

	2015							
	Held-for-trading	Fair value through profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Other liabilities	Non financial instrument[1]	Total
Financial assets								
Cash and cash equivalents	-	180,179	-	-	-	-	-	180,179
Derivative financial instruments	8,015	-	-	-	-	-	-	8,015
Investment securities								
SaskCentral - shares	-	-	29,490	-	-	-	-	29,490
SaskCentral - statutory liquidity deposits	-	153,371	266,483	-	-	-	-	419,854
Chartered bank guaranteed	-	-	151,711	-	-	-	-	151,711
Federal and provincial government	-	-	55,163	-	-	-	-	55,163
Other securities	-	17,747	11,071	-	538	-	-	29,356
Accrued interest	-	2	1,929	-	-	-	-	1,931
Investment in associates	-	-	-	-	-	-	520	520
Loans and advances	-	-	-	-	4,477,825	-	10,750	4,488,575
Property, plant and equipment	-	-	-	-	-	-	56,791	56,791
Intangible assets	-	-	-	-	-	-	3,459	3,459
Deferred tax assets	-	-	-	-	-	-	373	373
Other assets	-	-	-	-	15,075	-	848	15,923
Goodwill	-	-	-	-	-	-	1,234	1,234
	8,015	351,299	515,847	-	4,493,438	-	73,975	5,442,574
Financial liabilities								
Derivative financial instruments	5,102	-	-	-	-	-	-	5,102
Secured debt	-	-	-	-	-	860,454	-	860,454
Deposits	-	-	-	-	-	4,091,499	-	4,091,499
Current tax liabilities	-	-	-	-	-	-	2,430	2,430
Membership shares and member equity accounts	-	-	-	-	-	24,560	-	24,560
Other liabilities	-	-	-	-	-	44,819	560	45,379
Subordinated debenture	-	-	-	-	-	19,953	-	19,953
	5,102	-	-	-	-	5,041,285	2,990	5,049,377

(1) Assets, liabilities, and equity that are excluded from the definition of financial instruments as defined in IAS 39 *Financial Instruments: Recognition and Measurement* .

(In thousands of CDN $)

26. CLASSIFICATION AND SIGNIFICANCE OF FINANCIAL INSTRUMENTS (continued)

	2014							
	Held-for-trading	Fair value through profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Other liabilities	Non financial instrument(1)	Total
Financial assets								
Cash and cash equivalents	-	53,562	-	-	-	-	-	53,562
Derivative financial instruments	8,834	-	-	-	-	-	-	8,834
Investment securities								
SaskCentral - shares	-	-	29,490	-	-	-	-	29,490
SaskCentral - statutory liquidity deposits	-	72,347	334,063	-	-	-	-	406,410
Chartered bank guaranteed	-	-	139,035	-	-	-	-	139,035
Federal and provincial government	-	-	23,534	-	-	-	-	23,534
Other securities	-	16,641	2,180	-	528	-	-	19,349
Accrued interest	-	2	2,135	-	-	-	-	2,137
Investment in associates	-	-	-	-	-	-	1,004	1,004
Loans and advances	-	-	-	-	4,323,880	-	10,193	4,334,073
Property, plant and equipment	-	-	-	-	-	-	45,865	45,865
Intangible assets	-	-	-	-	-	-	3,892	3,892
Deferred tax assets	-	-	-	-	-	-	2,592	2,592
Other assets	-	-	-	-	16,300	-	941	17,241
Goodwill	-	-	-	-	-	-	1,234	1,234
	8,834	142,552	530,437	-	4,340,708	-	65,721	5,088,252
Financial liabilities								
Borrowings	-	-	-	-	-	1,734	-	1,734
Derivative financial instruments	5,515	-	-	-	-	-	-	5,515
Secured debt	-	-	-	-	-	676,402	-	676,402
Deposits	-	-	-	-	-	3,936,830	-	3,936,830
Current tax liabilities	-	-	-	-	-	-	46	46
Deferred tax liabilities	-	-	-	-	-	-	1,431	1,431
Membership shares and member equity accounts	-	-	-	-	-	26,586	-	26,586
Other liabilities	-	-	-	-	-	57,066	575	57,641
Subordinated debenture	-	-	-	-	-	19,922	-	19,922
	5,515	-	-	-	-	4,718,540	2,052	4,726,107

(1) Assets, liabilities, and equity that are excluded from the definition of financial instruments as defined in IAS 39 *Financial Instruments: Recognition and Measurement* .

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Credit Union is primarily exposed to the following risks as a result of holding financial instruments: credit risk; market risk; and liquidity risk. The following is a description of those risks and how they are managed.

Credit risk

Credit risk is the risk of financial loss resulting from a borrower or counterparty failing to meet its obligations. Credit risk primarily arises from the Credit Union's direct lending activities and the possibility that members will be unable or unwilling to repay some or all of the principal amount they have borrowed, and/or the interest accrued. The Credit Union's estimate of its exposure to credit risk with respect to loans and advances (loans) is reported in Note 7 and Note 8. For investment securities and derivative instruments, the credit risk the Credit Union is exposed to is the risk of default by the counterparty, as reported in Note 5 and Note 6.

Credit risk management processes and controls for loans

The credit granting process is controlled by board approved policies, as well as detailed loan policy manuals for each credit portfolio type: commercial, agricultural and consumer. These detailed loan policy manuals are developed, maintained and approved by the Credit Management Centre (CMC). Each credit application is assessed in accordance with these policies. The assessment of commercial and agricultural credit includes the assignment of a credit score in accordance with internal credit rating criteria. The Credit Union's credit risk processes and controls relating to lending activities are managed through a centralized department – CMC. The function of the CMC includes development of lending policies, monitoring of organizational credit risk and oversight approval of lending where the amount exceeds the authorization levels for retail management or where the underwriting is outside of the operational lending policies. Lending decision-making authority is determined in compliance with the delegation of authority set out in the credit risk management policies. The CMC also provides approval and underwriting support to lenders for loans that are considered to be complex, unusual, higher risk or problematic. Credit requests above the CMC limits are referred to the Executive Credit Committee (ECC) for approval.

The detailed lending policies set out criteria to determine annual review requirements for all loan types to ensure adequate monitoring of the Credit Union's credit exposure. Accounts that are deemed to be higher than average risk are subject to more frequent monitoring. These accounts are brought to the attention of the CMC to provide direction on specific monitoring requirements.

At regular meetings, the board and Risk Committee receive reports from the internal auditors and management. These reports provide information identifying quality of underwriting, loan and industry mix, current and potential loan risk exposures, delinquency, compliance to policy and trending information.

Credit risk limits for loans

The Credit Union has implemented certain credit limits through board policy. These limits are in place to manage the overall credit risk of the loan portfolio and establish parameters for credit diversification. The Credit Union has established limits for each loan portfolio type (agriculture, consumer mortgage, consumer non mortgage, and commercial loans), limits by industry, as well as maximum borrowing limits for individual borrowers. The Credit Union has a maximum exposure limit to an individual borrower, or connected borrowers, of $35 million.

The Credit Union also controls credit risk using various risk mitigation techniques. The most common method used to mitigate credit risk is to obtain quality security from counterparties in guarantee of the Credit Union's commitments. A second common risk mitigation method is to syndicate loans as a means of transferring to a third party a portion of the credit risk.

(In thousands of CDN $)

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The following table illustrates the Credit Union's loan portfolio mix as a percentage of assets at year-end:

Loan portfolio mix

	2015		2014	
	Total	**Percentage**	**Total**	**Percentage**
Consumer loans				
Mortgage guaranteed	1,032,587	18.97%	992,911	19.51%
Mortgage conventional	831,919	15.29%	799,708	15.72%
Non mortgage	679,161	12.48%	668,042	13.13%
Total consumer loans	2,543,667	46.74%	2,460,661	48.36%
Commercial loans				
Mortgage	1,061,547	19.50%	1,037,373	20.39%
Non mortgage	373,690	6.87%	374,551	7.36%
Government guaranteed	23,287	0.43%	23,242	0.46%
Total commercial loans	1,458,524	26.80%	1,435,166	28.21%
Agricultural loans				
Mortgage	238,395	4.38%	192,913	3.79%
Non mortgage	161,621	2.97%	162,648	3.20%
Government guaranteed	62,440	1.15%	58,704	1.15%
Total agricultural loans	462,456	8.50%	414,265	8.14%
Gross loans and advances	4,464,647	82.04%	4,310,092	84.71%
Amortized loan origination fees	3,581	0.07%	4,776	0.09%
Foreclosed property held for resale	10,951	0.20%	10,148	0.20%
Accrued interest receivable	12,500	0.23%	13,339	0.26%
Individual allowance for credit losses	(2,610)	-0.05%	(3,720)	-0.07%
Collective allowance for credit losses	(494)	-0.01%	(562)	-0.01%
Total loans and advances	4,488,575	82.48%	4,334,073	85.18%

Guarantees for loans

In some cases, the Credit Union obtains third-party guarantees and insurance to reduce the risk of loan default. In total, 20% (2014 - 21%) of the Credit Union's loan portfolio is guaranteed by a federal government program or agency. The largest of these guarantees is in the residential mortgage portfolio, which is guaranteed by either Genworth Financial Canada at 13% (2014 - 14%) or Canada Mortgage and Housing Corporation (CMHC), a government owned corporation, at 5% (2014 - 5%). Other noteworthy guarantors include the Government of Canada's Canada Small Business Financing Program (CSBFP) for small business loans at 1% (2014 - 1%) and the Government of Canada's Canadian Agricultural Loans Act (CALA) program for farm improvement loans at 1% (2014 - 1%) of total loans.

Security for loans

The Credit Union has a credit risk management process that involves policies for the valuation of security on loans. Security limits are set based on the type of loan and industry with a related policy that dictates how security is valued. Updates for these valuations are performed periodically to ensure they remain reasonable.

(In thousands of CDN $)

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk management for investment securities and derivative instruments
Investment securities and derivative management is performed in accordance with board approved policies. Investment policies set out eligible investment securities and limits with respect to issuer groups, single entity exposures, and maximum terms. Eligible derivatives, including limits and counterparties are defined in policy. Authority limits to purchase and dispose of investment securities and derivatives are established in policy. Credit risk within the investment securities and derivative portfolios is monitored and measured by reviewing exposure to individual counterparties to ensure total investment securities and derivatives are within policy limits by issuer weightings and by dollar amount. This also mitigates concentration risk in the portfolio. The quality of the counterparties is assessed through published credit ratings. The table below shows the credit risk exposure on investment securities and derivative financial instruments, excluding liquidity reserves and balances on deposit with SaskCentral and Concentra:

	2015	2014
Rating		
AAA	5,586	11,214
AA	208,383	150,086
A	4,993	4,490
BBB	538	528
Unrated	16,730	15,600
Derivatives (SaskCentral and Concentra)	2,755	4,277
	238,985	186,195

Ratings are as provided by Dominion Bond Rating Service (DBRS) unless otherwise indicated. The Credit Union identifies and implements appropriate monitoring and/or corrective action on investments that are expected to be downgraded to below investment grade.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of two types of risk: interest rate risk and currency risk. The primary market risk exposure of the Credit Union is interest rate risk, specifically, from timing differences in the re-pricing of assets and liabilities, both on and off-balance sheet. Interest rate movements can cause changes in interest income and interest expense and, although these changes move in the same direction, their relative magnitude will have a favourable or unfavourable impact on annual net interest income and the economic value (present value of estimated cash flows) of members’ equity. The extent of that impact depends on several factors, including asset and liability matching and interest rate curves. Regular simulation modeling is performed to assess the impact of various risk scenarios on net interest income and the economic value of members' equity and to guide the management of interest rate risk.

Processes and controls
Interest rate risk is managed in accordance with specific operating and board policies. The policies set risk limits based on the impact of a change in interest rates on the following: annual net interest income and economic value of members’ equity.

The impact of movements in interest rates on the financial position and earnings of the Credit Union is measured through a number of sophisticated tests, namely: income simulation, static gap analysis, stochastic analysis (earnings at risk), value at risk (economic value of equity) and duration analysis. Using rate sensitivity analysis with probable rate scenarios, interest rate risk is managed to comply with the Credit Union's policy requirement. For 2015, the Credit Union’s interest rate risk was within acceptable levels, as measured by board approved parameters.

(In thousands of CDN $)

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest rate risk is reported to the Asset Liability Management Committee (ALCO). One of the Committee's primary responsibilities is to provide oversight and direction for the management of interest rate risk. The ALCO establishes and approves targets and strategies related to interest rate risk management and liquidity management. The ALCO is comprised of all executive management and other selected senior management from the areas of finance, risk management, lending and retail operations. The ALCO frequently reviews historical and forward looking performance and risk measurements as part of a standardized reporting package. These reports include simulation results on interest margin with stress testing and scenario analysis.

Stress testing and scenario analysis
Stress testing and scenario analysis is performed and measured in relation to policy limits as part of the monthly interest rate risk simulation process. These tests include the effects of most likely and stressed movements in interest rates on the financial position of the Credit Union and its current and projected net earnings. Interest rate risk stress testing includes illustrating the impact of the most likely scenario (based on the Credit Union's rate forecast), a flat rate scenario, declining rate scenario (3% decline in prime rate over one year), rising rate scenario (3% increase in prime rate over one year), a shock down of 100 basis points, and a shock up of 100 basis points (100 basis points is equal to 1 percent).

The following table illustrates the potential impact of an immediate and sustained 100 basis point change in interest rates on net income and other comprehensive income and economic value of equity. These measures are based upon assumptions made by management such as asset growth and funding mix.

	2015	**2014**
100-basis-point increase in interest rate:		
Impact on net income	10,066	8,456
Impact on other comprehensive income	(9,891)	(10,405)
Impact on economic value of equity	-5.96%	-7.50%
100-basis-point decrease in interest rate:		
Impact on net income	(8,861)	(6,704)
Impact on other comprehensive income	6,902	9,495
Impact on economic value of equity	-0.19%	3.96%

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to currency risk because of members' U.S. dollar deposits. The Credit Union mitigates currency risk by investing in offsetting foreign denominated financial instruments of similar terms. Currency risk is managed in accordance with prescribed regulatory requirements and internal board policy, including limits with respect to the maximum holdings of unhedged foreign currency.

The Credit Union measures currency risk based on the percentage of foreign denominated financial assets against similar foreign denominated financial liabilities on a daily basis. As at December 31, 2015, the percentage of foreign denominated financial assets is 105% (2014 - 106%) of foreign denominated financial liabilities.

Board policy for foreign currency risk tolerance limits aggregate holdings in unhedged on-balance sheet foreign currency to 5% of eligible capital. Investment securities permitted under the investment management policy may be purchased and held in U.S. dollars for the purpose of hedging U.S. dollar liabilities.

(In thousands of CDN $)

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk arises from having insufficient funds to meet financial obligations without having to raise funds at unfavourable rates or selling assets on a forced basis. Liquidity risk stems from mismatched cash flows between assets and liabilities as well as certain product characteristics, including commitments to extend credit and redemption features on deposits. One of the Credit Union's primary objectives as a financial institution is to prudently manage liquidity to ensure that the Credit Union is able to generate or obtain sufficient cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they become due, even under stressed conditions. Liquidity management ensures variations in cash flows are managed on a daily and seasonal basis.

Liquidity risk is managed through a three tiered structure: local credit union level; the Saskatchewan provincial credit union system tier; and the national Canadian credit union system tier. At the local level, the Credit Union's liquidity risk is managed according to an established framework that includes: established strategies and policies for managing liquidity risk; maintaining a portfolio of liquid assets; measuring and monitoring funding requirements; managing market access to funds; contingency plans; and internal controls over management practices and processes. At the provincial level, SaskCentral manages a provincial statutory liquidity pool on behalf of Saskatchewan credit unions. At the national level (national liquidity program), SaskCentral is party to the Inter-Central Liquidity Agreement whereby SaskCentral can access bi-lateral credit lines with the other participating centrals for the purpose of accessing funding in a liquidity event. SaskCentral is required to maintain liquidity investments in support of these bi-lateral credit lines.

Liquidity management framework

The Credit Union's liquidity management framework and liquidity targets and strategies are reviewed and documented in a liquidity management plan. The plan also identifies the long-term liquidity requirements of the Credit Union and describes the strategies to meet any funding needs. The plan is periodically reviewed by management and approved annually by the board of directors. Liquidity risk is managed in accordance to specific operating and board policies. Board policies set out the level of acceptable liquidity risk and the Credit Union's processes and controls for managing liquidity. As required by policy, the Credit Union has established limits and requirements with respect to: level of liquid assets, quality of liquid assets, concentration limits, cash flow mismatch limits and procedural control requirements with respect to measuring and monitoring liquidity risk.

Fundamental to the Credit Union's liquidity management framework is the assessment of the adequacy of liquidity under both normal operating conditions and under stress conditions. Stress conditions may include a liquidity event or crisis. The Credit Union maintains appropriate contingency plans to handle such an event.

Deposit liabilities are the Credit Union's primary funding source. Accordingly, diversification of deposits by product type, counterparty and term structure is an important element of the liquidity management framework. The Credit Union maintains access to borrowings facilities as detailed in Note 13 to augment and diversify liquidity requirements. The Credit Union also uses securitization, loan sales and syndications to manage funding requirements.

The primary measure for the adequacy of liquidity at the Credit Union is the operating liquidity ratio. This ratio is calculated as available liquidity and cash inflows divided by cash outflows. Available liquidity is defined as investment securities that are immediately available as cash, investment securities marketable in an active secondary market, redeemable investment securities held with Concentra Financial and committed credit facilities. The Credit Union seeks to maintain this ratio at greater than or equal to 150%.

The following table summarizes the Credit Union's liquid assets at December 31:

	2015	**2014**
Cash and cash equivalents	180,179	53,562
Other marketable investment securities	218,807	153,179
Statutory liquidity investment securities at SaskCentral	417,665	405,895
Total liquid assets	816,651	612,636

(In thousands of CDN $)

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The following table summarizes the Credit Union's cash flows payable under liabilities by remaining contractual maturities at December 31:

	2015						
	Less than 1 year	1 year to under 2 years	2 years to under 3 years	3 years to under 4 years	4 years to under 5 years	5 years and over	Total
Liabilities							
Borrowings	-	-	-	-	-	-	-
Derivative financial instruments	711	984	299	595	632	1,881	5,102
Secured debt	29,195	129,659	232,034	252,293	178,122	39,151	860,454
Deposits	3,180,084	436,048	289,530	85,470	90,882	9,485	4,091,499
Current tax liabilities	2,430	-	-	-	-	-	2,430
Membership shares and member equity accounts	24,560	-	-	-	-	-	24,560
Other liabilities	45,379	-	-	-	-	-	45,379
Subordinated Debt	(47)	-	-	-	-	20,000	19,953
	3,282,312	566,691	521,863	338,358	269,636	70,517	5,049,377

	2014						
	Less than 1 year	1 year to under 2 years	2 years to under 3 years	3 years to under 4 years	4 years to under 5 years	5 years and over	Total
Liabilities							
Borrowings	1,734	-	-	-	-	-	1,734
Derivative financial instruments	1,550	807	1,184	383	313	1,278	5,515
Secured debt	28,972	45,211	162,212	226,979	167,839	45,189	676,402
Deposits	3,026,628	520,614	281,098	39,061	65,254	4,175	3,936,830
Current tax liabilities	46	-	-	-	-	-	46
Deferred tax liabilities	1,431	-	-	-	-	-	1,431
Membership shares and member equity accounts	26,586	-	-	-	-	-	26,586
Other liabilities	57,641	-	-	-	-	-	57,641
Subordinated Debt	(78)	-	-	-	-	20,000	19,922
	3,144,510	566,632	444,494	266,423	233,406	70,642	4,726,107

Processes and controls

Various internal controls have been implemented into the liquidity management process. Specifically, the liquidity position of the Credit Union is regularly reported to executive management, ALCO and the board. Included in the ALCO mandate is to review, monitor and set management risk limits with respect to liquidity. A review is conducted by the enterprise risk management department on the compliance with established liquidity policies and procedures and the interdependence of liquidity risk to other organizational risks such as strategic risk and credit risk. A periodic review is also conducted by internal audit on the liquidity management processes and systems of the Credit Union.

Stress testing and scenario analysis

Stress testing and scenario analysis is performed to assess the adequacy of liquidity. Contingency plans address liquidity management under scenario events or stressed conditions. Stress and scenario conditions include larger than predicted deposit withdrawals and borrowing levels, as well as market disruptions resulting in limited to no access to capital markets.

(In thousands of CDN $)

28. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit instruments

To meet the financial needs of members, the Credit Union enters into various commitments consisting of undrawn lines of credit, commitments to extend credit and letters of credit.

Even though these obligations are not recognized on the Consolidated Statement of Financial Position, they do contain credit and liquidity risk and are therefore part of the overall risk of the Credit Union.

The following amounts represent the maximum amount of additional credit that the Credit Union could be obligated to extend at December 31:

	2015	**2014**
Undrawn lines of credit	320,635	315,697
Commitments to extend credit	517,595	535,415
Letters of credit	21,043	27,876
	859,273	878,988

Contingent liabilities

In the ordinary course of business, the Credit Union has legal proceedings brought against it and provisions are recorded when appropriate. It is the opinion of management that final determination of these claims will not have a material adverse impact on the Credit Union.

Investment commitments

Pursuant to the bylaws of SaskCentral, the Credit Union is required to maintain membership shares in SaskCentral in an amount equal to no less than 1% of the Credit Union's assets unless SaskCentral's capital requirements are met. The Credit Union is in compliance with all bylaws of SaskCentral and currently has 0.54% (2014 - 0.58%) of assets in membership shares in SaskCentral.

Other commitments

The Credit Union is committed to investments in Apex Investment Fund Limited Partnership (Apex LP), Apex II Investment Fund Limited Partnership (Apex II LP) and Lex Energy Partners LP III (LEX).

The following amounts represent the maximum of additional investment that the Credit Union could be obligated to provide at December 31:

	2015	**2014**
Apex LP	846	1,707
Apex II LP	3,578	4,484
LEX	4,750	-
	9,174	6,191

The Credit Union has a commitment to Saskworks Venture Fund Inc. in the form of a promissory note at December 31, 2015, of $13,786 (2014 - $14,286).

(In thousands of CDN $)

28. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

The Credit Union has various other commitments that include community investments, information technology maintenance contracts and construction contracts. Total other commitments are as follows:

2016	3,951
2017	499
2018	187
2019	85
2020	35
Thereafter	-
Total other commitments	**4,757**

Included in the table above, property, plant and equipment commitments total $nil and intangible asset commitments total $nil.

Operating leases

The Credit Union has entered into commercial leases on premises expiring on various dates up to the year 2030. The lease agreements are treated as operating leases with rents charged to operations in the year to which they are related. The aggregate lease commitments are as follows:

2016	3,623
2017	3,736
2018	3,540
2019	3,386
2020	2,598
Thereafter	7,052
Total operating leases	**23,935**