CONEXUS CREDIT UNION

Consolidated Financial Statements
December 31, 2016

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

Deloitte.

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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, 2016, 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, 2016, 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
Licensed Professional Accountants

March 02, 2017
Regina, Saskatchewan

Consolidated Statement of Financial Position

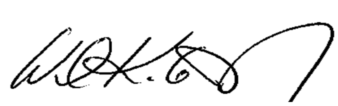
(In thousands of CDN $)
As at December 31, 2016

	Note	2016	2015
Assets			
Cash and cash equivalents	3	134,916	180,179
Derivative financial instruments	4	9,566	8,015
Investment securities	5	679,229	687,505
Loans and advances	6,7	4,668,855	4,488,575
Property, plant and equipment	9	54,151	56,791
Intangible assets	10	2,709	3,459
Deferred tax assets	20	1,163	373
Other assets	11	16,363	16,443
Goodwill	10	1,234	1,234
Total assets		5,568,186	5,442,574
Liabilities			
Derivative financial instruments	4	5,150	5,102
Secured debt	8	866,045	860,454
Deposits	13	4,195,923	4,091,499
Current tax liabilities		740	2,430
Deferred tax liabilities	20	1,627	-
Membership shares and member equity accounts	14	22,543	24,560
Other liabilities	15	44,666	45,379
Subordinated debenture	16	-	19,953
Total liabilities		5,136,694	5,049,377
Members' equity			
Accumulated other comprehensive income		(222)	1,913
Retained earnings		431,714	391,284
Total members' equity		431,492	393,197
Total liabilities and members' equity		5,568,186	5,442,574

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, 2016

	Note	2016	2015
Interest income	18	185,450	186,237
Interest expense	18	55,257	60,050
Net interest income		130,193	126,187
Loan impairment charges	7	3,449	3,269
Net interest income after impairment charges		126,744	122,918
Other income	19	53,700	41,056
Net interest income and other income		180,444	163,974
Operating expenses			
Personnel		76,447	76,136
General business		37,996	34,013
Occupancy		10,766	10,409
Member security		4,021	3,837
Organizational		1,956	2,034
Total operating expenses		131,186	126,429
Profit for the year before income tax		49,258	37,545
Income tax expense	20	8,828	7,686
Profit for the year		40,430	29,859
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		(2,013)	1,555
Net adjustments for realized net (gains) losses		(122)	(362)
Other comprehensive income for the year, net of tax		(2,135)	1,193
Total comprehensive income for the year		38,295	31,052

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Members' Equity

(In thousands of CDN $)
As at December 31, 2016

	2016	2015
Accumulated other comprehensive income		
Balance at beginning of year	1,913	720
Other comprehensive income:		
Net change in fair value of available-for-sale financial assets (net of tax of $411 (2015 - ($281)))	(2,135)	1,193
Balance at end of year	(222)	1,913
Retained earnings		
Balance at beginning of year	391,284	361,425
Profit for the year	40,430	29,859
Balance at end of year	431,714	391,284
Total members' equity	431,492	393,197

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

(In thousands of CDN $)
For the year ended December 31, 2016

	Note	2016	2015
Cash flows provided by (used in) operating activities			
Profit for the year		40,430	29,859
Adjustments for non-cash items:			
Loan impairment charges		3,449	3,269
Amortization of property, plant and equipment	9	5,543	5,095
Amortization of intangible assets	10	1,762	2,073
Gain on disposal of property, plant and equipment		3	(1)
Net interest income	18	(130,193)	(126,187)
Dividends on investment securities	19	(3,426)	(2,566)
Unrealized and realized (gains) losses on investment securities	19	852	(2,396)
Income from investment in associates	19	(506)	(519)
Income tax expense	20	8,828	7,686
Gain on sale of subsidiary	19	(11,672)	-
Changes in operating assets and liabilities:			
Loans and advances	6	(184,379)	(158,610)
Secured debt	8	5,591	184,052
Subordinated debt	16	(19,953)	31
Deposits	13	106,179	157,940
Derivative financial assets	4	(1,551)	819
Derivative financial liabilities	4	48	(413)
Other assets	11	80	1,318
Other liabilities	15	(713)	(12,262)
Other non-cash operating items		(488)	(5,251)
Interest received		176,957	178,579
Interest paid		(57,012)	(63,429)
Income tax paid		(9,346)	(4,729)
Cash flows provided by (used in) operating activities		(69,517)	194,358
Cash flows provided by (used in) investing activities			
Interest received		9,491	8,811
Dividends received	19	3,426	2,566
Volume bonus and dividend received from investment in associate		551	1,003
Purchases of investment securities		(560,619)	(283,845)
Proceeds on sale of investment securities		564,845	224,646
Purchase of property, plant and equipment	9	(2,953)	(16,025)
Proceeds from sale of property, plant and equipment		47	5
Purchase of intangible assets	10	(1,022)	(1,640)
Proceeds from sale of subsidiary		11,410	-
Cash flows provided by (used in) investing activities		25,176	(64,479)
Cash flows provided by (used in) financing activities			
Repayment of borrowings	12	-	(1,734)
Membership shares redeemed		(2,017)	(2,026)
Cash flows provided by (used in) financing activities		(2,017)	(3,760)
Net increase (decrease) in cash and cash equivalents during the year		(46,358)	126,119
Net foreign exchange difference on cash held		1,095	498
Cash and cash equivalents, beginning of year	3	180,179	53,562
Cash and cash equivalents, end of year	3	134,916	180,179

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 2016 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, 2016, were authorized for issue by the board of directors on March 2, 2017.

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 23.

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 23. 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 $36,490 in membership shares of SaskCentral, or 22.6% (2015 - $29,490; 21.3%) 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% (2015 – 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), a 33.3% ownership in Thrive Wealth Management Ltd 101295805 (Thrive Wealth Management) 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 other assets 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 Protexus Holdings Corp. The Credit Union entered into a sale agreement to sell the shares of Conexus Insurance Ltd which provided a full range of general insurance to customers. The sale of Conexus Insurance Ltd. is consistent with the Credit Union's focus on core business in order to meet our members' financial needs. The sale was completed on September 6, 2016 on which date control passed to the acquirer. The gain on the sale of the subsidiary, less costs to sell, is included in Other Income in Note 19. Included in the gain on the sale of the subsidiary is Conexus Insurance's January 1, 2016 to September 5, 2016 revenue of $2,587 and operating expenses of $2,400. All assets and liabilities of the former subsidiary have been derecognized in the Consolidated Statement of Financial Position.

Significant influence investments
The Credit Union has a 40% (2015 – 40%) ownership in CU Dealer Finance Corp (CUDF), a 33.3% ownership in Thrive Wealth Management and a 25% (2015 – 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 8.

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 Thrive Wealth Management. 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, 2016, funds managed totalled $1,185,623 (2015 - $997,736).

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 customer lists obtained from the purchase of subsidiaries, core deposits from the acquisition of other credit unions and software. 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:

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 and expenses

Interest income and expense

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.

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

Fees, Commissions and Other income

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.

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

Unrealized and realized gains (losses) on derivative financial instruments

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

Investment security gains and losses

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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 receives commission income and volume bonus income based on the volume of business with Thrive Wealth Management. These commissions are recognized as other income when earned.

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 $3,981, (2015 - $3,830) is included in personnel expense.

Future accounting changes

A number of new standards and amendments are not yet effective for the year ended December 31, 2016 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

IFRS 16 Leases specifies that all leases with the exception of very short term and small items may be required to be recognized on the balance sheet. The effective date for IFRS 16 is for fiscal periods beginning on or after January 1, 2019. The Credit Union will assess what impact the application of IFRS 16 will have on amounts reported on the consolidated financial statements.

(In thousands of CDN $)

3. CASH AND CASH EQUIVALENTS

	2016	2015
Cash on hand	24,639	26,673
Restricted cash	7,975	5,859
Deposits at call - SaskCentral	67,309	85,853
Provincial government short-term investment	34,993	61,794
Total cash and cash equivalents	134,916	180,179

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			
				2016	2015	2016		2015	
	Under 1 year	1 to 5 years	Over 5 years	Total	Total	Assets	Liabilities	Assets	Liabilities
Derivatives at held-for-trading									
Interest rate swaps	-	11,229	15,328	26,557	47,772	-	1,476	-	2,347
Index-linked options	7,643	35,273	-	42,916	38,880	3,674	3,674	2,755	2,755
Embedded purchase option	-	-	-	-	-	5,892	-	5,260	-
Total	7,643	46,502	15,328	69,473	86,652	9,566	5,150	8,015	5,102

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:

	2016	2015
Fair value through profit or loss		
SaskCentral - statutory liquidity deposits	157,881	153,371
Other securities	15,908	17,747
Accrued interest	-	2
Total fair value through profit or loss	173,789	171,120
Available-for-sale		
SaskCentral - shares	36,490	29,490
SaskCentral - statutory liquidity deposits	273,999	266,483
Chartered bank guaranteed	120,286	151,711
Federal and provincial government	55,569	55,163
Other securities	16,985	11,071
Accrued interest	1,581	1,929
Total available-for-sale	504,910	515,847
Loans and receivables		
Other securities	530	538
Total loans and receivables	530	538
Total investment securities	679,229	687,505

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, 2016 (2015 – $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, 2016, the Credit Union met the requirement.

SaskCentral – shares

Currently the Credit Union holds $36,490 in membership shares of SaskCentral, or 22.6% (2015 - $29,490; 21.3%) 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. LOANS AND ADVANCES

Loans and advances by portfolio at amortized cost

	2016	2015
Consumer loans		
Mortgage guaranteed	1,069,968	1,032,587
Mortgage conventional	882,466	831,919
Non mortgage	691,611	679,161
Total consumer loans	2,644,045	2,543,667
Commercial loans		
Mortgage	1,133,339	1,061,547
Non mortgage	333,148	373,690
Government guaranteed	21,931	23,287
Total commercial loans	1,488,418	1,458,524
Agricultural loans		
Mortgage	277,083	238,395
Non mortgage	182,205	161,621
Government guaranteed	64,192	62,440
Total agricultural loans	523,480	462,456
Gross loans and advances	4,655,943	4,464,647
Amortized loan origination fees	2,554	3,581
Foreclosed property held for resale	1,778	10,951
Accrued interest receivable	11,850	12,500
Individual allowance for credit losses	(2,528)	(2,610)
Collective allowance for credit losses	(742)	(494)
Total loans and advances	4,668,855	4,488,575

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, 2016, the total amount of securitized loans outstanding included in the loan balances above was $879,076 (2015 - $874,286). Further detail on securitized assets is disclosed in Note 8.

The Credit Union has also entered into syndication transactions with other financial institutions that do qualify for derecognition. As at December 31, 2016, the total amount of syndicated loans outstanding not included in the loan balances above was $628,556 (2015 - $691,020).

(In thousands of CDN $)

6. LOANS AND ADVANCES (continued)

Maturity analysis based on remaining term to maturity

	2016	2015
Scheduled for repayment		
Overdrafts and line of credit facilities	541,064	535,583
Under 1 year	1,947,594	1,739,620
1 year to under 5 years	2,141,614	2,154,425
5 years and over	25,671	35,019
	4,655,943	4,464,647

Security held against loans and advances

	2016	2015
Fully or partially secured by tangible mortgage assets	3,713,903	3,528,229
Fully or partially secured by tangible non mortgage assets	715,354	723,213
Unsecured	226,686	213,205
	4,655,943	4,464,647

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.

7. IMPAIRED AND PAST DUE LOANS AND ADVANCES

Reconciliation of the allowance for credit losses

	2016	2015
Individual allowance for credit losses		
Balance - beginning of year	2,610	3,720
Credit losses for the year:		
Charges (Recovery) of loan impairment	2,771	2,905
Interest accrued on impaired loans and advances	430	432
Amounts written off	(3,283)	(4,447)
Balance - end of year	2,528	2,610
Collective allowance for credit losses		
Balance - beginning of year	494	562
Credit losses for the year:		
Charges (Recovery) of loan impairment	248	(68)
Balance - end of year	742	494
Total allowance for credit losses	3,270	3,104

(In thousands of CDN $)

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

Impaired and allowance for credit losses by portfolio

	2016				2015			
	Impaired	Individual allowance	Collective allowance	Net impaired	Impaired	Individual allowance	Collective allowance	Net impaired
Consumer loans								
Mortgage guaranteed	-	-	(10)	(10)	-	-	(5)	(5)
Mortgage conventional	718	(76)	(6)	636	189	(135)	(4)	50
Non mortgage	2,141	(1,275)	(268)	598	1,353	(982)	(193)	178
Total consumer loans	2,859	(1,351)	(284)	1,224	1,542	(1,117)	(202)	223
Commercial loans								
Mortgage	219	(90)	(285)	(156)	300	-	(43)	257
Non mortgage	1,230	(726)	(99)	405	1,742	(1,057)	(203)	482
Government guaranteed	499	(301)	(54)	144	307	(139)	(42)	126
Total commercial loans	1,948	(1,117)	(438)	393	2,349	(1,196)	(288)	865
Agricultural loans								
Mortgage	-	-	(1)	(1)	-	-	(1)	(1)
Non mortgage	-	-	(18)	(18)	-	-	(2)	(2)
Government guaranteed	-	-	(1)	(1)	151	(96)	(1)	54
Total agricultural loans	-	-	(20)	(20)	151	(96)	(4)	51
Gross loans and advances	4,807	(2,468)	(742)	1,597	4,042	(2,409)	(494)	1,139
Foreclosed property held for resale	-	(60)	-	(60)	-	(201)	-	(201)
Accrued interest receivable	336	-	-	336	262	-	-	262
Total loans and advances	5,143	(2,528)	(742)	1,873	4,304	(2,610)	(494)	1,200

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

	2016		2015	
	Impaired	Individual allowance	Impaired	Individual allowance
Scheduled for repayment				
Under 1 year	4,643	(2,147)	3,706	(2,051)
1 year to under 5 years	455	(275)	598	(358)
5 years and over	45	(46)	-	-
	5,143	(2,468)	4,304	(2,409)

(In thousands of CDN $)

7. 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:

				2016	2015
	1-30 days	31-90 days	More than 90 days	Total	Total
Past due loans					
Consumer	37,122	6,006	3,387	46,515	32,065
Commercial	20,254	3,035	8,717	32,006	9,667
Agriculture	3,033	4,337	832	8,202	4,084
Accrued interest	282	157	480	919	596
	60,691	13,535	13,416	87,642	46,412

Other disclosures for impaired and past due loans

	2016	2015
- Assets acquired via enforcement of security	1,680	3,316
- Interest earned on impaired loans	430	432
- Interest revenue forgone on impaired loans	274	1,005

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.

8. 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:

	2016		2015	
	Carrying amount	Secured debt	Carrying amount	Secured debt
Residential mortgages	733,497	730,623	718,411	715,454
Auto loans	145,579	135,422	155,875	145,000
Total securitization	879,076	866,045	874,286	860,454

The above residential mortgages are included in the consumer loans mortgage guaranteed totals in Notes 6 and 7. The auto loans are included in the consumer non-mortgage totals in Notes 6 and 7.

(In thousands of CDN $)

8. SECURITIZATION (continued)

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

	2016		2015	
	Carrying amount	**Secured debt**	**Carrying amount**	**Secured debt**
Less than 1 year	106,110	105,925	32,360	32,152
1 year and over	772,966	760,120	841,926	828,302
Total securitization	879,076	866,045	874,286	860,454

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, 2016, $733,497 (2015 - $718,411) 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, 2016, is recorded net of unamortized transaction costs of $2,874 (2015 - $2,957). 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 (2015 - $nil) 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, 2016, $145,579 (2015 - $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, 2016 is recorded net of a credit enhancement in the form of overcollateralization provided to Pivot Trust of $10,157 (2015 - $10,875).

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

	2016	2015
Fair value of transferred assets	887,636	885,130
Less: fair value of secured debt	885,608	877,748
Net position	2,028	7,382

(In thousands of CDN $)

9. PROPERTY, PLANT AND EQUIPMENT

2016	Land	Buildings	Computer equipment	Furniture, equip. and vehicles	Leasehold improvements	Total
Cost:						
Balance at December 31, 2015	8,180	52,892	10,843	5,824	13,197	90,936
Additions	-	22	1,641	766	524	2,953
Disposals	(5)	(228)	(1,147)	(1,406)	(2,495)	(5,281)
Balance at December 31, 2016	8,175	52,686	11,337	5,184	11,226	88,608
Accumulated amortization and impairment losses:						
Balance at December 31, 2015	-	16,444	7,142	3,469	7,090	34,145
Disposals	-	(228)	(1,137)	(1,390)	(2,476)	(5,231)
Amortization	-	1,907	1,631	830	1,175	5,543
Balance at December 31, 2016	-	18,123	7,636	2,909	5,789	34,457
Carrying amounts:						
Balance at December 31, 2015	8,180	36,448	3,701	2,355	6,107	56,791
Balance at December 31, 2016	8,175	34,563	3,701	2,275	5,437	54,151

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

The carrying amount of property, plant and equipment includes assets under construction at December 31, 2016, of $nil (2015 - $nil).

There were impairment losses for property, plant and equipment for the year ended December 31, 2016, of $nil (2015 - $nil).

(In thousands of CDN $)

10. GOODWILL AND INTANGIBLE ASSETS

	2016				
	Goodwill	Core deposits	Customer lists	Software	Total
Cost:					
Balance at December 31, 2015	1,234	841	4,708	8,416	15,199
Additions	-	-	-	1,022	1,022
Disposals	-	-	-	(857)	(857)
Balance at December 31, 2016	1,234	841	4,708	8,581	15,364
Accumulated amortization and impairment losses:					
Balance at December 31, 2015	-	195	4,672	5,639	10,506
Disposals	-	-	-	(847)	(847)
Amortization	-	64	20	1,678	1,762
Balance at December 31, 2016	-	259	4,692	6,470	11,421
Carrying amounts:					
Balance at December 31, 2015	1,234	646	36	2,777	4,693
Balance at December 31, 2016	1,234	582	16	2,111	3,943

	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

The carrying amount of intangible assets includes assets under development at December 31, 2016, of $nil (2015 - $230). There were impairment losses for intangible assets for the year ended December 31, 2016, of $nil (2015 - $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, 2016, of $nil (2015 - $nil).

(In thousands of CDN $)

11. OTHER ASSETS

	2016	2015
Investment in associates	475	520
Prepayments	595	750
Receivables	15,293	15,173
Total other assets	16,363	16,443

12. BORROWINGS

SaskCentral and Concentra

The Credit Union has an authorized line of credit with SaskCentral in the amount of $95,000 (2015 - $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 (2015 - $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 (2015 - $nil for the Canadian account and $nil 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 (2015 - $50,000). 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 (2015 - $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 (2015 - $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 depends 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 (2015 - $nil).

13. DEPOSITS

	2016	2015
Demand	2,271,049	2,330,830
Term	1,241,336	1,103,716
Registered plans	669,790	641,450
Accrued interest	13,748	15,503
Total deposits	4,195,923	4,091,499

(In thousands of CDN $)

14. 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 (The 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 2016 (2015 - $nil).

The following table summarizes share capital information:

	2016	**2015**
Membership shares at January 1 (required for membership)	580	569
New membership shares	42	39
Redeemed membership shares	(25)	(28)
Membership shares at December 31 (required for membership)	597	580
Member equity accounts at January 1 (based on patronage)	23,980	26,017
Patronage allocated	-	-
Patronage paid to members	(2,034)	(2,037)
Member equity accounts at December 31 (based on patronage)	21,946	23,980
Total membership shares and member equity accounts at December 31	22,543	24,560

15. OTHER LIABILITIES

	2016	**2015**
Accounts payable	5,811	6,058
Payroll related amounts	8,200	7,706
Insurance underwriters payable	-	802
Outstanding settlement items	29,755	29,765
Unclaimed balances	864	863
Deferred income	36	185
Total other liabilities	44,666	45,379

16. SUBORDINATED DEBENTURE

The Credit Union had a Subordinated Credit Agreement with Caisse Central Desjardins (CCD) in the amount of $20,000 that was redeemed on November 2, 2016 as an early repayment. At the end of the year, the amount outstanding was $nil (2015 - $19,953). The Series One variable rate subordinated debenture was an unsecured obligation and was subordinate in right of payment and interest to all deposit liabilities, other liabilities and certain other creditors. The redemption was subject to the consent and approval of the Credit Union Deposit Guarantee Corporation (CUDGC).

At the date of redemption, the interest rate for the Subordinated Credit Agreement was 30 day CDOR plus 4.75% or 5.63% (2015 – 5.63%), payable quarterly.

The Series One variable rate subordinated debenture qualified as tier 2 capital for regulatory purposes throughout 2016.

17. 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 plus conservation buffer for each of the capital adequacy tests as follows: risk-weighted capital ratio of 10.5%, common equity tier 1 capital to risk-weighted assets of 7.0%, total tier 1 capital to risk-weighted assets of 8.5% 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.

(In thousands of CDN $)

17. CAPITAL MANAGEMENT (continued)

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.

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:

	2016
Eligible capital	
Common equity tier 1 capital	427,074
Additional tier 1 capital	-
Total tier 2 capital	23,285
Total eligible capital	450,359
Risk-weighted assets	
Investment securities	98,348
Consumer loans	853,684
Commercial and agricultural loans	1,837,676
Other assets and derivatives	80,300
Commitments	151,952
Capital charge for operating risk	313,806
Total risk-weighted assets	3,335,766
Total eligible capital to risk-weighted assets	13.50%
Common equity tier 1 capital to risk-weighted assets	12.80%
Total tier 1 capital to risk-weighted assets	12.80%
Minimum leverage ratio	7.79%

(In thousands of CDN $)

18. INTEREST INCOME AND INTEREST EXPENSE

	2016	2015
Interest income		
Cash and cash equivalents	204	202
Investment securities - fair value through profit or loss	1,385	947
Investment securities - available-for-sale	7,487	7,432
Investment securities - loans and receivables	67	24
Loans and advances	176,307	177,632
Total interest income	185,450	186,237

Interest expense		
Borrowings	147	388
Derivative financial instruments	568	495
Secured debt	17,171	17,175
Deposits	36,379	40,817
Subordinated debenture	992	1,175
Total interest expense	55,257	60,050
Net interest income	130,193	126,187

19. OTHER INCOME

	2016	2015
Account service fees	6,493	6,516
Loan fees	3,488	3,192
Loan insurance fees	3,740	3,653
Automated banking machine (ABM) fees	2,607	2,528
Insurance commission income	-	3,586
Unrealized and realized gains (losses) on derivative financial instruments	1,281	(348)
Unrealized and realized gains (losses) on fair value through profit or loss investment securities	(998)	1,949
Realized gains (losses) on available-for-sale investment securities	146	447
Dividend income	3,426	2,566
Income from investment in associates	506	519
Foreign exchange revenue	969	1,402
Payment card revenue	2,177	2,082
Credit card service charge revenue	1,300	1,128
Fixed asset revenue	535	506
Gain on sale of property, plant and equipment	-	1
Gain on sale of subsidiary	11,672	-
Wealth management income	5,943	4,601
Other	10,415	6,728
Total other income	53,700	41,056

(In thousands of CDN $)

20. INCOME TAX

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

	2016	**2015**
Components of income tax expense		
Current income tax expense		
Current tax on profit for current year	8,064	6,484
Deferred income tax expense		
Origination and reversal of temporary differences	764	1,202
	8,828	7,686

Income taxes are included in other comprehensive income as follows:

	2016	**2015**
Net unrealized gains (losses) on available-for-sale investment securities		
Current income tax expense (recovery)	(379)	374
Reclassification of (gains) losses on available-for-sale investment securities to income		
Current income tax expense (recovery)	(32)	(93)
	(411)	(281)

Total income tax reported in the consolidated financial statements:

	2016	**2015**
	8,417	7,405

Reconciliation of income tax expense:

	2016	**2015**
Profit before income tax	49,258	37,545
Combined federal and provincial income tax rate	27.0%	27.0%
Income taxes at statutory rate	13,300	10,137
Income tax expense adjusted for the effect of:		
Non-deductible expenses	56	102
Non-taxable portion of gain on sale of subsidiary	(2,184)	-
Non-taxable dividend income	(48)	(48)
Credit Union rate reduction	(2,063)	(2,421)
Deferred income tax expense resulting from tax rate changes	(20)	(338)
Other	(213)	254
	8,828	7,686
Effective rate of tax	18%	20%

(In thousands of CDN $)

20. INCOME TAX (continued)

The deferred tax asset is comprised of the following:

	2016	2015
Deferred tax assets		
Property, plant and equipment	1,081	1,766
Loss carryforwards	-	66
Loans and advances	82	124
Total deferred tax assets	1,163	1,956

The deferred tax liability is comprised of the following:

	2016	2015
Deferred tax liabilities		
Derivative financial instruments	1,591	1,420
Loans and advances	-	117
Other	36	46
	1,627	1,583
Net deferred tax asset (liability)	(464)	373

Deferred tax assets of $1,163 (2015 - $1,956) are presented on the Consolidated Statement of Financial Position and deferred tax liabilities of $1,627 (2015 - $1,583) in the current year. The net deferred tax liability at the end of the year is $464 (net deferred tax asset in 2015 - $373). The change in the deferred tax asset and liability 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 $)

21. 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:

	2016	2015
Short-term employee benefits	2,911	2,932
Other long-term benefits	64	63
Post-employment benefits	137	-
Director remuneration	341	346
	3,453	3,341

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 2016 were $176 (2015 - $102).

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

	2016				2015			
	Salaries	Performance incentive	Benefits	Total	Salaries	Performance incentive	Benefits	Total
Chief Executive Officer	480	194	83	757	480	168	83	731
Chief Financial Officer (1)	38	82	21	141	235	81	58	374
Chief Financial Officer (2)	210	39	53	302	41	-	9	50
Chief Risk Officer	220	66	56	342	219	65	55	339
Chief Operating Officer	255	98	69	422	253	93	72	418
Executive VP - Governance and Strategy	196	-	50	246	142	68	42	252
Executive - Human Resources (3)	102	52	170	324	209	51	53	313
Executive VP - Marketing and Communications	190	46	49	285	189	46	49	284
Executive VP - Technology	192	52	49	293	169	26	39	234
	1,883	629	600	3,112	1,937	598	460	2,995

(1) CFO retirement February 2016
(2) New CFO started October 2015 with transition period
(3) Restructured position in 2016

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 $)

21. 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 (2015 – $nil) or their related parties (2015 – $nil).

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

	2016	2015
Loans outstanding at, beginning of year	7,437	6,326
Loans issued during the year	1,458	1,245
Loan repayments during the year	1,740	1,383
Loans outstanding at, end of year	7,155	6,188
Total interest income earned	136	198

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:

	2016	2015
Total term, savings and demand deposits	2,350	3,672
Total interest expense on deposits	7	29

Other transactions with KMP

As of December 31, 2016, 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 $)

21. 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)
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 Credit Union provides access to their assets under management and support services to Thrive Wealth Management including management, technology, accounting, human resources, and property management services.

The following table presents related party transactions between the Credit Union and both CUDF and Thrive Wealth Management:

	2016	2015
On deposit with the Credit Union	2,579	1,613
Due to the Credit Union	1,165	-
Fee for service paid to the Credit Union	4,892	210
Management fee received from the Credit Union	4,784	-

The Credit Union has a 25% (2015 – 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 $)

22. 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.

	2016							
	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	0.05%	50,132	5,000	-	-	-	79,784	134,916
Derivative financial instruments	-	-	473	771	2,430	-	5,892	9,566
Investment securities	0.84%	222,501	70,334	150,182	176,718	4,985	54,509	679,229
Loans and advances	3.91%	1,238,333	220,065	786,735	2,333,031	72,933	17,758	4,668,855
Property, plant and equipment	-	-	-	-	-	-	54,151	54,151
Intangible assets	-	-	-	-	-	-	2,709	2,709
Deferred tax assets	-	-	-	-	-	-	1,163	1,163
Other assets	-	-	-	-	-	-	16,363	16,363
Goodwill	-	-	-	-	-	-	1,234	1,234
		1,510,966	295,872	937,688	2,512,179	77,918	233,563	5,568,186
Liabilities								
Derivative financial instruments	-	-	473	771	3,217	689	-	5,150
Secured debt	1.89%	-	12,816	93,816	731,210	31,077	(2,874)	866,045
Deposits	0.83%	1,648,122	170,471	578,371	1,053,740	9,038	736,181	4,195,923
Current tax liabilities	-	-	-	-	-	-	740	740
Deferred tax liabilities	-	-	-	-	-	-	1,627	1,627
Membership shares and member equity accounts	-	-	-	-	-	-	22,543	22,543
Other liabilities	-	-	-	-	-	-	44,666	44,666
		1,648,122	183,760	672,958	1,788,167	40,804	802,883	5,136,694
Members' equity								
Accumulated other comprehensive income	-	-	-	-	-	-	(222)	(222)
Retained earnings	-	-	-	-	-	-	431,714	431,714
		-	-	-	-	-	431,492	431,492
Asset/liability gap		(137,156)	112,112	264,730	724,012	37,114	(1,000,812)	-
Notional amount of derivatives								
Pay side instruments	3.01%	-	(3,627)	(4,016)	(46,502)	(15,328)	-	(69,473)
Receive side instruments	0.59%	-	30,184	4,016	35,273	-	-	69,473
Off balance sheet gap		-	26,557	-	(11,229)	(15,328)	-	-
Interest rate gap position		(137,156)	138,669	264,730	712,783	21,786	(1,000,812)	-

(In thousands of CDN $)

22. INTEREST RATE SENSITIVITY (continued)

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
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	-	-	-	-	-	-	16,443	16,443
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)	-

23. 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.

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

(In thousands of CDN $)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2016					
	Carrying Value	Fair Value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets						
Available-for-sale						
SaskCentral-shares	36,490	36,490	-	-	36,490	-
SaskCentral-statutory liquidity deposits	273,999	273,999	-	-	273,999	-
Chartered bank guarantee	120,286	120,286	-	-	120,286	-
Federal and provincial government	55,569	55,569	-	-	55,569	-
Other securities	16,985	16,985	-	-	16,886	99
Accrued interest	1,581	1,581	-	-	1,581	-
Total available-for-sale	504,910	504,910	-	-	504,811	99
Fair value through profit or loss						
Cash and cash equivalent	134,916	134,916	-	99,923	34,993	-
SaskCentral-statutory liquidity deposits	157,881	157,881	-	-	157,881	-
Other securities	15,908	15,908	-	-	15,908	-
Total fair value through profit or loss	308,705	308,705	-	99,923	208,782	-
Held-for-trading						
Derivative financial instuments	9,566	9,566	-	-	3,674	5,892
Total held-for-trading	9,566	9,566	-	-	3,674	5,892
Loans and receivables						
Loans and advances	4,667,137	4,741,735	74,598	-	4,741,735	-
Other securities	530	530	-	-	530	-
Other assets	15,293	15,293	-	-	15,293	-
Total loans and receivables	4,682,960	4,757,558	74,598	-	4,757,558	-
Non financial instruments						
Loans and advances	1,718					
Property, plant and equipment	54,151					
Intangible assets	2,709					
Deferred tax assets	1,163					
Other assets	1,070					
Goodwill	1,234					
Total non financial instruments	62,045					
	5,568,186	5,580,739	74,598	99,923	5,474,825	5,991
Financial Liabilities						
Held-for-trading						
Derivative financial instruments	5,150	5,150	-	-	5,150	-
Total held-for-trading	5,150	5,150	-	-	5,150	-
Other liabilities						
Secured debt	866,045	885,608	19,563	-	885,608	-
Deposits	4,195,923	4,202,735	6,812	-	4,202,735	-
Membership shares and member equity	22,543	22,543	-	-	22,543	-
Other liabilites	44,153	44,153	-	-	44,153	-
Total other liabilities	5,128,664	5,155,039	26,375	-	5,155,039	-
Non financial instruments						
Current tax liabilities	740					
Deferred tax liabilities	1,627					
Other liabilities	513					
Total non financial instruments	2,880					
	5,136,694	5,160,189	26,375	-	5,160,189	-

(In thousands of CDN $)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2015

	Carrying Value	Fair Value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets						
Available-for-sale						
SaskCentral-shares	29,490	29,490	-	-	29,490	-
SaskCentral-statutory liquidity deposits	266,483	266,483	-	-	266,483	-
Chartered bank guarantee	151,711	151,711	-	-	151,711	-
Federal and provincial government	55,163	55,163	-	-	55,163	-
Other securities	11,071	11,071	-	-	11,071	-
Accrued interest	1,929	1,929	-	-	1,929	-
Total available-for-sale	515,847	515,847	-	-	515,847	-
Fair value through profit or loss						
Cash and cash equivalent	180,179	180,179	-	118,385	61,794	-
SaskCentral-statutory liquidity deposits	153,371	153,371	-	-	153,371	-
Other securities	17,747	17,747	-	-	17,747	-
Accrued interest	2	2	-	-	2	-
Total fair value through profit or loss	351,299	351,299	-	118,385	232,914	-
Held-for-trading						
Derivative financial instuments	8,015	8,015	-	-	2,755	5,260
Total held-for-trading	8,015	8,015	-	-	2,755	5,260
Loans and receivables						
Loans and advances	4,477,825	4,556,083	78,258	-	4,556,083	-
Other securities	538	538	-	-	538	-
Other assets	15,075	15,075	-	-	15,075	-
Total loans and receivables	4,493,438	4,571,696	78,258	-	4,571,696	-
Non financial instruments						
Loans and advances	10,750					
Property, plant and equipment	56,791					
Intangible assets	3,459					
Deferred tax assets	373					
Other assets	1,368					
Goodwill	1,234					
Total non financial instruments	73,975					
	5,442,574	5,446,857	78,258	118,385	5,323,212	5,260
Financial Liabilities						
Held-for-trading						
Derivative financial instruments	5,102	5,102	-	-	5,102	-
Total held-for-trading	5,102	5,102	-	-	5,102	-
Other liabilities						
Secured debt	860,454	877,748	17,294	-	877,748	-
Deposits	4,091,499	4,107,802	16,303	-	4,107,802	-
Membership shares and member equity	24,560	24,560	-	-	24,560	-
Other liabilites	44,819	44,819	-	-	44,819	-
Subordinated debenture	19,953	19,955	2	-	19,955	-
Total other liabilities	5,041,285	5,074,884	33,599	-	5,074,884	-
Non financial instruments						
Current tax liabilities	2,430					
Other liabilities	560					
Total non financial instruments	2,990					
	5,049,377	5,079,986	33,599	-	5,079,986	-

(In thousands of CDN $)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following tables reconcile the Credit Union's Level 3 fair value measurements from December 31, 2015 to December 31, 2016 and December 31, 2014 to December 31, 2015:

Fair value measurements using Level 3 inputs	
Balance at December 31, 2015	5,260
Unrealized gain (loss) on embedded purchase option	632
Purchase of other securities	99
Balance at December 31, 2016	5,991

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

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 $5,892 (2015 - $5,260) 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 8.32% (2015 – 7.32%) 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 0.63 (2015 – 0.42) 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 1.21% (2015 –1.55%), the equity risk premium is 6.90% (2015 – 7.00%), the size premium is 2.54% (2015 - 2.69%) and member shares and equity of the Credt Union are considered debt.

Included in the above level 3 amount is the purchase of units in CICAN Essential Skills Social Finance Limited Partnership of $99 (2015 - $nil). The return and fair value of the social impact bond is based on the success of the program.

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

24. 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 6 and Note 7. 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 4.

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 $)

24. 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

	2016		2015	
	Total	**Percentage**	**Total**	**Percentage**
Consumer loans				
Mortgage guaranteed	1,069,968	19.21%	1,032,587	18.97%
Mortgage conventional	882,466	15.85%	831,919	15.29%
Non mortgage	691,611	12.42%	679,161	12.48%
Total consumer loans	2,644,045	47.48%	2,543,667	46.74%
Commercial loans				
Mortgage	1,133,339	20.35%	1,061,547	19.50%
Non mortgage	333,148	5.98%	373,690	6.87%
Government guaranteed	21,931	0.39%	23,287	0.43%
Total commercial loans	1,488,418	26.72%	1,458,524	26.80%
Agricultural loans				
Mortgage	277,083	4.98%	238,395	4.38%
Non mortgage	182,205	3.27%	161,621	2.97%
Government guaranteed	64,192	1.15%	62,440	1.15%
Total agricultural loans	523,480	9.40%	462,456	8.50%
Gross loans and advances	4,655,943	83.60%	4,464,647	82.04%
Amortized loan origination fees	2,554	0.05%	3,581	0.07%
Foreclosed property held for resale	1,778	0.03%	10,951	0.20%
Accrued interest receivable	11,850	0.21%	12,500	0.23%
Individual allowance for credit losses	(2,528)	-0.05%	(2,610)	-0.05%
Collective allowance for credit losses	(742)	-0.01%	(494)	-0.01%
Total loans and advances	4,668,855	83.83%	4,488,575	82.48%

Guarantees for loans

In some cases, the Credit Union obtains third-party guarantees and insurance to reduce the risk of loan default. In total, 21% (2015 - 20%) 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% (2015 - 13%) or Canada Mortgage and Housing Corporation (CMHC), a government owned corporation, at 6% (2015 - 5%). Other noteworthy guarantors include the Government of Canada's Canada Small Business Financing Program (CSBFP) for small business loans at 1% (2015 - 1%) and the Government of Canada's Canadian Agricultural Loans Act (CALA) program for farm improvement loans at 1% (2015 - 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 $)

24. 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:

	2016	2015
Rating		
AAA	4,555	5,586
AA	164,745	208,383
A	23,441	4,993
BBB	530	538
Unrated	16,008	16,730
Derivatives (SaskCentral and Concentra)	3,673	2,755
	212,952	238,985

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 2016, the Credit Union’s interest rate risk was within acceptable levels, as measured by board approved parameters.

(In thousands of CDN $)

24. 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.

	2016	2015
100-basis-point increase in interest rate:		
Impact on net income	12,808	10,066
Impact on other comprehensive income	(7,566)	(9,891)
Impact on economic value of equity	-4.44%	-5.96%
100-basis-point decrease in interest rate:		
Impact on net income	(3,064)	(8,861)
Impact on other comprehensive income	7,100	6,902
Impact on economic value of equity	-4.40%	-0.19%

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, 2016, the percentage of foreign denominated financial assets is 108% (2015 - 105%) 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 $)

24. 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 12 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:

	2016	2015
Cash and cash equivalents	134,916	180,179
Other marketable investment securities	227,735	218,807
Statutory liquidity investment securities at SaskCentral	431,880	417,665
Total liquid assets	794,531	816,651

(In thousands of CDN $)

24. 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:

2016

	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							
Derivative financial instruments	1,244	383	404	819	1,611	689	5,150
Secured debt	103,758	195,196	222,510	179,377	134,127	31,077	866,045
Deposits	3,133,145	509,206	341,083	110,241	93,210	9,038	4,195,923
Current tax liabilities	740	-	-	-	-	-	740
Deferred tax liabilities	1,627	-	-	-	-	-	1,627
Membership shares and member equity accounts	22,543	-	-	-	-	-	22,543
Other liabilities	44,666	-	-	-	-	-	44,666
	3,307,723	704,785	563,997	290,437	228,948	40,804	5,136,694

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							
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

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 $)

25. 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:

	2016	2015
Undrawn lines of credit	307,758	320,635
Commitments to extend credit	533,713	517,595
Letters of credit	26,159	21,043
	867,630	859,273

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 0.66% (2015 - 0.54%) 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:

	2016	2015
Apex LP	-	846
Apex II LP	2,950	3,578
LEX	2,750	4,750
	5,700	9,174

The Credit Union has a commitment to Saskworks Venture Fund Inc. in the form of a promissory note at December 31, 2016, of $13,384 (2015 - $13,786).

(In thousands of CDN $)

25. 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:

2017	5,492
2018	665
2019	422
2020	345
2021	310
Thereafter	38
Total other commitments	**7,272**

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:

2017	3,708
2018	3,480
2019	3,296
2020	2,534
2021	2,508
Thereafter	4,631
Total operating leases	**20,157**