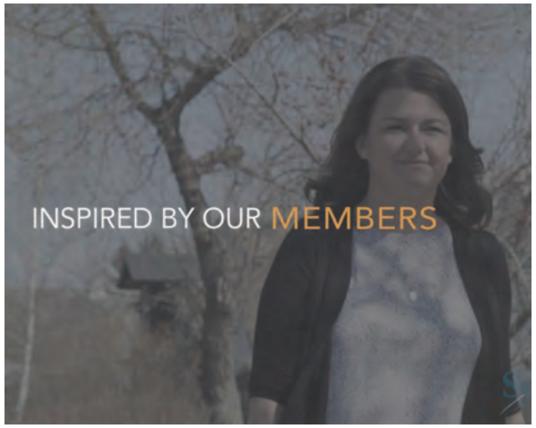








# 2018 ANNUAL REPORT

CREDIT UNION
Synergy

# CEO'S MESSAGE

2018 was an exciting year at Synergy Credit Union, as the board, staff and members took part in 75th anniversary celebrations at each of the communities we serve. The celebrations included a ProfitShares bonus payout to our members as a way to say thank you for their continued commitment to the credit union. Members received a ProfitShare cash payout as well as allocations totalling more than $3 million. The ProfitShare program celebrated its 35th anniversary last year.

We formally introduced Synergy Shares, our new capital donations program. Each year, up to five per cent of the credit union's pre-tax income will be earmarked to go back into the community. I can't be more excited about this program. We often talk about the difference credit unions make in our communities and growing our financial support to the groups that make the places we live in so great.

Synergy Shares builds on the more than $350,000 Synergy donated to groups and events throughout our region last year. And to add to it, our staff volunteered more than 9,000 hours in their communities.

I encourage everyone to take some time to read our MD&A report as it tells the story of how Synergy generates its earnings and how it spends them. Overall, Synergy had a good year financially given the tough economic conditions being experienced in our trade area. Growth was relatively flat at (0.2%) and profits were less due to increased loan loss provisions. Synergy's capital position exceeded 10%; its strongest capital position in Synergy's history which demonstrates Synergy's franchise strength and stability.

We have continued to look to the future and that means increasing the services our membership requires. We have introduced VirtualWealth®, which offers robo-advice for users who value convenience when making their investments, to go along with Qtrade Investor, which gives members a do-it-yourself option for investing.

We have increased our efficiency and member protection by integrating DocuSign, Lock 'n' Block and Mobile Pay into our product options. Strong PAC was added to our protection services in early 2019, helping protect members banking access with increased security around login requirements.

Our commitment to continued service enhancement starts with our dedicated staff. As leadership, we strive to provide the tools to our teams, so they can in turn give you the best experience possible whenever and wherever you do your business with Synergy. We were honoured to be named one of Saskatchewan's Top Employers by the Canada Top 100 Employers for the second straight year and thrilled to be chosen as the Lloydminster Chamber of Commerce's Employer of the Year. It's incredibly humbling to see the workplace culture our staff have created, to be recognized time and time again.

In 2019, you will see more of our continued commitment to our membership. We are going to continue to grow our products and services that will enhance your experience.

From all of us at Synergy, thank you for your patronage.

**Glenn Stang,**
**Chief Executive Officer**

# BOARD CHAIR'S MESSAGE

*In 2018 we celebrated 75 years of service to our members … and worked at anticipating their needs for the next 75.*

In 2013, Synergy introduced our Mobile App.

That same year, members had access to INTERAC e-Transfer transactions.

In 2015, you could start making purchases just by tapping your card on the debit machine.

In 2018, we introduced Mobile Pay for devices using the Android operating system.

Also, in 2018 the first new member account was opened online. Close on its heels we introduced VirtualWealth® to our membership, offering access to a service that allows people to manage their own investments – whenever and whatever form wherever they choose.

In the near future, more online services will be a reality and Apple Pay will be integrated.

It's amazing how quickly our industry is evolving. Services and products we take for granted today are, in actuality, relatively new technologies – ones that our members quickly expect as standard offerings.

These are services you have asked for. Improvements that make your lives more convenient, your banking less cumbersome and give you more control over the decisions you make.

These services mean that we are adapting our basic structures, or at least what we have come to believe as basic structures over our past 75 years. The number of transactions in branches is down significantly as is the trend in the financial industry. We expect the trend will continue. But we also know how important having a Synergy service centre is to the communities we serve. Our members enjoy the experience of being able to go into a branch and speak with someone they know and trust. It is incumbent on us to ensure those locations continue to be viable.

To accomplish this we have had to be flexible and open to new ideas of workflow and staffing. Because of changes in technology we have been able to explore new options like establishing call centre personnel and other administrative services in rural branches.

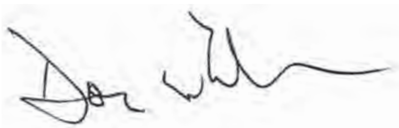
Today, we have a Deposit Support representative in our Paradise Hill branch. Lending Support is based in a number of locations. The workplace of tomorrow will be even more versatile – although we can only anticipate what that will look like.

The evolution of financial services is swift and as a board we are committed to making decisions to adapt with our members' experience front of mind.

**Looking back**

It was an exciting year with all branches hosting 75th anniversary celebrations. It was enjoyable for the board to take part in these events and connect with our members in our communities.

Our Board continued to be very active in 2018. We increased our training and development to meet challenges of regulation, risk, and economic realities, which will help guide better-informed decisions that set the direction for the credit union. Synergy board and management took an active role in 'Hike the Hill' in Ottawa to lobby for the special interests of credit unions and their members. As a Board, we have also increased our interactions with other credit unions in the spirit of collaboration. It's incredible the information that can be shared in a setting with people who have a different approach to their credit unions.



**Don Wheler,**
**Board Chair**

*VirtualWealth is a trade name of Credential Qtrade Securities Inc., Member of the Canadian Investor Protection Fund.*

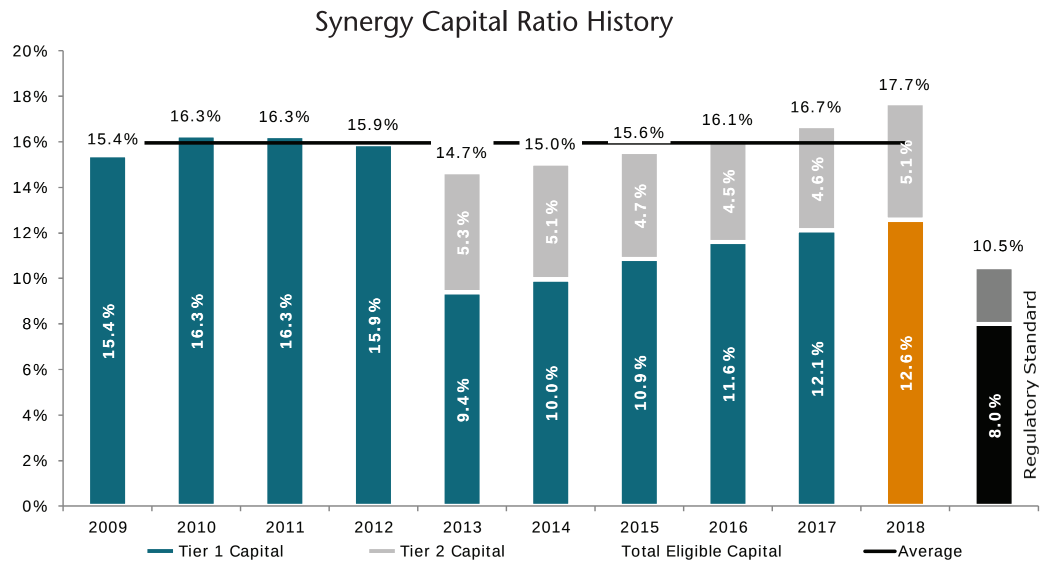
# 2018 HIGHLIGHTS

## Navigating the local economy

In 2018 our region continued to experience a prolonged economic downturn which resulted in relatively flat asset growth (0.2%) for Synergy.

As a result of our environment, we experienced modest growth in both our deposits up slightly at 0.7% and loans up 2.3%. We believe many of our members are redeeming their savings and liquidating assets in order to de-leverage, and we continue to adjust to support them. Our leveraged capital ratio is over 10%, the highest in our history. In addition, we welcomed 947 members to our Synergy family and we look forward to growing with them.

We are focusing on leveraging our strong capital base to invest in offerings that provide value to our members that are relevant and timely. At the same time we are looking to the future and preparing for an open banking environment which will impact how we provide services.




The chart above depicts Synergy's capital history over the past 10 years as we completed our full transition to Basel III capital standards, including the establishment of a 2.5% capital conservation buffer.

## Top Employer

We were proud to be recognized as an employer of choice on a couple of occasions.

For the second consecutive year, we were named a Saskatchewan Top Employer by Canada's Top 100 Employers. This special designation recognizes the Saskatchewan employers that lead their industries in offering exceptional places to work.

In October, we were thrilled to be named Employer of the Year by the Lloydminster Chamber of Commerce.

2019
SASKATCHEWAN'S TOP EMPLOYERS

# Members continued to benefit from our ProfitShares Program in 2018

Synergy allocated $2.5 million to members ProfitShare accounts based on their deposits, loans, and dividends held with Synergy.

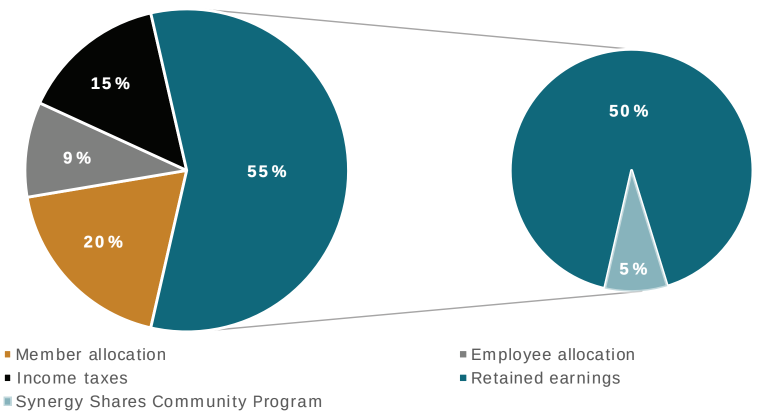
In addition, more than 85% of our members received a cash payout based on existing and new ProfitShare balances.

$1.3 million: 5% cash redemption on ProfitShare balances greater than $1,500.

$365,000: to members who have a qualifying account in celebration of Synergy's 75th anniversary.

$338,000: ProfitShare over limit paydown.

Synergy's 2018 Profit Distributions




## Synergy Shares

Synergy SHARES PROGRAM

ENGAGE. COLLABORATE. GROW.

The Synergy Shares program was introduced in 2017. Building on our commitment to the communities we serve, the Synergy Shares program guarantees five per cent of the credit union's pretax profits will be made available to community groups that make our regions a better place to live.

We believe our role as a local financial institution goes way beyond just banking – we actively seek local community collaboration and engagement efforts which can contribute to build prosperous, viable and sustainable communities for us all to enjoy. By getting involved, we're making our community a better place for our friends, our neighbours and ourselves. Investing in our local communities and people creates a positive ripple effect – socially and economically.

Last year, Synergy donated more than $350,000 to local groups, non-profits and events.

## Giving back

We're proud of our staff members who go the extra mile. Last year, our staff volunteered more than 9,000 hours in our communities!

## Synergy Centre certified LEED Silver

Leadership in Energy and Environmental Design (LEED) is a rating system that is recognized as the international mark of excellence for green building in 150 countries. Since 2002, the Canada Green Building Council (CaGBC) and LEED Canada have been redefining the buildings and communities where Canadians live, work and learn.

The Synergy Centre was certified with Silver status in November, meaning the building is tailored to promote a holistic approach to be sustainable in five key areas:

- Sustainable site development.
- Water efficiency.
- Material efficiency.
- Material selection.
- Indoor environmental quality.

# Our Changing Environment

## Our members and banking in 2018

What does the consumer of today look like when it comes to financial transactions and managing their money?

In-branch, online, mobile app, INTERAC e-Transfers, Tap and go, Lock 'N' Block and the list goes on.

If there is one thing consumers aren't short on today, it is options.

More than three-quarters of Canadians (76 per cent) report using online banking in the last year.

51 per cent of Canadians use the Internet as their main means of banking, down from 55 per cent in 2014. The decrease is due to a growth in mobile banking with 17 per cent of Canadians reporting that mobile is their primary method of banking, up from 9 per cent in 2014.

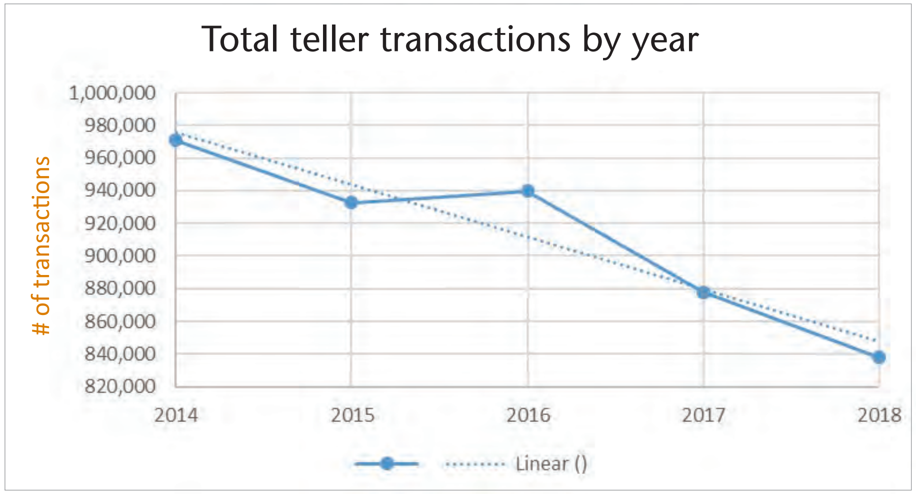
45 per cent of Canadians report that their use of online banking has increased, while only 4 per cent say it is on the decline.

63 per cent of Canadians have used an email money transfer to send or receive money through online or mobile banking.

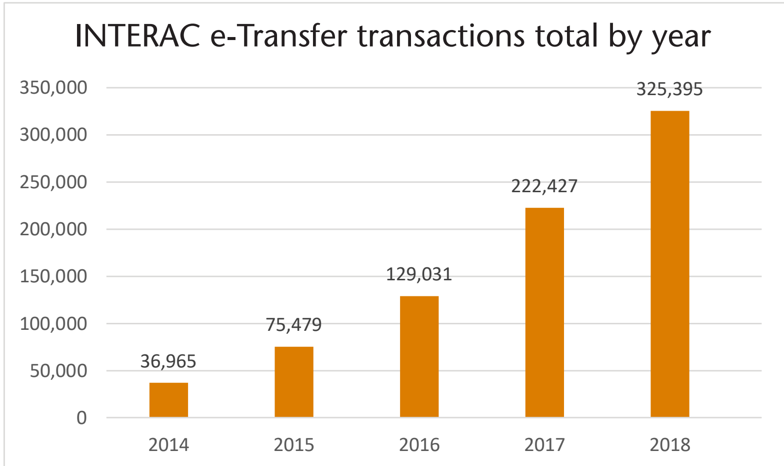
42 per cent of Canadians use online banking as their primary method of bill payment, while 30 per cent prefer pre-authorized debit or credit card payments, 7 per cent pay using a mobile app, 7 per cent pay in branch, 5 per cent use telephone banking and 4 per cent pay at an ABM.

Source: https://cba.ca/technology-and-banking

Just like in the CBA data, our members are also interacting with us differently - our overall transactions are on a downward trend.




This doesn't mean members are interacting less with us. We have experienced a rapid increase in one of our electronic products, e-Transfer.



# Commitment to our branches

With today's technology, we are often challenged with: Why commit to traditional service centres when the trends show that members are using them less and less?

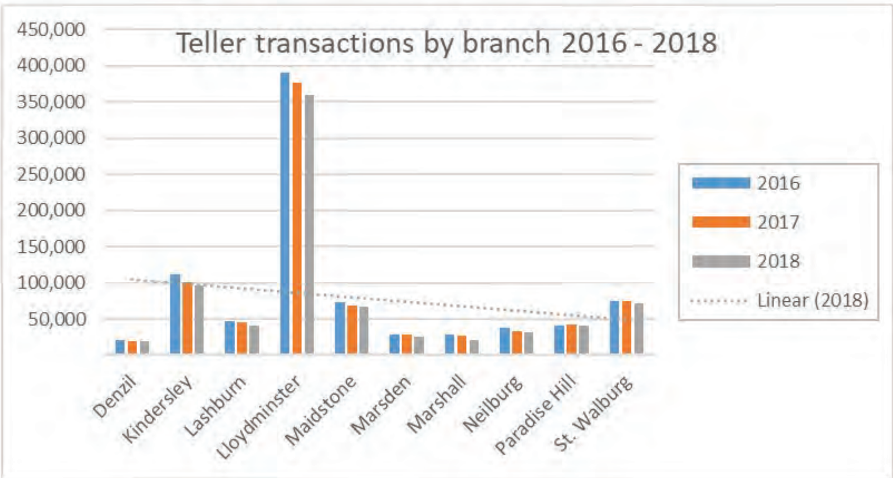
While there is a decline, our members are still using them. This year, more than 838,000 transactions took place in our branches. Although on the decline, the rate has slowed— in part due to bank branch closures in some of our smaller communities. We are committed to our branch service centre locations and strive to find ways to continue operating those in the best interests of Synergy and its members. For example, with our investment of new telephone software for the contact centre, it created opportunity for this function/position to be performed in our rural branches. Currently, we have Member Contact Centre and other support positions located in Denzil, Marsden, Marshall and Paradise Hill, which is supporting the transaction count at these branches.

- 12 per cent of Canadians surveyed identify branch banking as their main banking method, down significantly from 29 per cent in 2000.

- 17 per cent of Canadians over the age of 55 bank primarily in a branch as do eight per cent of those under 35.

- 42 per cent of Canadians say their use of in-branch banking as dropped. As demand for day-to-day banking has decreased, branches have become more specialized, where a variety of financial products, services and advice are also available.

Source: https://cba.ca/technology-and-banking




In the last two years, we have invested heavily in refreshing our branch service centre networks. Each of our locations has undergone renovations, painting and branding to improve the user and employee experience.

The credit union system is evolving. What worked over the last half century is not what our membership and potential members are looking for now. The fast changing financial industry requires flexibility within branch structure, personnel and position relocation to assist in maintaining our strong branch network.

## Staff

Our knowledgeable staff, in many ways, are needed more now than ever. Consider some of the following statistics:

- For every $1 of disposable income, Canadians owe $1.71 in credit market debt (Stats Canada).
- 46 per cent of Canadians are $200 or less away from being unable to pay their bills each month (MNP Ltd.).
- 51 per cent of Canadians are feeling the pinch of interest rates (MNP Ltd.).

Additionally, the financial literacy statistics in this country are troubling. In a survey commissioned by LowestRates.ca in 2017, 78 per cent of Canadians said they are financially literate, but when tested with a series of questions, nearly 6 in 10 failed. The need for financial literacy education is real.

We strive to help our membership reach their financial goals. We like to say we become a part of their team by providing guidance that helps empower our members to make decisions that have positive impacts in their lives.

How can we approach it?

By making sure our members have access to local knowledgeable experts, who can work with them. To keep our branches viable and have that option for our members, our staff members not only have to be continually evolving their role, but also flexible in how to provide that valuable advice and knowledge.

Today, we believe there is continued value in leaving the smaller service centre branches open in their communities to provide a face-to-face presence, account opening and over-the-counter transactions which continue to make up the majority of our branches' traffic.

An important part our members and communities play, is to continue to utilize and grow their usage of our service centre branch locations. These actions have a big impact on the continued viability of each location.

Financial literacy program

Our Synergy Emerging Leaders Committee plans and operates the Financial Literacy program and reaches people of all ages and backgrounds, including youth groups, seniors homes and college open houses.

In the 2017-2018 school year, 31 of our knowledgeable stafff delivered 45 financial literacy presentations.

# ORDER OF MERIT
# RICK GRAFF

Rick is a lifelong member of the Lloydminster/Synergy Credit Union and has served as a director since 1996. During the past 22 years he has been involved in various committees, including serving as chair for the Audit, Risk and Building committees. He also spent three years as a delegate to the Saskatchewan Credit Union Central.

Rick proudly serves the Lloydminster and Hillmond communities, volunteering for numerous and varied functions and fundraiser events. He is an RM of Britannia Medical First Responder, has spent many years helping plan and build the new Hillmond arena and is serving as a minor hockey volunteer.

Rick has a financial background combined with over 30 years of sales and management experience. Currently he is a REALTOR® licensed to trade in commercial, residential and rural real estate along with Property Management in the provinces of Alberta and Saskatchewan. He is registered with the Real Estate Centre brokerage in Lloydminster and is also the Community Manager for Lloydminster Village.

Rick has three sons, Brandon, Tanner (married to Jackie), and Daegan. All three are working in the oil industry and living in Lloydminster.

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## CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral) (together, Provincially Regulated Financial Institutions or “PRFIs”).

The Corporation is charged through provincial legislation, *The Credit Union Act, 1998*, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

For more information about deposit protection, the Corporation’s regulatory responsibilities, and its role in promoting the strength and stability of Saskatchewan PFRIs, talk to a representative at the credit union or visit the Corporation’s website at www.cudgc.sk.ca.

## CREDIT UNION MARKET CODE

The credit union and its employees have always been committed to delivering high quality service to members and customers. Synergy Credit Union voluntarily adheres to a Credit Union Market Code, jointly developed by Saskatchewan credit unions, SaskCentral, and Credit Union Deposit Guarantee Corporation. Market Code identifies the standards we adhere to as an organization, the way we conduct ourselves and how we treat members. We work to maintain your trust while continuing to embrace our co-operative values. The code sets out our commitments and standards in the following areas:

### Professional Standards

We will conduct business consistent with our corporate values. Our employees are trained and qualified to provide members with a best-in-class experience.

### Disclosure and Transparency

We provide members with clear information about our products and services to help you make informed financial decisions.

### Privacy of Personal Information

We treat all personal information as private and confidential and operate secure and reliable information systems.

### Fair Sales Practices

We act fairly and reasonably in all our dealings with you. We will not knowingly take advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of facts, unethical activity or the use of any other unfair sales practice. We recognize the importance of access to basic banking services and we ensure access to a low-fee chequing account.

### Complaint Handling

We welcome and listen carefully to your feedback and work fairly to resolve any problems or complaints you may have. It is generally easier to resolve a problem where it originated. This may mean a quick phone call or visiting your local service centre. If your problem is not able to be resolved, you can escalate your complaint or concern by:

- Using our *Speak to the CEO* feature available on the front page of our website at www.synergycu.ca
- Submitting a formal complaint to problem.resolution@synergycu.ca or through our website under About Us ▶ Contact Us ▶ Problem Resolution

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides detailed information, including commentary on the results of operations and financial condition of Synergy Credit Union (Synergy) for the year ending December 31, 2018. The MD&A is an integral part of the annual report and should be read in conjunction with the financial statements.

Like the financial statements, the MD&A gives Synergy the opportunity to demonstrate our accountability to members. The financial statements reflect what happened and the actual financial numbers, where the MD&A explains why these changes occurred, our plans for the future and outlines how we actively manage our risks. The MD&A provides members with a look at Synergy through the eyes of management by providing a balanced discussion on our operational results, financial conditions, and future prospects.

The following discussion and analysis is the responsibility of management and is current as of March 11, 2019.

## FORWARD LOOKING STATEMENTS

This MD&A may contain forward looking statements concerning Synergy Credit Union's future strategies. These statements involve uncertainties in relation to the prevailing economic, legislative and regulatory conditions at the time of writing. Therefore, actual results may differ from the future looking statements contained in this discussion.

## BUSINESS PROFILE

Synergy Credit Union is a member-owned financial institution serving more than 28,000 voting and non-voting members from 10 communities within northwestern Saskatchewan. Synergy Credit Union is the fourth largest credit union in the province of Saskatchewan and is one of the leading credit unions in Canada with $1.73 billion in on and off-balance sheet assets. Synergy provides core banking services through our traditional branch network, the Canada-wide 'ding free' AccuLink ATM network, MemberDirect® online banking, Live Chat, mobile web and app banking, as well as through calling our Member Contact Centre.

## CORPORATE VALUES AND COMMITMENTS

- We are committed to providing members with relevant financial products that fit with our chosen markets and demonstrated areas of expertise.
- We are committed to developing a leading sales and service culture that provides members with a best-in-class experience. We encourage our employees to promote financial solutions that are responsive, resourceful and realistic to fulfilling our members full-service needs and contributing to Synergy's growth plans in the areas of banking, trust, insurance* and wealth management*.
- We are committed to building a constructive corporate culture that offers employees progressive career opportunities which are engaging, educational and rewarding.
- We are committed to providing meaningful contributions to the communities where we operate.
- We are committed to achieving consistent profitability and maintaining strong levels of capital that reflect an industry leading, growth-focused, credit union.

## OUR CORE BUSINESS ACTIVITIES AND HOW THEY IMPACT OUR EARNINGS, MEMBERS AND COMMUNITIES

The following table helps to present our core activities as a financial institution, aligned with our statement of income in our 2018 financial statements. In addition to the impact these activities have on our earnings, it shows how our activities create long-term value for our members and the communities we serve.

$ thousands

| | | | HOW WE PERFORMED | | |
|---|---|---|---|---|---|
| Core Activity | Impact on Earnings | Impact on Members and Community | 2018 | 2017 | Change |
| Receiving deposits and raising funds | Interest expense | We offer deposit products to help members save and meet their financial goals. We use those deposits to fund loans to members. | (16,044) | (12,524) | 28.11% |
| Making loans and investments | Interest income | We lend and invest responsibly and increasingly in a way that improves lives and builds healthy communities. We offer financial advice and education that's in our members' best interests. | 54,574 | 47,151 | 15.74% |
| Taking calculated risks | Provision for credit losses | We take prudent risks to support our business model. | (4,064) | (1,764) | 230.39% |
| Selling investments and other services | Non-interest revenue | We offer transactional services and financial solutions in banking, trust, insurance* and wealth management*. | 8,946 | 8,541 | 4.74% |
| Managing interest rate risk | Non-interest revenue | We purchase and hold derivative financial instruments to manage interest rate risk exposures. These instruments are measured at fair value, which produce unrealized gains or losses for the year. Unrealized gains or losses for these instruments are recorded in non-interest revenue. | (1,171) | 1,702 | (168.80%) |
| **We earn revenue** | **= Total operating income** | | **42,241** | **43,106** | **(2.00%)** |
| Investing in employees | Personnel expenses | We invest in key areas, such as talent management and leadership development to create a diverse, confident, engaged and values-aligned workforce. We're committed to paying all employees market competitive compensation. | (17,102) | (16,732) | 2.21% |
| Managing and purchasing services, systems, buildings and equipment | Occupancy, member security, organizational and general business expenses | We seek ways to minimize our own and our suppliers' use of credit union resources. We seek business relationships that demonstrate alignment to our cooperative and community values. We have a preference to support local suppliers and vendors whenever possible. | (12,714) | (11,849) | 7.30% |
| **We add up our expenses** | **= Total non-interest expense** | | **(29,816)** | **(28,581)** | **4.32%** |
| **We deduct expenses from revenue** | **= Income before allocations and income tax** | | **12,425** | **14,525** | **(14.46%)** |
| Giving back to members | ProfitShare allocations | We share our profits. Each year we allocate up to 20% of our income before allocations and tax for distribution back to our members in the form of ProfitShares. | (2,449) | (2,900) | (15.59%) |
| Rewarding our employees | Employee profit sharing | As part of our commitment to paying all employees market competitive compensation, we allocate 10% of our income before allocations and tax to fund our annual employee profit sharing program. | (1,242) | (1,452) | (14.39%) |
| Paying taxes | Income tax expense | We pay our fair share of taxes. | (1,901) | (2,153) | (11.70%) |
| **We save what's remaining to invest in our future business opportunities** | **Net "retained" income** | **Our net income gets added to our retained earnings, which supports the responsible and sustainable growth of our business for the long-term benefit of our members and local communities.** | **6,833** | **8,020** | **(14.80%)** |

## BUSINESS ENVIRONMENT AND STRATEGY

Economic growth will be modest in 2019 and lower growth is projected to be the new normal in our regional economic future. The Conference Board of Canada in November 2018 expects Alberta GDP growth to be 1.8% in 2019, and Saskatchewan to be 2.3%. As a regional, strongly-capitalized credit union in Saskatchewan, we expect to continue to leverage and rely upon our capital strength to proactively assist our members and communities adjust to the new normal and create new growth. ***Together, we will*** is deep within our organizational DNA and we remain committed to living out the Synergy experience where:

- People come first
- We actively support our communities
- We strengthen the local economy

Our 2019 business plan is dedicated to continued leveraging and maturing of our digital infrastructure. In addition, to ensure mobility is seamless we'll be transitioning to a cloud environment. Our investments in onboarding, recruiting and training along with automation of standardized processes will enable our teams to create world class member engagement through advice and convenience. These investments will continue to build on our high-tech, high-touch member experience. Solutions have been chosen with members in mind and an "outside in" view of the experience. One exciting example is the addition of Apple to our Mobile Pay offering to our membership.

Assumptions about the business environment, the performance of the Canadian economy, and how these business drivers will affect Synergy's financial performance are material factors for the Board of Directors when setting corporate strategic priorities and performance targets. The following assumptions were used when establishing strategic priorities and performance targets for 2019.

## KEY STRATEGIC ASSUMPTIONS

- Continued evidence that globally we are at the peak of the credit cycle. This will put downward pressure on growth through traditional channels — loans and deposits. Increasing market share will be important to capture growth.
- Continued uncertainty around trade issues including:
  - USMCA Trade Agreement
  - U.S. and China
  - Brexit – proving to be more difficult to unwind than anticipated
- Increased pressure to attract and retain skilled talent, as well as increases to Canada Pension Plan rates will put additional pressure on salary costs.
- Weak consumer spending and increasing inflation, coupled with rising interest rates, will increase the cost of capital for many businesses.
- Expect crude oil prices to remain flat in the range of $50 USD to $60 USD for WTI in 2019. Lack of pipeline capacity to get oil to market is causing a significant gap in the differential for Canada. There may be some reprieve with pipeline projects scheduled to come on board in late 2019, along with oil by rail improving the takeaway capacity in Alberta.
- Bank of Canada has announced it will return to normal interest rates (from stimulus policy), which could mean an increase of prime rate by an estimated 75 basis points. However, with all pressures listed above, these anticipated increases to prime may be delayed.

Political Landscape

- World leaders being elected into power as a result of populism, resulting in political views to the far left or right, has potential to increase instability in many countries around the world.
- Change of political parties controlling Congress in the U.S. has potential to impede the White House agenda.
- Canada is at risk to low commodity and natural resource prices; momentum for many countries to act more national than global could result in a domestic oversupply of inventory adding to the downward pressure on prices.
- Federal election by fall 2019. Provincial election in Alberta in spring 2019.

Regional

- Conference Board of Canada expects GDP for 2019 in Saskatchewan to be 2.3% and Alberta GDP growth to be 1.8%. Synergy's market tends to mirror closer to Alberta than Saskatchewan in regard to GDP.
- The 2018 crop year saw provincial yields at 10-year averages but varied greatly geographically due to soil moisture conditions. In our area, yields were average to above average with good quality on harvested grain prior to September snowfall and reduced quality after that. Cattle prices have remained relatively flat over the past year at above average levels with similar results expected for 2019. Synergy's region performed above the provincial average, and 2019 trending appears positive for this sector.
- The Lloydminster housing market showed continued weakness in 2018, according to the real estate board of Lloydminster, prices decreasing 6.5% annually and are down 20 – 30% since the start of the crisis. We expect housing prices to be relatively stable in 2019.

## 2018 PERFORMANCE TARGETS AND 2019 BUDGET

| | 2018 Targets | 2018 Performance | 2019 Budget |
|---|---|---|---|
| Asset growth | 4.00% | (0.20%) | 2.00% |
| Loan growth | 3.80% | 2.30% | 2.00% |
| Deposit growth | 4.00% | 0.70% | 2.00% |
| | As a percent of average assets | | |
| Net interest margin | 2.34% | 2.48% | 2.40% |
| Other revenue | 0.66% | 0.56% | 0.67% |
| Non-interest expenses | 2.28% | 2.24% | 2.32% |
| Income before allocations and tax | 0.80% | 0.89% | 0.93% |

**Outlook:**

Performance targets for 2019 are based on expectations for modest economic growth rooted in expected GDP for Alberta and Saskatchewan. As commodity prices remain subdued, Synergy will continue to actively monitor our risk exposures.

Over the next three to five-year time frame, management expects financial performance to reflect ongoing strong execution of balanced growth. Results are expected to benefit from leveraging current and future investment in technology and initiatives to enhance our members' experience. Investing in our teams and encouraging continued professional development will contribute to providing extraordinary service and delight our members. Continuous improvement will enhance our member experience and ensure that our non-interest expenses grow slower as a percentage than our net-interest margin. We will take advantage of our strong capital base to support our future growth opportunities.

Synergy is deeply rooted in this region and we are committed to providing quality expert advice to our membership. We will continue to support high quality borrowers within our region focusing on loans that offer a fair and appropriate return and risk profile.  Synergy is also committed to building our wealth management assets, actively promoting and raising awareness of our wealth service offerings to our membership and community.

## 2018 FINANCIAL PERFORMANCE HIGHLIGHTS

| $ thousands | 2018 | 2017 | Change from 2017 | | Compound Annual Growth Rates | |
|---|---|---|---|---|---|---|
| | | | Dollars | Percent | 5 YEAR CAGR | 10 YEAR CAGR |
| **Income Statement Highlights** | | | | | | |
| Total net interest income and total non-interest revenues | **46,305** | 44,870 | 1,435 | 3.2% | 3.1% | 4.1% |
| Net interest income | **38,530** | 34,627 | 3,903 | 11.3% | 3.2% | 5.1% |
| Provision for credit losses | **4,064** | 1,764 | 2,300 | 130.4% | 77.9% | - |
| Net interest margin | **34,466** | 32,863 | 1,603 | 4.9% | 0.6% | 3.7% |
| Gains (losses) on derivative financial instruments | **(1,171)** | 1,702 | (2,873) | (168.8%) | 24.1% | - |
| Other non-interest revenue | **8,946** | 8,541 | 405 | 4.7% | 4.9% | 1.9% |
| Total non-interest revenues | **7,775** | 10,243 | (2,468) | (24.1%) | 3.1% | 0.4% |
| Personnel expense – excludes employee profit sharing | **17,102** | 16,732 | 370 | 2.2% | 0.7% | 2.1% |
| Occupancy expense | **3,274** | 3,244 | 30 | 0.9% | 17.9% | 7.5% |
| Member security expense | **1,067** | 989 | 78 | 7.9% | 1.0% | 3.9% |
| General business expense | **7,858** | 6,946 | 912 | 13.1% | (0.8%) | 1.7% |
| Organization expense | **515** | 670 | (155) | (23.1%) | (5.1%) | (3.7%) |
| Total non-interest expense – excludes employee profit sharing | **29,816** | 28,581 | 1,235 | 4.3% | 1.5% | 2.4% |
| Income before allocations and tax | **12,425** | 14,525 | (2,100) | (14.5%) | 0.1% | 4.7% |
| Allocation to members | **2,449** | 2,900 | (451) | (15.6%) | 2.4% | (4.6%) |
| Allocation to employee profit sharing | **1,242** | 1,452 | (210) | (14.5%) | 0.0% | 6.4% |
| Provision for taxes | **1,901** | 2,153 | (252) | (11.7%) | 3.6% | 14.0% |
| Net income | **6,833** | 8,020 | (1,187) | (14.8%) | (1.5%) | 8.8% |
| **Balance Sheet Highlights** | | | | | | |
| Assets | **1,386,770** | 1,390,025 | (3,255) | (0.2%) | 1.6% | 5.1% |
| Loans net of allowances | **1,146,877** | 1,120,587 | 26,290 | 2.3% | 1.4% | 4.7% |
| Deposits | **1,193,993** | 1,185,315 | 8,678 | 0.7% | 1.5% | 4.8% |
| Member equity | **34,512** | 35,325 | (812) | (2.3%) | (2.6%) | (1.1%) |
| Equity | **99,760** | 96,013 | 3,747 | 3.9% | 7.0% | 9.7% |
| **Off-balance sheet assets** | | | | | | |
| Wealth services assets | **336,442** | 340,930 | (4,488) | (1.3%) | 13.9% | 14.5% |
| Mortgages administered | **8,370** | 22,651 | (14,281) | (63.0%) | (28.0%) | - |
| **Total On- and Off-Balance Sheet Assets** | **1,731,582** | 1,753,606 | (22,024) | (1.3%) | 3.1% | 6.5% |

**Other Financial Measures**
As a percent of average assets

| | 2018 | 2017 | Change |
|---|---|---|---|
| Net interest income | 2.78% | 2.55% | +0.23% |
| Provision for credit losses | 0.29% | 0.13% | +0.16% |
| Net interest margin | 2.48% | 2.42% | +0.06% |
| Total non-interest revenues | 0.56% | 0.75% | -0.19% |
| Total non-interest expenses | 2.24% | 2.21% | +0.03% |
| Return on average assets (after tax) | 0.49% | 0.59% | -0.10% |
| Efficiency ratio | 67.1% | 66.9% | +0.2% |

| Regulatory Capital Adequacy Ratios | 2018 | 2017 | Change |
|---|---|---|---|
| Tier 1 capital to risk-weighted assets | 12.58% | 12.11% | +0.47% |
| Eligible capital to risk-weighted assets | 17.70% | 16.68% | +1.02% |
| Leverage ratio | 10.02% | 9.42% | +0.60% |

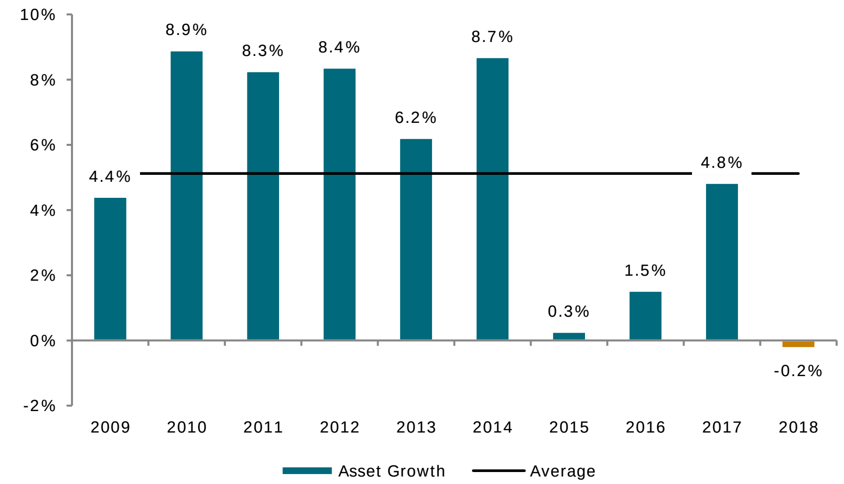
## Asset Growth:

***2018 Results***

- Ended December 31, 2018, with on-balance sheet assets of $1.387 billion ($1.390 – 2017) this equates to a 0.20% or $3 million contraction
- Other assets under administration include off-balance sheet assets managed by our wealth services division totaling $336 million ($341 – 2017) and $8.4 million ($22.7 – 2017) in loans sold or syndicated to other credit union partners but serviced by Synergy
- These assets decreased by $18.8 million in 2018 as a result of an overall decline in the underlying financial market exchanges and re-purchasing of loans back on to our balance sheet

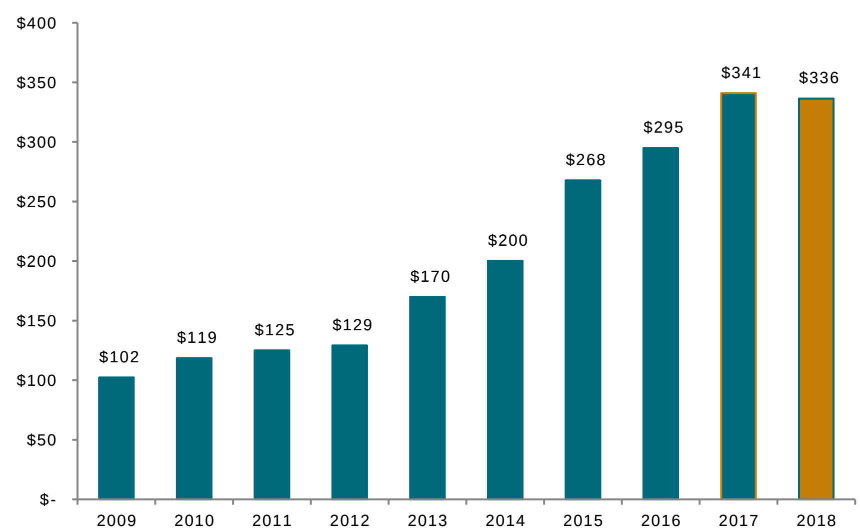
Overall from normal operations, we experienced 2% asset growth compared to -.20% reported. This is a result of us not renewing some of our institutional deposits that were not required to fund loan demand.

**Asset Growth (on balance sheet)** – *10 year historical*



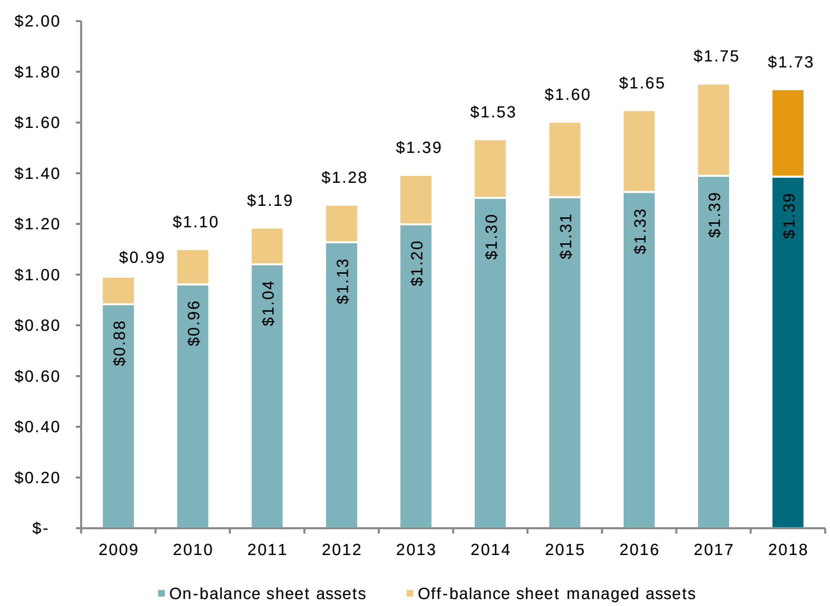

The following chart shows our 10 year historical growth in wealth assets under administration.

**Wealth Services Assets** – *10 year historical*
**$ millions**



The following graph shows the on-balance sheet assets (blue) combined with off-balance sheet assets (orange) under administration.

**Total On- and Off-Balance Sheet Assets**
$ billions




**Outlook:**

Asset growth remains below our historical 10-year average, however, with our strong capital position, we are poised to take advantage of growth opportunities as our region recovers from the difficult economic environment we find ourselves in. We are mobilizing our sales team to capitalize on opportunities in 2019.

A key strategic focus for Synergy in 2019 is to grow our wealth assets. We have increased our staff complement in this area, as well as introduced a digital advisor platform to complement our digital online brokerage. This is a key area where we are enhancing our 'human plus digital' member experience.

## Loan Growth:

***2018 Results***

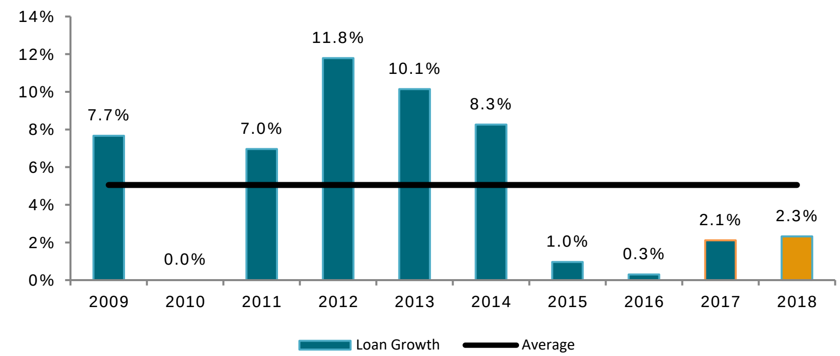
- Achieved 2.3% (2.1% – 2017) loan growth slightly higher than 2017 however less than projected of 4%
- Gross Loans totaled $1.158 billion ($1.125 billion – 2017) increase of $33 million
- Net loans totaled $1.146 billion ($1.120 billion – 2017) increase of $27 million over the prior year
- Loan allowances increased by $7.3 million year-over-year. A one-time adjustment to accommodate differences from IAS 39 to IFRS 9 of $5.0 million is included in the above total (see Notes 2 & 7)
- Actual write-offs were $2.31 million ($2.35 million – 2017) a slight reduction from previous year
- Loans reached 82.7% (80.6% - 2017) of total assets; returning to our optimal range of 82%-84% which will help maximize our overall yields
- Consumer portfolio contracted slightly by .01% or $3 million
- Agricultural and Commercial portfolio grew at 8.47% or $28.7 million over the year prior

*Credit quality:*

Credit losses are a normal part of our business and they tend to increase during economically uncertain times. Our lending portfolio is focused on areas of demonstrated lending expertise using a set risk profile scoring. The risk profile of a loan is based on several key metrics and applied consistently throughout our portfolio.

Allowances for credit losses are maintained to absorb potential (expected) and probable (specific) losses and are determined by the overall quality and marketability of the security held against the impaired loan. Our practice is to set up specific allowances early on and work diligently to minimize actual write-offs.

**Loan Growth** – *10 year historical*




**Outlook:**

The economic slowdown that started in late 2013 has substantially impacted our region.

Sustained deterioration of residential real estate prices and high inventory in our markets is having an impact on Synergy. The aforementioned conditions along with stricter qualification requirements for home owners and heavily leveraged consumers are a concern in our consumer portfolio, which represents two thirds of our loan portfolio.

In addition, lower commodity prices as well as the inability to get them to market continue to dampen typical capital investments by commercial companies in our area.

We anticipate that our growth rate will trend below our 10-year historical growth rate for the near future and trend much closer to GDP expectations of around 2% for Alberta and Saskatchewan.

Provisions related to performing loans are expected to be more volatile due to the implementation of a forward-looking expected credit loss model of IFRS 9. Further detail is provided in the statements NOTE 2 – *Change in Accounting Policies.*

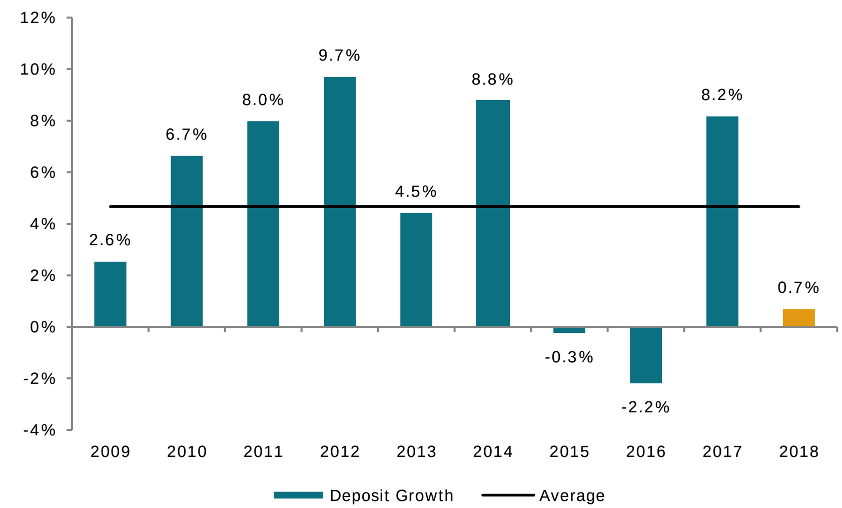
## Deposit Growth:

***2018 Results***

- Relatively flat growth with a slight increase of 0.70% (8.2% - 2017) or $8.7 million ($89.9  - 2017)
- Demand deposits, which account for 58% (63% - 2017) of our entire deposit base decreased $60 million or 8% year over year
- Term deposits, which make up the remaining 42% (37% in 2017) of our deposit base, grew $69.0 million, achieving 15.8% growth year over year

*Note: Institutional deposits as they matured were not renewed in the amount of $30 million as they were not needed to fund lower than average loan growth, making organic growth 3.3%.*

**Deposit Growth** – *10 year historical*




**Outlook:**

As economic conditions in our region improve, Synergy believes that we will see more demand for savings and investment products, which in turn will grow our deposit base both on- and off-balance sheet.  We will continue to provide top quartile rates to attract depositors. As our region begins to recover from the latest economic contraction, we expect 2% growth in 2019 with a return close to our 10-year average of 4.8% thereafter.

## Net Interest Income and Margin:

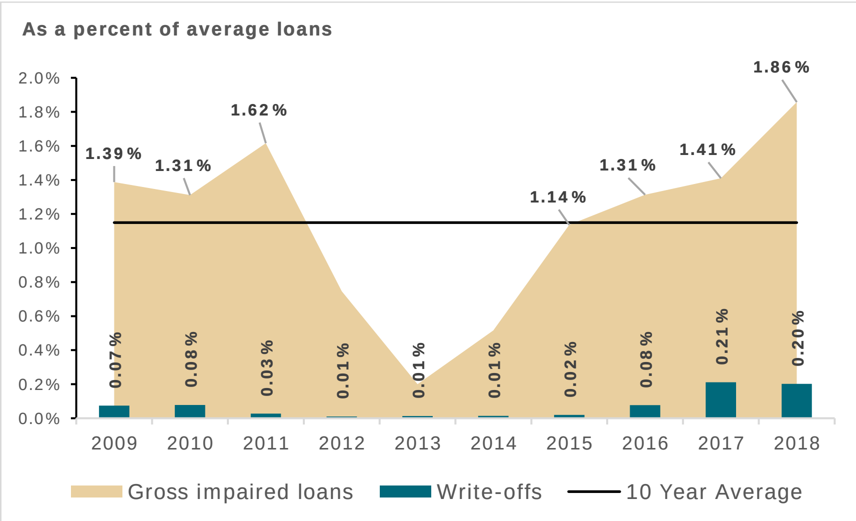
***2018 Results***

- Net interest income increased $3.9 million, or 11.3%, to $38.5 million ($34.6 million – 2017), represents 2.78% (2.55% - 2017) of average assets
- Net interest margin (net of loan provisions) increased by $1.6 million ($1.4 -2017) or 4.9% to $34.5 million ($32.9 million – 2017), representing 2.48% (2.42% - 2017) of average assets
- The improvement in net interest margin was due to three prime rate increases resulting in higher yields however, greater loan provisions than 2017 muted the gains in this area
- Net interest margin is affected by credit losses which are a normal part of our business and tend to increase during economically uncertain times. Continued pressure on commodity prices as well as decreased real property values in our area has increased our provisions again in 2018. Provision for credit losses increased by $2.3 million from 2017, and are higher than Synergy's long-term average

| | 2018 | | | | Change in Rates | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| $ thousands | Average Balances | Mix | Interest | Rate | | Average Balances | Mix | Interest | Rate |
| **ASSETS** | | | | | | | | | |
| Cash and investments | 194,960 | 14% | 5,489 | 2.82% | +1.47% | 208,452 | 15% | 2,818 | 1.35% |
| Loans | 1,135,032 | 83% | 49,085 | 4.32% | + 0.32% | 1,109,234 | 82% | 44,333 | 4.00% |
| Other assets | 40,518 | 3% | - | - | no change | 40,302 | 3% | - | - |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| Deposits | 1,189,654 | 86% | 14,657 | 1.23% | + 0.28% | 1,140,360 | 84% | 10,822 | 0.95% |
| Loans payable | 59,481 | 4% | 1,387 | 2.33% | + 0.52% | 85,412 | 6% | 1,544 | 1.81% |
| Other liabilities | 6,458 | 1% | 0.00 | - | - 2.96% | 5,345 | 1% | 158 | 2.96% |
| Equity and membership shares | 132,805 | 9% | - | - | - | 126,870 | 9% | - | - |
| **NET INTEREST INCOME** | **1,388,398** | **100%** | **38,530** | **2.78%** | **+ 0.23%** | 1,357,987 | 100% | 34,627 | 2.55% |
| Provision for credit losses | | | 4,064 | 0.29% | + 0.16% | | | 1,764 | 0.13% |
| **NET INTEREST MARGIN** | | | **34,466** | **2.48%** | **+ 0.06%** | | | 32,863 | 2.42% |

Average yields earned on loans increased 0.32%, resulting in an additional $4.7 million in loan income. This additional loan income was used to fund increased deposit expense of $3.8 million, increasing the yield received by depositors by 0.28%.

The following chart outlines Synergy's 10-year gross impaired loans and write-off history for its loan portfolio. Gross impaired loans have reached the highest in our 10-year history in 2018 at 1.86% of average loans. While elevated write-offs as a percentage of average loans was 0.20% in 2018, slightly lower than 2017 and aligned with financial industry norms.




**Outlook:**

While the Bank of Canada policy statements still indicate a return to neutral interest rate levels indicating several more rate increases the uncertainty of the global market overall, we expect net interest income to remain relatively flat in 2019. In addition we are targeting top quartile rates on both our deposits and loans to attract growth which will put additional downward pressure on our margin.

Average liquidity is expected to remain stable in 2019 as the credit union seeks to maintain a targeted loan-to-asset ratio in the range of 82% - 84%. Lower levels of liquidity and a higher loan-to-asset ratio will generally enhance net interest income by placing assets into comparatively higher yielding interest bearing assets. We believe that we will slowly see allowances decrease. We will continue to monitor our allowances and diligently work to ensure actual loan write-offs remain within industry standards as our region slowly works its way out of the 2014/2015 economic downturn.

## Other Revenue: Non-interest revenue that excludes gains or losses on interest rate derivatives.

***2018 Results***

- Ended the year at $8.9 million ($8.5 million - 2017), an increase of $405 thousand
- We increased our revenue in wealth services, creditor insurance and deposit and commission revenue
- We experienced a decrease in credit card revenue as we changed card providers in summer of 2018
- Loan fee revenue decreased as a result of lower loan demand
- Other revenue of $222 thousand, or 54%, of the increased revenue primarily can be attributed to our lease income of the main floor of our 50th Street building. This lease has now ended but we have been able to secure a new lease to replace it. This will come online April 2019

| | | | Change from 2017 | |
|---|---|---|---|---|
| $ thousands | **2018** | **2017** | Dollars | Percent |
| Deposit fees and commissions | **3,805** | 3,724 | 81 | 2.2% |
| Wealth services | **2,593** | 2,402 | 191 | 8.0% |
| Creditor insurance | **1,372** | 1,041 | 331 | 31.8% |
| Loan fees | **549** | 723 | (174) | (24.1%) |
| Credit Card | **405** | 651 | (246) | (37.8%) |
| Other | **222** | - | 222 | 222% |
| **Total other revenue** | **8,946** | 8,541 | **405** | **4.7%** |

| As a percent of average assets | **2018** | **2017** | **Change** |
|---|---|---|---|
| Deposit fees and commissions | **0.27%** | 0.27% | - |
| Wealth services | **0.19%** | 0.18% | + 0.01% |
| Creditor insurance | **0.10%** | 0.08% | + 0.02% |
| Loan fees | **0.04%** | 0.05% | - 0.01% |
| Credit Card | **0.03%** | 0.05% | - 0.02% |
| Other | **0.01%** | - | + 0.01% |
| **Total other revenue** | **0.64%** | 0.63% | **+ 0.01%** |

**Outlook:**

Growing other revenues, particularly revenues generated by our Wealth Services division, will be essential to maintaining sufficient profitability and sustaining Synergy's strategic direction, growth plans, and capital ratios. Industry analysis suggests we can improve our wealth services revenue streams by at least 10-15 basis points through active promotion and raising awareness of our wealth service offerings to our membership and the communities we serve. Synergy will be seeking to fill this wealth services revenue gap over the next several years by making its growth a key strategic priority.

As we grow our new credit card portfolio through a win-back strategy we expect to return to historical average revenues. In addition, we have been able to secure two additional leases (one replacement) in Lloydminster that will contribute to other revenue in 2019 and will fully come online in late 2019.

**Non-Interest Expenses:** Total non-interest expenses, which encompasses allocations to Synergy's annual employee profit sharing program.

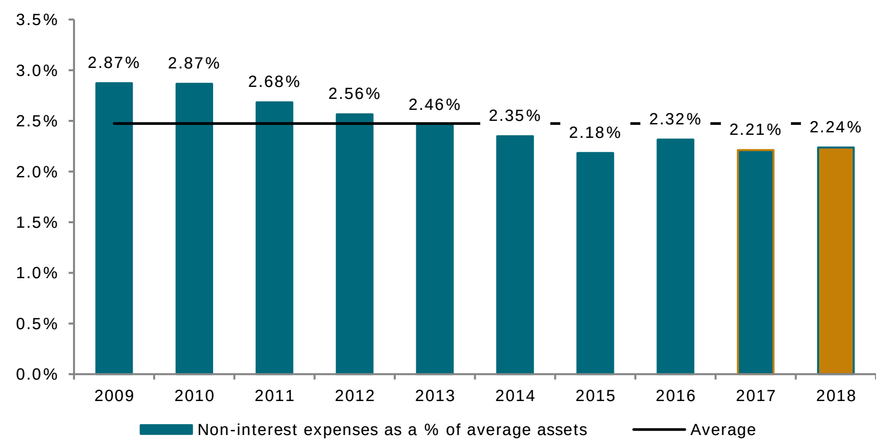
***2018 Results***

- Non-interest expenses increased $1.0 million (441 thousand – 2017), or 3.3%, to $31 million ($30 – 2017)
- As a percentage of average assets, non-interest expenses increased from 2.21% in 2017 to 2.24% in 2018
- General business increased by $912 thousand, this was primarily as a result of an increase in ATM service and switching costs and computer licensing costs of $805 thousand

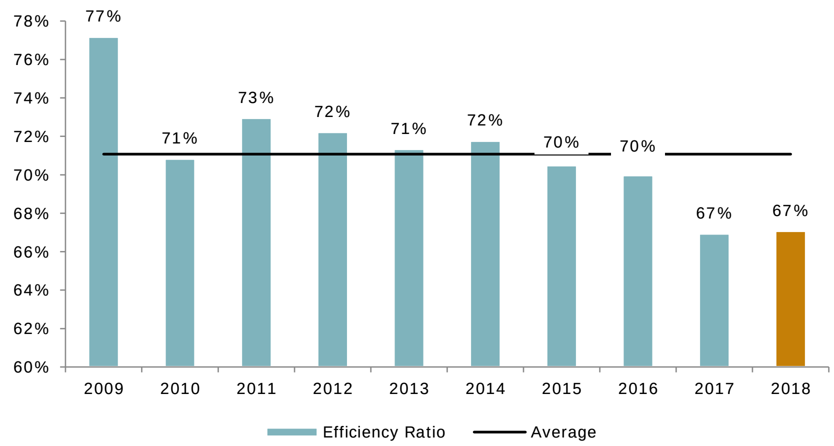
| $ thousands | 2018 | 2017 | Change from 2017 Dollars | Change from 2017 Percent |
|---|---|---|---|---|
| Personnel expense | 18,344 | 18,184 | 160 | 0.9% |
| Occupancy expense | 3,274 | 3,244 | 30 | 0.9% |
| Member security expense | 1,067 | 989 | 78 | 7.9% |
| General business expense | 7,858 | 6,946 | 912 | 13.1% |
| Organization expense | 515 | 670 | (155) | (23.1%) |
| **Total non-interest expenses** | **31,058** | 30,033 | **1,025** | **3.3%** |

| As a percent of average assets | 2018 | 2017 | Change |
|---|---|---|---|
| Personnel expense | 1.32% | 1.34% | - 0.02% |
| Occupancy expense | 0.24% | 0.24% | - |
| Member security expense | 0.07% | 0.07% | - |
| General business expense | 0.57% | 0.51% | + 0.06% |
| Organization expense | 0.04% | 0.05% | - 0.01% |
| **Total non-interest expenses** | **2.24%** | 2.21% | **+ 0.03%** |

**Non-interest expense as a percentage of average assets**



**Efficiency Ratio**




**Outlook:**

One of management's key priorities is to ensure non-interest expenses are properly aligned with net interest margins, ensuring Synergy is well positioned to deliver strong growth over the long term.

Synergy continues to make substantial investments in its technology infrastructure to position itself for future growth. These investments are expected to provide considerable efficiencies in the future, as it will improve member service by automating standardized and manually intensive processes. We believe technology can improve turnaround times, reduce errors, and add significant value to our member experience.

Synergy's efficiency ratio, which is non-interest expenses divided by net interest income and total non-interest revenue, has seen a slight increase in 2018 to 67.1% from 66.9%. However, we continue to trend below our long-term average.

The effective execution of Synergy's strategic priorities will require increased investment in certain areas. Anticipated expenditures include continued upgrades to our technology platforms and technology-based service delivery channels. Investments in these areas are expected to provide material benefits in future periods.

With the increasing levels of regulatory compliance for Saskatchewan credit unions and all Canadian financial institutions in general, we continue to see a significant investment in both time and resources required to meet regulatory expectations. This results in escalating compliance costs and is expected to grow in future years.

We expect occupancy costs to decrease as our Lloydminster facility and its supporting technology infrastructure depreciates. The credit union expects our non-interest expense and efficiency ratios will see continued improvements over the next three to five years as asset growth returns.

## Income before Allocations and Tax:

***2018 Results***

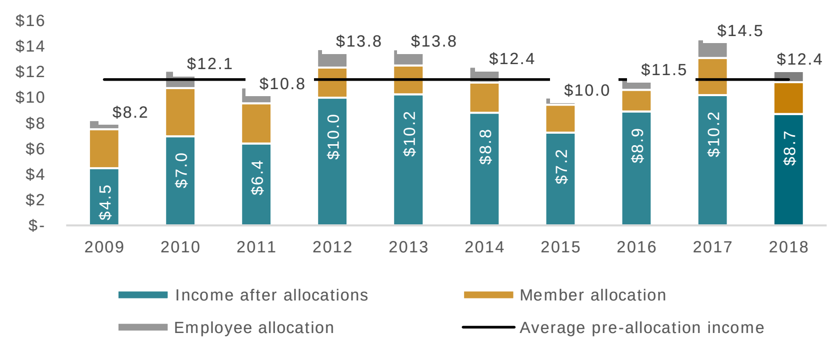
- Income before allocations and tax was $12.4 million ($14.5 – 2017), a reduction of $2.1 million or (15.6%)
- Allocations to employees (employee profit sharing) was $1.2 million ($1.5 – 2017), representing a decrease of $210 thousand or (14.5%) year-over-year
- Allocations to members (profit shares) was $2.5 million ($2.9 – 2017), representing a decrease of $451 thousand or (15.6%) year-over-year

In 2017, Synergy redesigned its employee variable pay program to equal a percentage of income before allocations and tax, similar to the methodology used to determine member allocations. Based on the new employee profit sharing distribution methodology, employees will receive 10% of Synergy's income before allocations and tax, with members receiving up to 20%.

The chart below shows how the income has been distributed over the past 10 years.

**Income before allocations and tax** – *10 year historical*

$ millions



**Outlook:**

Synergy expects to end 2019 with slightly higher income before allocations and tax. We will experience this based on increased wealth management assets, executing our win-back strategy on credit cards, and leasing out some of our unused space in our Lloydminster buildings. This income will be partial in 2019 and will fully come on line in 2020.

As we leverage our digital investments, we expect to be able to generate revenue with our existing staff complement.

## Net Income: After taxes and allocations

***2018 Results***

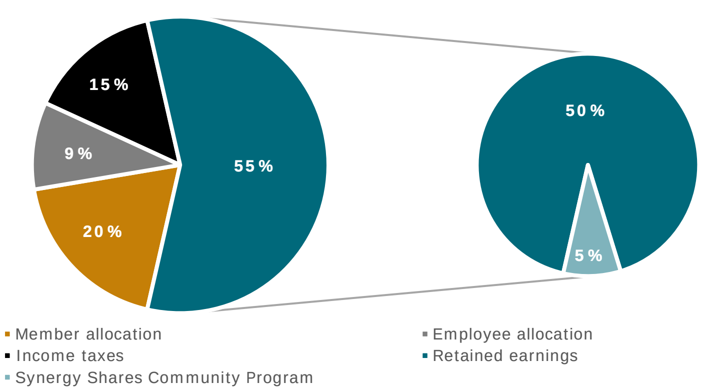
- Net income was $6.8 million ($8 million – 2017), down $1.2 million (14.8%) over 2017
- Member allocations of $2.5 million
- Income taxes paid at a rate of 22%

**Outlook:**

Synergy is proud to share its profits with our members, our employees and our Synergy Shares Community Fund, and we will continue to do so.

As the small tax credit in Saskatchewan continues to be reduced, we do expect taxes to increase in the next two years.

**Synergy's 2018 Profit Distributions**

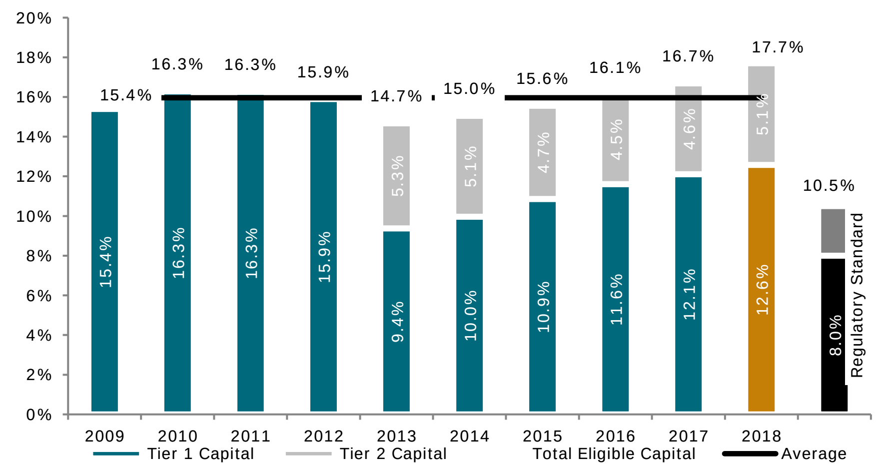



## CAPITAL MANAGEMENT

***2018 Results***

- Retained earnings grew by 3.9%
- Eligible capital grew by 3.8%
- Tier I capital rose to 12.6%
- Retained earnings made up 74% (73% - 2017) of Synergy's capital base

With the adoption of the Basel III capital standards in 2013, Synergy began to execute its capital realignment plan in response to the loss of tier 1 capital eligibility for ProfitShares. The chart below depicts Synergy's capital history over the past 10 years as we completed our full transition to Basel III capital standards, including the establishment of a 2.5% capital conservation buffer.




**Outlook:**

Synergy expects to maintain its strong capital ratios, which are well above CUDGC's minimum requirements. Management feels confident the credit union is appropriately positioned to adapt to business growth opportunities and unexpected stressed events.

Target capital ratios under Basel III, including any appropriate capital buffers over the prescribed CUDGC minimums, are reconfirmed through the credit union's comprehensive internal capital adequacy assessment program (ICAAP) and annual stress-testing results. Stress testing simulations include three separate five-year forward scenarios where the credit union experiences escalating levels of delinquency and credit losses, a persistent low interest rate environment, higher deposit and funding costs, which when all combined results in a significant compression of net interest margin. Synergy's capital is able to withstand all of our scenarios.

## SYNERGY SHARES PROGRAM

In 2017, we announced the establishment of our new Synergy Shares Community Fund and kicked it off with $750,000 to celebrate our 75th year.

Each year up to 5% of Synergy's pre-tax profit will be set aside to fund this valuable initiative. Our goal is to build the fund up over time to ensure Synergy has the resources available to support our communities.

ENGAGE. COLLABORATE. GROW.

**Synergy Shares Program Fund – 2018**

| | Commitments (#) | Commitments ($) | Balance |
|---|---|---|---|
| 2017 Year-end Allocation | - | - | 750,000 |
| Less: | | | |
| Pre-existing | 4 | 404,800 | - |
| 2018 Requests | 7 | 156,495 | - |
| Sub-total | 11 | 561,295 | - |
| | | **Carry forward balance to 2019** | **188,705** |

Our allocation for 2019 will be 5% of pre-tax profits totaling $559,000.

**Our funding priorities include:**

- Community Value – multi-purpose projects that have community wide appeal that sustain, improve and grow communities that we serve
- Financial Wellness – scholarship and financial literacy programs
- Healthcare – projects and programs that sustain and improve healthcare
- Local community engagement

Applications can be picked up at any of our branch locations or on our website at www.synergycu.ca.

# CORPORATE GOVERNANCE STRUCTURE

## BOARD OF DIRECTORS

As a member-owned, co-operative financial institution, Synergy Credit Union is governed by a Board of Directors democratically elected by the credit union's members.

The Board has a fiduciary responsibility for the credit union, protecting members' interests and financial assets. It shapes the organization's strategic direction and ensures appropriate processes and controls are in place to identify, manage and monitor applicable risks. The Board selects the CEO, establishes the CEO's accountabilities and evaluates the CEO's performance. The Board also communicates with members and other stakeholders by reporting its activities through this annual report, the annual general meeting and other channels.

### BOARD GOVERNANCE STRUCTURE

The Board of Directors is comprised of positions which are allotted based on four geographic districts consistent with the constituency boundaries established for the Saskatchewan Provincial Elections under The Representation Act, 2013. The following chart outlines Synergy's electoral districts, service centre coverage, and the directors currently serving.

| | Allotted Director Positions | Service Centres | Current Directors |
|---|---|---|---|
| **DISTRICT 1** | 5 | Lloydminster | Brent Baier<br>Richard Graff<br>Melanie Mari<br>Tom Schinold<br>Carolyn Young |
| **DISTRICT 2** | 2 | Paradise Hill<br>St. Walburg | Neil Carruthers<br>Joe Larre |
| **DISTRICT 3** | 3 | Lashburn<br>Neilburg<br>Maidstone<br>Marsden<br>Marshall | Dean Walde<br>Don Wheler<br>Joe Koch |
| **DISTRICT 4** | 2 | Denzil<br>Kindersley | Lorne Janzen<br>Dean Roberts |

While they are elected regionally, directors are responsible for representing the best interests of the credit union as a whole, and for all members, regardless of region. Directors protect and uphold the credit union's values, exercising judgment with honesty and integrity. They offer a broad range of knowledge and depth of experience, as well as an understanding of the principles and values of the credit union and its communities.

Directors must be independent from the credit union and the financial services industry, in general, and must not have an interest or relationship with Synergy Credit Union that could be seen to interfere with their ability to act in the best interest of the credit union and its members. The Board's corporate governance committee annually reviews compliance with this requirement.

### ADVISORY COUNCIL

In addition to the Board of Directors every community with a Synergy Credit Union Service Centre will have the opportunity of an Advisory Council composed of two members. The Board of Directors is responsible to appoint Advisory Council members via an application process. The Advisory Council duties are:

- Annually plan and implement member appreciation events hosted by Synergy in their communities.
- Identify needs or services in their communities which could benefit from additional resources (human or financial) that would be consistent with the values of Synergy as a good corporate citizen.
- Participate in a focus group should Synergy require feedback on products or services to specific demographic or market segment (i.e. agricultural).
- Serve as a sounding board on promotions, tactics and strategies being taken by Synergy to stimulate growth.

### MEMBER INVOLVEMENT

By participating in the democratic process, members shape and direct Synergy Credit Union's future. The Board encourages members to attend the annual general meeting and vote in director elections and on special resolutions. Members in good standing may stand for election to the Board or be considered for appointment to Advisory Council.

From left to right (Missing: Dean Roberts)
Back: Don Wheler, Joe Larre, Neil Carruthers
3rd row: Lorne Janzen, Dean Walde, Brent Baier
2nd row: Tom Schinold, Joe Koch, Rich Graff
Front: Melanie Mari, Carolyn Young

## BOARD MEMBER BIOGRAPHIES

### Brent BAIER

Brent is the founder of Iron Will Innovations and inventor of the Peregrine Glove, a wearable technology interface. In 2005 he graduated with distinction from Lakeland College, with a Computer Systems Technology diploma, and received the prestigious Vic Juba Leadership Award. He has extensive experience in business, entrepreneurship, and management with business travel taking him to the US, China, Europe and the Middle East.

Brent is a lifelong credit union member and in 2012 joined the Board of Synergy. He strongly believes in the member-owned cooperative philosophy and the positive impact credit unions have on their communities.

Brent grew up on a farm near Macklin, Saskatchewan. He is happily married to his wife Cherene and has two children.

### Neil CARRUTHERS

Elected in 2012, Neil was Synergy's first and is one of a few Saskatchewan directors to hold an Accredited Canadian Credit Union Director status. Neil is the Corporate Governance Committee Chairperson and Board Vice-Chairperson.

Neil believes members should benefit from Synergy's ProfitShares program and mobile banking options are important so members can bank wherever, whenever they choose. Neil strongly supports Synergy's rural branch network and giving back to the communities they serve.

Neil has an Agriculture degree from the University of Saskatchewan and for 26 years has been employed in the animal health industry. Neil is the Regional Business Manager for Merck Animal Health and served as a founding director for the Zoetis Pension Fund Board. He was awarded Canada's 2018 Circle of Excellence Award.

Neil, his wife and two daughters run a cattle operation in the Frenchman Butte area. Neil shares his leadership skills with the Paradise Hill 4-H Multiple Club.

**Rick GRAFF**

Rick is a lifelong member of Synergy Credit Union and has served as a director since 1996. During the past 22 years he has been involved in various committees and has chaired the Audit, Risk and Building committees. He also spent 3 years as a SaskCentral credit union delegate.

Rick proudly serves the Lloydminster and Hillmond communities, volunteering for numerous and varied functions and fundraiser events. He is a RM of Britannia first responder, as well as has spent many years helping plan and build the new Hillmond arena and serving as a minor hockey volunteer.

Rick has a financial background and over 30 years of sales and management experience. Currently he is a REALTOR® licensed to trade in Commercial, Residential and Rural real estate in the provinces of Alberta and Saskatchewan and is registered with the Real Estate Centre brokerage in Lloydminster.

**Lorne JANZEN**

Lorne served on the Kindersley & District Credit Union Board of Directors from 1995 to 2007. From 2007 to 2016 Lorne served as a Kindersley Service Centre Advisory Council member before joining Synergy Credit Union's Board in April 2016. He currently serves on two board committees; Human Resources and Risk. Lorne believes in lifelong learning and is continuing his education by working towards completing the Credit Union Director Achievement program.

Lorne recently retired from a 36-year career at Saskatchewan Government Insurance claims division, wherein he attained a Chartered Insurance Professional designation in 2011.

Lorne has extensive experience in community and public service, having served 10 years as a Kindersley town councilor and his current committee work includes St Paul's United Church, Meridian Community Futures and Community Futures Saskatchewan. Lorne is also a proud lifetime Kinsmen Club member. He also served on a humanitarian mission to Kenya in 2013.

**Joe KOCH**

Joe joined the Synergy Board of Directors in 1990 and has served on a number of board committees as well as second vice-president. As a longtime credit union member he brings a wealth of knowledge in agriculture, agri-business and board member experience.

Community organizations and cooperatives are very important to Joe. In order to develop his skillset and competency required to hold a board position Joe has been an active member in a number of community organizations and is currently a Rural Municipality of Manitou Lake councilor.

Joe is passionate about farming and took every opportunity to develop his knowledge which enabled him to develop, grow and run a successful family grain farm operation in the Marsden and Neilburg region for 37 years.

Joe resides with his wife Gail in Saskatoon, and enjoys spending his free time with family, including a number of grandchildren.

**Joe LARRE**

Joe was elected in to Synergy's Board in 2016. Along with his wife Jaime, they operate MJM Ranches Ltd, a large mixed farm in the St. Walburg area. Joe is a Pioneer HI Bred Pro Sales representative working with Taurus Ag. Joe has a Bachelor of Science, Agriculture degree from the University of Saskatchewan and to this day utilizes many university contacts to assist with the day-to-day activities of running his businesses.

He has coached minor hockey for many years, something he passionately enjoys. Joe enjoys working with different communities and is currently President of the STEP Hockey League, comprised of 20-plus communities and close to 80 teams. He is a past Agricultural Producers Association of Saskatchewan (APAS) representative for the Rural Municipality of Frenchman Butte and has sat on many community boards.

**Melanie MARI**

Melanie was elected to the Board of Directors in 2016 and is a former employee of Synergy Credit Union. Melanie continues her career in finance as a controller with Tryton Tool Services. She has a bachelor's degree in economics from the University of Calgary, earned her Credit Union Fellowship designation while at Synergy and continues her education in the accounting and finance fields.

In the community, Melanie has served as a board member and treasurer for the Lloydminster unit of the Canadian Cancer Society, curls in a recreational league and is a past member of Synergy's Emerging Leaders Group.

Melanie believes her education and credit union involvement serve her well in the role of director and is committed to taking an active part in the future of the credit union and the community.

**Dean ROBERTS**

Dean grew up on a farm near Coleville, Saskatchewan. After graduating high school, he attended the University of Saskatchewan where he earned a Bachelor of Science degree in Mechanical Engineering. He then returned to Coleville to take over the family farm. Under his management he has grown the farm from 1,800 acres to 9,500 acres and still has plans for future growth.

In addition to the farm, Dean and his wife operate an oilfield service company. They reside near Coleville with their two daughters.

Dean has been a lifelong member of the credit union system, starting with the original “Fat Cat” account. Dean joined the Synergy Board of Directors in 2014.

**Tom SCHINOLD**

Tom was elected to the Board in 2015 and has served on the Audit and Building Committees and currently serves as the Risk Committee Chairperson. Tom holds a Bachelor of Administration degree (majoring in accounting and finance) as well as a Diploma of Public Administration both from the University of Regina.

Tom recently retired as the Catholic School Division’s Chief Financial Officer wherein he oversaw finance, facilities, transportation and managed school capital building projects. Additionally, Tom has served on numerous community committees and organizations in leadership roles, such as chairman of the St. Anthony’s Church finance committee and a founding member of Border City Optimist Club.

Tom has been a Lloydminster resident since 1991 and a Synergy Credit Union member for over 26 years. Tom strongly believes in the benefits the credit union provides the communities they serve.

Tom is married to Michelle and has a daughter and a son.

**Don WHELER**

Don has served as a director at Synergy Credit Union since 1998 and became Board Chairperson in April 2016. Don holds a Bachelor of Education degree from the University of Saskatchewan. His previous experience in education and leadership serve him well on the Board.

In 2016, Don was the recipient of the prestigious ‘MacGregor Cup’ from the Roy Group, recognizing personal mastery, leadership and promoting leadership in others. He currently chairs the Canadian Student Leadership Association and volunteers with the Saskatchewan Student Leadership Association.

Don believes in building strong communities within the Synergy umbrella in an ethically and fiscally responsible manner. He is enjoying his ‘papa’ status with his 5 grandchildren where his seniority is unanimously recognized.

**Dean WALDE**

Dean joined the Board in 1990 and has served on all committees, in addition to having served 7 years as Synergy’s Board Chair. Dean currently serves as the Audit Committee Chairperson. Dean had previously served on SaskCentral’s Board of Directors for many years, and had the honour of serving as its Board President. Being a SaskCentral board member afforded him the opportunity to serve on the Board of Credit Union Deposit Guarantee Corporation and Concentra Bank.

Dean's experience is not limited to the financial industry, having served on SCA and the Saskatchewan Agricultural Council as well as a former delegate for Federated Co-op and Canadian Co-operative Association.

Dean believes in lifelong learning and is a graduate of the Credit Union Director’s Achievement Program, continuing his education in governance, risk management and financial literacy.

In 2013 Dean received the SaskCentral Order of Merit Award and in October 2017 was honored to receive the very prestigious Lifetime Co-operative Achievement Award from the Saskatchewan Co-operative Association.

**Carolyn YOUNG**

In 2001 Carolyn, her husband and five children moved from Raymore, Saskatchewan to Lloydminster. She holds her CPA, CMA designation and is employed in the accounting department with Husky Energy. Previously, Carolyn worked in various positions during her 10 years at Servus Credit Union, including managing the accounting department. One of her passions is coaching which she demonstrates as part of a CPA student mentor program.

Carolyn is community oriented and believes in promoting the great things Lloydminster has to offer. She gives back to the community through her involvement with Husky's Charitable Campaign program, Relay for Life, serving as a board member on the Lloydminster Tennis Association and hosting International Rotary students. Further, Carolyn and her husband Richard, donate both their time and a portion of the proceeds to many worthwhile community organizations via their personal small businesses.

Carolyn is a longtime member and believes her personal and professional experiences are assets Synergy’s Board of Directors.

## DIRECTOR COMPENSATION AND ATTENDANCE

| Director | Board Meeting Attendance | Committee Assignments | Committee Attendance | Director Compensation 2018 | Director Compensation 2017 |
|---|---|---|---|---|---|
| Brent Baier | 11/11 | Audit Committee<br>Corporate Governance Committee | 3/3<br>3/4 | **8,075** | 7,300 |
| Neil Carruthers<br>Board Vice-Chair | 11/11 | Corporate Governance Committee (Chair)<br>Executive Committee<br>Human Resource Committee | 4/4<br>1/1<br>4/4 | **11,283** | 11,995 |
| Richard Graff | 11/11 | Audit Committee | 5/5 | **6,537** | 7,000 |
| Lorne Janzen | 9/11 | Human Resources Committee<br>Risk Committee | 4/4<br>3/3 | **16,244** | 14,077 |
| Joe Koch | 10/11 | Risk Committee | 4/4 | **8,090** | 10,621 |
| Joe Larre | 9/11 | Human Resources Committee<br>Risk Committee | 3/4<br>1/1 | **7,058** | 10,554 |
| Melanie Mari | 11/11 | Audit Committee | 5/5 | **7,689** | 8,916 |
| Dean Roberts | 9/11 | Audit Committee | 2/2 | **8,383** | 14,352 |
| Tom Schinold | 11/11 | Audit Committee<br>Executive Committee<br>Risk Committee (Chair) | 5/5<br>1/1<br>3/4 | **9,617** | 11,672 |
| Dean Walde | 9/11 | Audit Committee (Chair)<br>Corporate Governance<br>Executive Committee | 5/5<br>4/4<br>1/1 | **19,322** | 18,630 |
| Don Wheler<br>Board Chair | 11/11 | Executive Committee (Chair)<br>Ex-officio on all other board committees | 1/1<br>21/21 | **30,942** | 28,158 |
| Carolyn Young | 10/11 | Human Resources Committee (Chair)<br>Risk Committee<br>Executive Committee | 4/4<br>4/4<br>1/1 | **10,143** | 9,659 |
| | | | **Total Director Compensation** | **143,383** | 152,934 |

## BOARD EFFECTIVENESS AND RENEWAL

To ensure they continue to provide an appropriate level of oversight and stewardship, directors conduct regular board and performance evaluations. These evaluations assess the board’s ability to work as a whole, as well as each director’s skills, experience and contributions in a number of key areas, including finance, strategic planning, human resources, legal and regulatory matters and more. The evaluations help the board identify gaps it may address by recruiting new directors or through its ongoing director education program.

## EXECUTIVE LEADERSHIP TEAM

Synergy Credit Union has an experienced executive leadership team whose role is to oversee the operations of the credit union as established by the strategies and policies approved by the Board of Directors. Executive leadership further develops processes that identify, measure, monitor and control risks.

**Glenn Stang**, Chief Executive Officer

Glenn's background within the credit union system spans more than 37 years, with 20 of those years spent with Synergy. He joined Synergy in August 1997 as Branch Manager of the 50th Street Lloydminster location and held this position until July 2003, when he was promoted to the Executive Manager of Retail Services (now Chief Operating Officer). Synergy's Board of Directors voted unanimously to appoint Glenn as its new CEO, effective January 2, 2013. Glenn believes in lifelong learning and in 2015 completed an extensive 3 year program in order to obtain his Certified Chief Executive (CCE) designation.

**Jason Bazinet**, Chief Risk Officer

Promoted to the Chief Financial Officer role in 2012, the Chief Financial & Risk Officer in 2013 and the Chief Risk Officer in July 2018; Jason has more than 20 years of experience in the financial industry and has worked in the areas of wealth management, credit union regulation, risk analytics, internal audit and finance. Prior to joining Synergy in 2009 as the Manager of Internal Audit, Jason had previously worked for both the Saskatchewan and Alberta Credit Union Deposit Guarantee Corporations. Jason holds a Bachelor of Business Administration degree from the University of Regina and is currently serving his 2nd appointment Lakeland College's Board of Governors, where he is Chair of the Audit, Risk and Sustainability committees.

**Trevor Beaton**, Chief Innovation & People Officer

Trevor was promoted to the Chief Innovation & People Officer role in September 2016. Trevor started his career in the credit union system in 1999 and spent more than 14 years in wealth management. Trevor was promoted to Manager of Advisory Services in 2013, overseeing both Wealth Services and the Business Banking Centre. Trevor holds a Master of Business Administration from Royal Roads University and a Bachelor of Commerce degree from the University of Saskatchewan. Trevor was recognized as a National Young Leader in 2012 and served 3 years on the National Young Leader Committee. Outside of work, Trevor plays an important leadership role in his community of Lashburn. Trevor coaches minor sports, and has been an active board member of fundraising events and recreational facilities.

**Brent Bergen**, Chief Operating Officer

Brent's background within the credit union system spans more than 29 years in seven different credit unions across Saskatchewan and Alberta. Brent joined Synergy Credit Union in September 2007 as a Regional Manager. He was promoted to the Manager of Retail and was most recently selected as the Chief Operating Officer in January 2013. Brent has completed all modules of the Leadership Foundations program with the Smith School of Business at Queen's University and has received his certification from the Queen's Executive Development Centre. Brent is the Vice-Chair of the Lloydminster Region Health Foundation and is a member of the Finance and Administrative committee. Brent is also a member of the Community Housing Initiative Program for Lloydminster.

**Christine Tucker**, Chief Financial Officer

Christine's background within the credit union system spans 20 years. She joined Synergy Credit Union in April 1999 as an Account Manager in Lashburn. Since then she has held many roles including Branch Manager, Regional Manager, Manager of Retail and in July 2018 was promoted to Chief Financial Officer. Christine is a CPA, CMA and with Synergy has continued her passion for continuous learning and achieved her ACUIC designation through Dalhousie University. In addition, Christine is a certified facilitator of our internal cultural training programs at Synergy. She serves on the Board of Midwest Family Connections and is the Finance chair here in Lloydminster.

Left to Right (Back) Jason Bazinet, Brent Bergen, Trevor Beaton, (Front) Glenn Stang, Christine Tucker

# RISK MANAGEMENT

Synergy's business activity exposes us to a wide variety of risks in virtually all aspects of our operations. Our ability to manage these risks is a key competency within the organization and is supported by a strong risk culture and an effective approach to risk management.

Taking measured risks is part of Synergy's business. As a provider of financial products and services, we consider risk management to be critical and integral to our business success. Our risk profile is determined by our own strategies, actions, and changes to the external business environment. We manage these risks within an enterprise-wide risk management (ERM) framework. We continually review our operations, assess and analyze the level of our risk exposures, and compare our risk profile and risk performance measures against a group of selected peer credit unions in Saskatchewan, the Big 5 Canadian chartered banks, and other key competitor financial institutions.

## RISK MANAGEMENT PRINCIPLES

These core risk management principles guide Synergy's risk management practices:

- Balancing risk and reward effectively through aligning business strategy with risk appetite, diversifying risk, pricing appropriately for risk, and mitigating risk through preventive and detective controls.
- Viewing risk as acceptable and necessary to build the business. We only accept those risks that can be understood, managed and are consistent with our cooperative values, code of conduct, and board-approved policies.
- Believing every employee is essentially a risk manager and must be knowledgeable of the risks inherent in their day-to-day activities and responsibilities.
- Building stronger relationships with members reduces our risks by "knowing our members" and ensuring the services we provide are suitable for, and understood by, each member.
- Aiming risk controls at minimizing uncertainty and maximizing opportunity in a way that optimizes the credit union's capacity to protect, and sustainably grow value for our members.
- Using common sense and sound judgment in order to manage risk throughout the credit union.

## ENTERPRISE RISK MANAGEMENT FRAMEWORK

The primary goal of ERM is to ensure the outcomes of risk taking are consistent with the credit union's business activities, strategies and risk appetite. Our ERM framework provides the foundation for achieving this goal and it is constantly evaluated to ensure it meets the challenges and requirements faced by Synergy. The evaluation includes a comparison to industry best practices, as well as compliance with evolving regulatory standards.

## RISK CULTURE

A strong risk culture emphasizes transparency and accountability. Organizations with a strong risk culture have a consistent and repeatable approach to risk management when making key business decisions, including regular discussions of risk and ongoing reviews of risk scenarios that can help management and board members understand the interconnectedness and potential risk impacts. Synergy's strong risk culture is the cornerstone of its effective ERM framework. It starts with appropriate leadership that demonstrates and sends clear messages throughout the organization. This strong risk culture is communicated and emphasized by the actions of executive leadership and the Board of Directors.

# RISK GOVERNANCE

The Board of Directors maintains overall accountability for risk management for the organization. The Board has developed a framework for delegating authority and risk accountability. With this framework, the Board seeks to:

- Understand the risk categories, types of risks the organization may be exposed to, and the practices used to identify, assess, and monitor those risks from a high-level perspective.
- Periodically review and approve the risk policies for specific risks (credit, market, liquidity, etc.), and establish the risk appetite and high-level risk limits for the organization.
- Ensure management has established more granular risk limits that are in line with the board approved risk appetite and high-level risk limits.
- Require a process for identifying, assessing, monitoring and reporting risk exposures.
- Require management to have a process for determining optimal capitalization and for ensuring that appropriate capital management strategies are in place.

The Board of Directors has delegated specific risk oversight and risk accountability to the following committees of the Board. These committees are responsible for studying, discussing and developing risk policy and risk management recommendations for consideration to the Board of Directors.

## AUDIT COMMITTEE

The Audit Committee is responsible for exercising oversight of the internal audit function and for reviewing the effectiveness of internal control and risk management practices. The committee is accountable to the Board for providing reasonable assurance that risks are being adequately managed, and our exposures are within regulatory constraints and the approved risk appetite. The committee further serves as the Conduct Review Committee as specified under *The Credit Union Act, 1998*. The Audit Committee held 5 meetings in 2018.

### AUDIT COMMITTEE CORE RESPONSIBILITIES

- Monitoring financial performance
- Oversight of internal audit
- Monitoring of credit portfolio
- Compliance with anti-money laundering and privacy legislation
- Oversight of annual operating budget
- Compliance with Standards of Sound Business Practice and Synergy's code of conduct
- Monitoring of related party transactions and conflicts of interest

## CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for facilitating effective governance of the credit union, ensuring governance practices evolve with the needs of Synergy. The committee ensures the credit union develops and pursues objectives that maximizes member engagement in the credit union, fosters self-reliant sustainable communities, and ensures appropriate processes are in place to effectively communicate with members and other stakeholders. The committee also serves as the Nominating Committee, whose responsibilities include facilitating the identification of qualified candidates for election to the Board of Directors. The committee's role is to provide for the proper conduct of director elections, including overseeing an orderly, open, transparent and democratic election process. The intent is to encourage participation in the election process, including achieving broad-based, informed, active and effective member engagement. The Corporate Governance Committee held 4 meetings in 2018.

### CORPORATE GOVERNANCE COMMITTEE CORE RESPONSIBILITIES

- Business conduct for directors
- Board committee structure
- Bylaw maintenance and recommended changes
- Board development and succession planning
- Director election process
- Director compensation
- Member engagement and satisfaction
- Community investment
- Stakeholder communications

## HUMAN RESOURCES COMMITTEE

The Human Resource Committee is responsible for overseeing governing human resource policies, as implemented by management, to ensure Synergy's employees are provided with fair and meaningful employment in a safe and respectful workplace. The committee has specific responsibilities with respect to the appointment, monitoring and compensation of executive management. The committee also oversees the development and monitoring of policies that provide for the desired ethical conduct by employees. The Human Resource Committee held 4 meetings in 2018.

### HUMAN RESOURCES COMMITTEE CORE RESPONSIBILITIES

- CEO contract, compensation and evaluation
- CEO succession plan
- Executive management appointments and succession
- Employment principles and compensation
- Employee satisfaction
- Business conduct for employees

## RISK COMMITTEE

The Risk Committee is responsible for exercising oversight activities related to Synergy's risk appetite and ERM framework, including its liquidity and capital stress testing practices. This includes ensuring the appropriate governing policies are developed that include the context for risks to be taken, the level of risks, and the monitoring of adherence to those risk policy parameters. The Risk Committee held 4 meetings in 2018.

RISK COMMITTEE CORE RESPONSIBILITIES

- Oversight of enterprise risk management framework
- Monitoring of corporate risk profile
- Monitoring of internal capital adequacy assessment program (ICAAP) and stress testing results
- Oversight of liquidity, interest rate, and credit risks

## MANAGEMENT'S ROLE IN RISK GOVERNANCE

The **Chief Executive Officer** is accountable to the Board for managing all material risks across the organization. This includes development and execution of strategic and business plans, as well as developing, implementing and monitoring the risk management strategy.

The Chief Executive Officer is supported by the **executive leadership team**, which is comprised of department heads and direct reports. Members of the executive leadership team are responsible for managing all risks generated in their respective business lines and supporting units, which includes ensuring they have adequate systems and tools for effective risk management.

The **Asset-Liability Committee (ALCO)** is a management committee that is accountable for overseeing asset-liability strategies, which includes actively managing the balance sheet, overseeing capital and profitability management, and ensuring there is adequate funding and liquidity to support operations and growth.

The **Credit Committee** is a management committee that is accountable for approving Synergy's larger credit risk exposures.

The **Information Technology (IT) Governance Committee** is a management committee that is accountable for establishing and overseeing the credit union's IT strategic plan. This includes setting IT-related strategic and funding priorities based on future member needs, the lifecycle of our IT infrastructure and supporting applications, and providing maximum functionality and value to the business. The goal of the IT Governance Committee is to ensure Synergy's IT assets, and the IT assets of our service providers, are strategically aligned and integrated in such a way that our IT systems are secure, stable, and reliable.

**Individual business lines and support units** have ownership and accountability for the risk management processes relating to their functions. This includes identifying, assessing, managing and monitoring the risks within their units (with assistance from executive leadership).

The **Chief Risk Officer** is responsible to manage the overall ERM framework to ensure risk items, identified as needing action or attention, are discussed and dealt with in strategic or tactical plans.

The **Chief Financial Officer** is responsible to manage the overall financial operations of the credit union.

**Internal audit** is accountable for independently assessing the effectiveness of our risk management processes, practices, and internal controls by providing objective assurance on management's approach to controlling and managing risk.

## RISK APPETITE

Risk appetite is the formalization of basic principles and statements that guide discussions on risk-reward tradeoffs. It provides a context to discuss risk and risk-related opportunities to determine whether they may be "on strategy" or "off strategy." Additionally, it facilitates a shared understanding of the over-arching risk philosophy to make appropriate risk decisions. Setting the risk appetite is dynamic and requires flexible processes, as well as the continuous review and guidance from both executive leadership and the Board. The Board of Directors reviews Synergy's risk appetite statement annually as part of its planning cycle. Key attributes of our risk appetite include the following basic business principles and statements:

- We offer core banking and advisory services and engage in business activities that will not put our long-term value at risk. Our preference is to pursue organic growth from opportunities in the communities we serve and within our trading area.
- We are committed to achieving high quality and sustainable financial results.
- We have a constructive and highly ethical culture led by an experienced management team committed to standards of sound business practice. Our reputation and brand is important and we will seek to avoid any situation or action that could jeopardize our reputation.
- We seek alliances and collaboration to create future efficiencies and opportunities.
- We take prudent risks to build and execute our business strategies to better serve our current and future members.
- We display careful and diligent management where all employees and directors understand our appetite for risk and consider the risk appetite in all operational and strategic decisions.

# CREDIT RISK

Credit risk is the risk of loss arising from a member or counterparty's failure to meet the terms of any contract with the credit union or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on a counterparty, debt issuer or borrower performance. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

## CREDIT RISK OVERVIEW

Synergy's main source of credit risk exposure is held within our loan portfolio. The culture of our credit risk management reflects the unique combination of policies, practices, experience and management attitudes that support loan growth within our geographic markets. Underwriting standards are designed to ensure an appropriate balance of risk and return and are supported by established loan exposure limits in areas of demonstrated lending expertise. Our concentration of credit is measured against specified tolerance levels by industry sector and product type. In order to minimize potential loss given default, the vast majority of loans are secured by tangible collateral. This approach to managing credit risk has proven to be very effective, as demonstrated by Synergy's consistently lower than industry – and relatively stable – provision for credit losses and write-offs.

## CREDIT RISK MANAGEMENT

We are committed to a number of important principles to manage our credit risk exposures, which includes:

- The clear communication of delegated lending authorities to employees engaged in the credit granting process, which is complemented by a defined approval process for loans in excess of those limits and includes making recommendations to the Credit Department or Credit Committee for credit adjudication.
- The clear communication of credit policies, guidelines and directives to all account managers, retail service centre managers, and region managers whose activities and responsibilities include credit granting and risk assessment.
- The appointment of qualified and experienced employees engaged in credit granting.
- The establishment of a standardized credit risk rating classification for all commercial and agricultural credits.
- The quarterly review of risk diversification by industry sector and the measurement and reporting of product category against assigned portfolio limits.
- The alignment of pricing of credit with risk to ensure an appropriate financial return.
- The balancing of loan growth targets without degrading the overall quality of the loan portfolio.
- The detailed and quarterly review of accounts rated less than satisfactory. These reviews include the completion of a watch list report recording accounts showing evidence of weaknesses, as well as an impaired loan report covering loans that show impairment to the point where a loss is probable.
- The independent reviews of credit evaluation, risk classification and credit management procedures by internal audit, which includes direct reporting of results to executive leadership, the CEO and the Audit Committee.

## RESIDENTIAL MORTGAGE PORTFOLIO

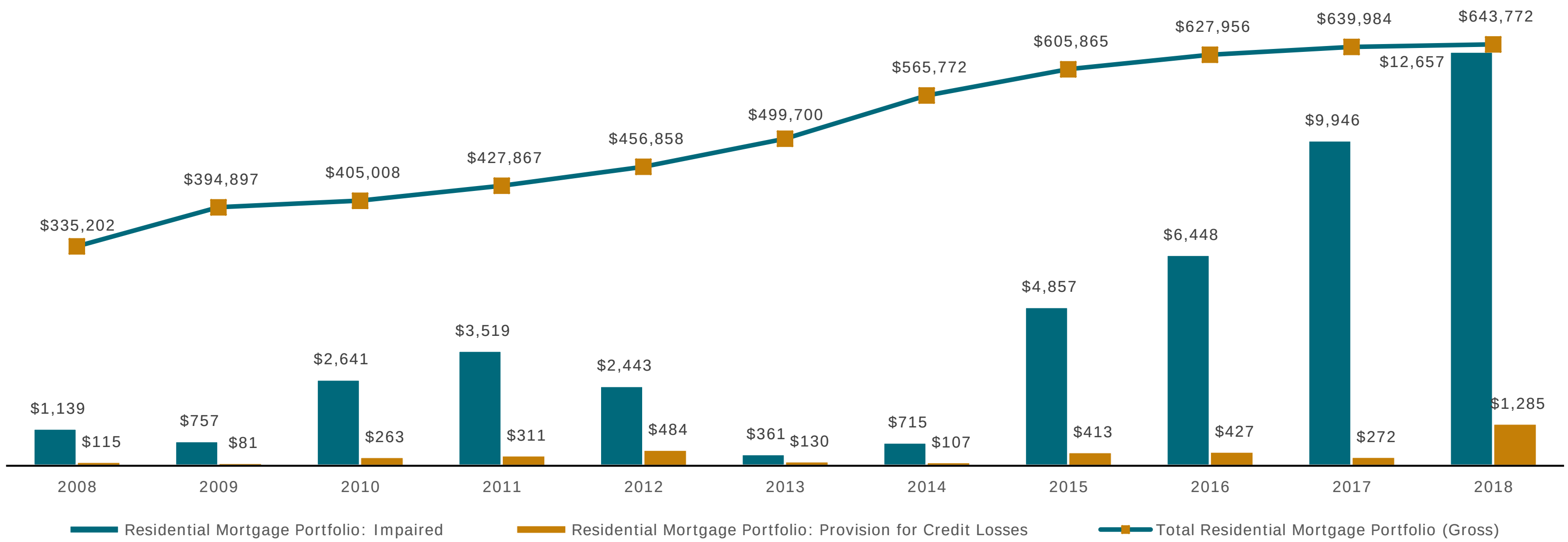
In accordance with CUDGC guidelines, the Credit Union is required to provide additional credit disclosures regarding its residential mortgage portfolio. Synergy is limited to providing residential mortgages of no more than 80% of the collateral value. Lending at a higher loan-to-value (LTV) is permitted but requires default insurance. The insurance is contractual coverage that protects Synergy's real estate secured lending portfolio against potential losses caused by borrower default. Default insurance can be provided by either government backed entities or other approved private mortgage insurers. Currently Synergy only uses Canada Mortgage and Housing Corporation (CMHC) to provide mortgage default insurance.

Synergy regularly performs stress tests to determine the impact of a significant decline in housing prices on the residential mortgage portfolio. The new IFRS9 accounting standard requires the use of expected loss model which calculates the shortfalls that would be incurred in various default scenarios and multiplies that by the probability of it occurring. Each quarter the outcomes are measured and applied to the portfolio.

The following charts are intended to provide: (1) a historical perspective of how Synergy's residential mortgage portfolio has performed through both the 2008/09 global financial crisis and the 2015/16 economic downturn experienced in Saskatchewan and Alberta due to the collapse of oil prices, and (2) a breakdown of the current residential mortgage portfolio into insured mortgages, conventional uninsured mortgages, and uninsured HELOCs.

## RESIDENTIAL MORTGAGE PORTFOLIO: A HISTORICAL PERSPECTIVE

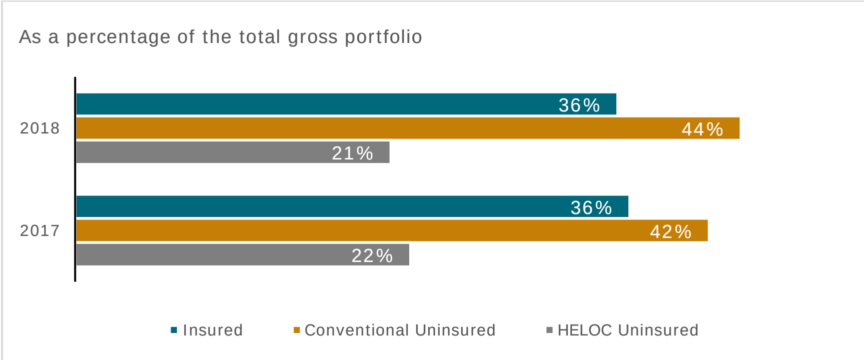
Total residential mortgage portfolio represents the GROSS amounts of outstanding residential mortgages prior to any provision for credit losses being applied to impaired mortgages.
$ thousands




## CURRENT STRUCTURE OF RESIDENTIAL MORTGAGE PORTFOLIO

As at December 31, 2018
$ thousands

| Amortization Range | Insured | Uninsured | HELOC | TOTAL |
|---|---|---|---|---|
| Less than 10 years | 5,966 | 16,265 | 9,110 | 31,341 |
| 10 - 15 years | 16,345 | 24,882 | 23,529 | 64,756 |
| 15 - 20 years | 60,658 | 73,340 | 32,900 | 166,898 |
| 20 - 25 years | 137,617 | 165,000 | 67,215 | 369,832 |
| Greater than 25 years | 8,602 | 1,755 | 588 | 10,945 |
| **TOTAL** | **229,188** | **281,242** | **133,342** | **643,772** |



## MARKET RISK

Market risk is the risk of loss arising from market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. Market risk includes:

- Interest rate risk resulting from movements in interest rates. It arises primarily from timing differences in the re-pricing of assets and liabilities, both on- and off-balance sheet, as they are contractually re-priced or mature
- Price risk resulting from changes in the market price of an asset or liability
- Foreign exchange risk resulting from movements in foreign exchange rates

### MARKET RISK OVERVIEW

Market risk arises when making loans, taking deposits and making investments. Synergy does not undertake market activities such as market making, arbitrage or proprietary trading; therefore, the credit union does not have direct risks related to those activities. The most material market risks for Synergy are those related to changes in interest rates. Synergy has limited exposure to foreign exchange risk and considers its risk position to be immaterial.

### INTEREST RATE RISK & MANAGEMENT

Interest rate risk arises from changes in interest rates that affect our net interest income. Exposure to this risk is what allows the credit union to make money on its loan and deposit portfolios. Synergy's earnings are affected by the monetary policies of the Bank of Canada. Monetary policy decisions have an impact on the level of interest rates, which can have an impact on earnings. Our objective is to earn an acceptable net interest income, without taking unreasonable risk, while striving to meet member needs and expectations.

To manage interest rate risk, ALCO works within policy guidelines for interest rate exposures and meets regularly to monitor the credit union's position and to decide on future strategy. The objective is to manage interest rate risk within prudent guidelines. Interest rate risk policies are reviewed by the Risk Committee and approved by the Board of Directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year.

The analysis in NOTE 19 *Financial Instrument Risk Management, Market Risk* in the financial statements is a static measurement of interest rate sensitivity gaps at a specific point in time. There is potential for these gaps to change significantly in a short period of time. The impact on earnings from changes in market interest rates will depend on both the magnitude of, and speed with which, interest rates change. It will also depend on the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time. To the extent possible within the credit union's acceptable parameters for risk, the asset/liability position will continue to be managed in such a way that changing interest rates would generally have a marginal impact on net interest income.

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract the desired assets and liabilities, as well as through the use of interest rate swaps or other appropriate economic hedging techniques.

## LIQUIDITY RISK

Liquidity risk is the risk that Synergy cannot meet a demand for cash or fund its financial obligations in a cost efficient or timely manner as they become due. Demand for cash can arise from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to sell assets in a timely manner at a reasonable price.

### LIQUIDITY RISK OVERVIEW

Synergy maintains a balanced, sound and prudent approach to managing its exposure to liquidity risk. There is a risk and reward trade-off between holding higher levels of liquid, low yielding assets such as SaskCentral term deposits and government bonds, or deploying these funds into less liquid, higher yielding assets, such as member loans. Through its Internal Capital Adequacy Assessment Program (ICAAP) and its liquidity management program, Synergy assesses and monitors its liquidity strategies and contingency plans under normal, slightly stressed and severe operating conditions that may be caused by either Synergy-specific or market-wide scenarios. The contingency planning and related liquidity and funding management strategies comprise an integrated liquidity risk management program designed to ensure Synergy maintains liquidity risks within an appropriate threshold.

Key liquidity risk principles include:

- Preserving and growing our reliable and stable base of retail depositors.
- Maintaining a flexible liquidity position to manage current and future growth requirements, while also contributing to the safety and soundness of the credit union.
- Maintaining an appropriate balance between the levels of liquidity Synergy holds and the corresponding costs of liquidity risk mitigation that considers the potential impact of extreme, but plausible, liquidity stress events.
- Maintaining a comprehensive liquidity contingency plan that is supported by a pool of saleable assets that can provide access to liquidity in a crisis.

### LIQUIDITY RISK MANAGEMENT

Synergy has comprehensive Asset Liability Management policies that cover key aspects of liquidity risk management. The key elements of managing liquidity risk include the following:

- *Policies.* Liquidity risk management policies establish targets for minimum liquidity, set the monitoring regime, and define authority levels and responsibilities. Policies are reviewed by the ALCO and the Risk Committee and are approved by the Board of Directors. Acceptable thresholds for liquidity risk are established by the setting of limits.
- *Monitoring.* Trends and behaviours regarding how members manage their deposits and loans are monitored to determine appropriate liquidity levels. Active monitoring of the external environment is performed using a wide range of sources and economic barometers.
- *Measurement and modeling.* Synergy's liquidity model measures and forecasts cash inflows and outflows, including any cash flows related to applicable off-balance sheet activities over various risk scenarios.
- *Stress testing.* Synergy performs liquidity stress testing on a regular basis, including the CUDGC prescribed Liquidity Coverage Ratio (LCR) stress test as detailed in NOTE 19 *Financial Instrument Risk Management, Liquidity Risk* to evaluate the potential effect of both industry (macro) and Synergy-specific (micro) disruptions on the credit union's liquidity position. Stress test results are reviewed by the ALCO and are considered in making liquidity management decisions. Liquidity stress testing has many purposes, including, but not limited to:
  - Assisting the Board and executive leadership in understanding the potential behaviour of various positions on the credit union's balance sheet in circumstances of stress.
  - Facilitating the development of effective risk mitigation and contingency plans.
- *Contingency planning.* A liquidity contingency plan is developed and maintained specifying the desired approaches for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate team structure for the management and monitoring of liquidity events. Additionally, the plan indicates processes for effective internal and external communication and identifies potential countermeasures to be considered at various stages of an event.
- *Funding diversification.* Synergy actively monitors and manages the diversification of its deposit liabilities by source, type of depositor, instrument and term. Supplementary funding sources include securitization, whole loan sales, and utilization of the credit facilities provided by SaskCentral and Concentra Bank.
- *Statutory liquidity.* SaskCentral, who serves as the provincial liquidity manager for Saskatchewan credit unions, requires Synergy to maintain a minimum of 10% of its liabilities on deposit with SaskCentral. Statutory liquidity requirements are calculated on a quarterly basis. SaskCentral is an integral partner in Synergy's liquidity risk management program and we are actively collaborating with SaskCentral to ensure our liquidity stress testing and contingency plans are both aligned and coordinated.

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems from either internal or external sources. Operating a complex financial institution exposes Synergy to a broad range of operational risks, including failed transaction processing, documentation errors, information breaches, technology failures, business disruption, theft and fraud, workplace injury, and damage to physical assets. A subset of operational risk is people risk, which is the risk that Synergy is not able to retain and attract sufficient qualified resources to implement its strategies and/or achieve its objectives.

### OPERATIONAL RISK OVERVIEW

Operational risk is inherent in all business activities. It is embedded in processes that support the management of other risks, such as credit, liquidity, market, capital and reputational risk. Its impact can be financial loss, loss of reputation, loss of competitive position, regulatory penalties, or failure in the management of other risks, such as credit or liquidity risk. Synergy is exposed to operational risk from internal business activities, external threats and outsourced business activities. While operational risk cannot be completely eliminated, proactive operational risk management is a key strategy to mitigate this risk.

The primary financial measure of operational risk is actual losses incurred. Synergy has not incurred any material losses related to operational risks in 2017 or 2018. Based on the Basel III regulatory framework, CUDGC requires Synergy to allocate a predetermined amount of capital to provide coverage for potential operational risks. The operational risk capital charge is 15% of average gross net interest income and gross non-interest income for the previous three years. Based on this formula, Synergy has allocated $6.7 million in capital as of December 31, 2018, to cover operational risks (2017 - $6.4 million).

## OPERATIONAL RISK MANAGEMENT

Synergy's individual business and support areas are fully accountable for the management and control of operational risks. Strategies and factors that assist with the effective management of operational risk include, but are not necessarily limited to:

- Recruiting and retaining a knowledgeable and experienced management team committed to sound management practices and the promotion of a highly ethical culture.
- Providing strong leadership that supports and clearly communicates effective risk management practices and encourages employees to report incidents of operational risk failures, breaches, and potential losses to senior managers in a prompt and timely manner.
- Developing organizational surveys on employee engagement and Synergy's desired constructive corporate culture.
- Emphasizing the importance of effective risk management to all levels through a combination of training, coaching, and policy implementation.

Key practices to monitor, assess and manage operational risks include:

- Monitoring losses to maintain awareness of identified operational risks and to assist management in taking constructive action to reduce exposures to future losses.
- Implementing policies and procedural controls appropriate to address the identified risks, including segregation of duties, dual custody, and other checks and balances.
- Enhancing fraud prevention processes and policies on an ongoing basis.
- Establishing "whistleblower" processes and an employee code of conduct.
- Developing human resource policies and processes to ensure employees are adequately trained in the tasks for which they are responsible.
- Incorporating automated systems with built-in controls through the use of technology.
- Developing ongoing succession planning.

# LEGAL AND REGULATORY RISK

Legal and regulatory risk represents the negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of a failure to comply - or adapt to - current and changing regulations, laws, industry codes, regulatory expectations or ethical standards.

## LEGAL AND REGULATORY RISK OVERVIEW

The financial services industry is one of the most closely regulated industries, and the management of a financial services business, such as ours, is expected to meet high standards in all business dealings and transactions. As a result, we are exposed to legal and regulatory risk in virtually all of our activities.

Failure to meet our requirements not only poses a risk of censure or penalty, and may lead to litigation, but it also puts our reputation at risk. Financial penalties, unfavorable judicial judgments, costs associated with legal proceedings or regulatory sanctions can adversely affect our earnings and constrain our strategic business decisions. Legal and regulatory risk differs from other risks, such as credit risk or market risk, in that it is typically not a risk actively or deliberately assumed with the expectation of a return. It occurs as part of the normal course of operating our business.

Over the past several years, the intensity of supervisory oversight of all Canadian financial institutions has increased significantly in terms of new regulatory standards. This includes amplified supervisory activities, an increase in the volume of regulation, more frequent data and information requests from regulators, and shorter implementation time frames for regulatory requirements, including the Basel III capital and liquidity standards. Certain regulations, specific to Saskatchewan credit unions, may also impact Synergy's ability to compete against federally regulated financial institutions, other non-Saskatchewan provincially regulated financial institutions, and government-based financial institutions such as ATB Financial, Farm Credit Canada, and the Business Development Bank of Canada.

Effective management of regulatory risk and compliance in the current environment requires considerable internal resources and the active involvement of executive leadership. Notwithstanding the additional resources, the volume, pace and implementation of new and amended regulations and standards increases the risk of unintended non-compliance.

## OTHER RISK FACTORS

In addition to the risks previously described, other risk factors, including those which follow, may adversely affect Synergy's business, its financial condition and its earnings estimates.

### GENERAL BUSINESS AND ECONOMIC CONDITIONS

Synergy's earnings are largely impacted by the general business and economic conditions of Saskatchewan and Alberta. Several factors that could impact general business and economic conditions in the credit union's core markets include, but are not limited to: changes to energy and other commodity prices; inflation; exchange rates; levels of consumer, business and government spending; levels of consumer, business and government debt; consumer confidence; real estate prices; and, adverse global economic events and/or elevated economic uncertainties.

### LEVEL OF COMPETITION

Synergy's performance is impacted by the intensity of competition in the markets in which we operate, where online competitors could increase the competitive environment as well. Synergy operates in highly competitive markets and member retention may be influenced by many factors, including relative service levels, the prices and attributes of products and services, changes in products and services, and the actions taken by competitors.

### ACCURACY OF INFORMATION

Synergy depends on the accuracy and completeness of information about members and counterparties. In deciding whether to extend credit or enter into other transactions with members and counterparties, Synergy may rely on information furnished by them, including financial statements, appraisals, external credit ratings and other financial information. Synergy may also rely on the representations of members and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on the reports of auditors. Synergy's financial condition and earnings could be negatively impacted to the extent it relies on financial statements that do not comply with standard accounting practices, that are materially misleading, or that do not fairly present (in all material respects) the financial condition and results of operations of members or counterparties.

### ABILITY TO ATTRACT AND RETAIN EMPLOYEES

Competition for qualified employees is intense, reflecting the recruitment needs of other companies in our local markets, as well as those in Saskatchewan and Alberta in general. The goal for Synergy is to continually retain and attract qualified employees who fit within our desired constructive corporate culture, but there is no assurance Synergy will be able to continue to do so.

### INFORMATION SYSTEMS AND TECHNOLOGY

Synergy is highly dependent upon information technology and supporting infrastructure, such as voice, data and network access. Various third parties provide key components of the infrastructure and applications. Disruptions in the credit union's information technology and infrastructure, whether attributed to internal or external factors, including potential disruptions in the services provided by various third parties, could adversely affect the ability of Synergy to conduct regular business and/or deliver products and services to members. In addition, Synergy currently has a number of significant technology projects underway, which further increases risk exposures related to information systems and technology.

### ADEQUACY OF OUR ERM FRAMEWORK

Our ERM framework is made up of various processes and strategies for managing risk exposure. Given our current business structure and the scope of our operations, Synergy is primarily subject to credit, market (mainly interest rate), liquidity, operational, legal, regulatory, and strategic risks. There can be no assurance that the framework to manage risks, including the framework's underlying assumptions and models, will be effective under all conditions and circumstances. If the risk management framework proves ineffective, the credit union could be materially affected by unexpected financial losses and/or other harm.

### CHANGES IN ACCOUNTING STANDARDS

The International Accounting Standards Board continues to change the financial accounting and reporting standards that govern the preparation of Synergy's financial statements. These types of changes can be significant and may materially impact how Synergy records and reports its financial condition and results of operations.

### OTHER FACTORS

Synergy's management cautions the above discussion of risk factors is not exhaustive. Other factors beyond Synergy's control that may affect future results include changes in tax laws, technological changes, unexpected changes in membership spending and savings habits, timely development and introduction of new products and services and the anticipation of, and success in, managing the associated risks.

# 2018 Financial Statements

# 2018 FINANCIAL STATEMENTS

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

**To the Members of Synergy Credit Union Ltd.:**

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

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

The Board of Directors and Audit Committee are comprised entirely of directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Credit Union's external auditors.
MNP LLP is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

Glenn Stang
Chief Executive Officer

Christine Tucker
Chief Financial Officer

March 11, 2019
Lloydminster, Saskatchewan

# INDEPENDENT AUDITOR'S REPORT

**To the Members of Synergy Credit Union Ltd.:**

## Opinion

We have audited the financial statements of Synergy Credit Union Ltd. (the "Credit Union"), which comprise the statement of financial position as at December 31, 2018, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

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

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

MNP LLP

Chartered Professional Accountants

March 11, 2019
Saskatoon, Saskatchewan

## STATEMENT OF FINANCIAL POSITION

As at December 31

| ($ thousands) | NOTE | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | 39,746 | 72,810 |
| Investments | 6 | 158,250 | 154,886 |
| Loans | 7 | 1,146,877 | 1,120,587 |
| Foreclosed Property | | 2,351 | 249 |
| Other receivables | | 187 | 1,797 |
| Other assets | | 1,546 | 1,196 |
| Derivative financial assets | 19 | 1,019 | 1,906 |
| Property, plant and equipment | 8 | 34,277 | 35,500 |
| Intangible assets | 9 | 450 | 356 |
| Deferred income tax assets | 15 | 2,067 | 735 |
| | | **1,386,770** | **1,390,025** |
| **LIABILITIES** | | | |
| Deposits | 10 | 1,193,993 | 1,185,315 |
| Loans payable | 11 | 50,157 | 68,805 |
| Other liabilities | 12 | 8,348 | 4,490 |
| Income taxes payable | | - | 77 |
| Member capital | | | |
| Membership shares | 13 | 32,027 | 32,425 |
| Allocation payable to members | 13 | 2,485 | 2,900 |
| | | **1,287,010** | **1,294,012** |
| **EQUITY** | | | |
| Retained earnings | | 99,760 | 96,135 |
| Accumulated other comprehensive income (loss) | | - | (122) |
| | | 99,760 | 96,013 |
| | | **1,386,770** | **1,390,025** |

On behalf of the Board of Directors:

Don Wheler, Chair
Board of Directors

Dean Walde, Chair
Audit Committee

## STATEMENT OF INCOME

For the years ended December 31

| ($ thousands) | NOTE | 2018 | 2017 |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Loans | | 48,293 | 44,333 |
| Investments | | 5,489 | 2,818 |
| Payments on interest rate derivatives | 19 | 792 | - |
| | | 54,574 | 47,151 |
| **INTEREST EXPENSE** | | | |
| Deposits | | 14,657 | 10,822 |
| Loans payable | | 1,387 | 1,544 |
| Payments on interest rate derivatives | | - | 158 |
| | | 16,044 | 12,524 |
| **NET INTEREST INCOME** | | **38,530** | **34,627** |
| Provision for credit losses | 7 | 4,064 | 1,764 |
| **NET INTEREST MARGIN** | | **34,466** | **32,863** |
| **NON-INTEREST INCOME** | | | |
| Gains (losses) on derivatives | 19 | (1,171) | 1,702 |
| Other revenue | 14 | 8,946 | 8,541 |
| | | 7,775 | 10,243 |
| **NON-INTEREST EXPENSES** (Schedule 1) | | | |
| Personnel | | 18,344 | 18,184 |
| Occupancy | | 3,274 | 3,244 |
| Member security | | 1,067 | 989 |
| General business | | 7,858 | 6,946 |
| Organization | | 515 | 670 |
| | | 31,058 | 30,033 |
| **INCOME BEFORE ALLOCATIONS AND INCOME TAX** | | **11,183** | **13,073** |
| Patronage allocation | | 2,449 | 2,900 |
| Income tax expense | 15 | 1,901 | 2,153 |
| **NET INCOME FOR THE YEAR** | | **6,833** | **8,020** |

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

## STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

| ($ thousands) | 2018 | 2017 |
|---|---|---|
| **NET INCOME FOR THE YEAR** | **6,833** | **8,020** |
| **OTHER COMPREHENSIVE LOSS** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Net unrealized losses on available for sale financial assets | - | (443) |
| Income taxes | - | 120 |
| **OTHER COMPREHENSIVE LOSS FOR THE YEAR** | **-** | **(323)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **6,833** | **7,697** |

## STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

| ($ thousands) | Retained earnings | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|
| Balance at December 31, 2016 | 88,115 | 201 | 88,316 |
| Net income | 8,020 | - | 8,020 |
| Other comprehensive loss | - | (323) | (323) |
| **Balance at December 31, 2017** | **96,135** | **(122)** | **96,013** |
| IFRS 9 transition adjustments | (3,208) | 122 | (3,086) |
| Net income | 6,833 | - | 6,833 |
| **Balance at December 31, 2018** | **99,760** | **-** | **99,760** |

## STATEMENT OF CASH FLOWS

For the years ended December 31

| ($ thousands) | 2018 | 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loan interest received | 48,809 | 45,231 |
| Investment interest received | 4,192 | 1,870 |
| Dividends received | 1,976 | 889 |
| Non-interest revenue received | 10,566 | 8,430 |
| Interest paid | (14,249) | (11,834) |
| Patronage paid to members | (2,863) | (2,141) |
| Payments to vendors and employees | (26,448) | (30,005) |
| Income taxes paid | (2,128) | (2,537) |
| Net increase in loans and foreclosed property | (37,155) | (25,042) |
| Net increase in deposits | 6,954 | 88,926 |
| **Net cash from (used in) operating activities** | **(10,346)** | **73,787** |
| **INVESTING ACTIVITIES** | | |
| Property, plant and equipment and intangible assets purchased | (1,171) | (2,049) |
| Purchases of investments | (3,278) | (19,219) |
| Proceeds on sale and maturities of investments | 778 | 281 |
| **Net cash from (used in) investing activities** | **(3,671)** | **(20,987)** |
| **FINANCING ACTIVITIES** | | |
| Membership shares redeemed and distributions (net) | (399) | 320 |
| Repayment of loans payable | - | (29,926) |
| Proceeds from loan securitizations | 19,528 | 8,383 |
| Repayment of securitization liabilities | (38,176) | (11,641) |
| **Net cash from (used in) financing activities** | **(19,047)** | **(32,864)** |
| Increase (decrease) in cash and cash equivalents | (33,064) | 19,936 |
| Cash and cash equivalents, beginning of year | 72,810 | 52,874 |
| **Cash and cash equivalents, end of year** | **39,746** | **72,810** |

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2018

($ thousands)

## 1. REPORTING ENTITY

Synergy Credit Union Ltd. (the Credit Union) was continued pursuant to *The Credit Union Act 1998* of the Province of Saskatchewan, and operates ten Credit Union branches. The Credit Union serves members in Lloydminster, Kindersley and surrounding areas. The address of the Credit Union's registered office is 4907 50 Street, Lloydminster, Saskatchewan.

In accordance with *The Credit Union Act 1998*, Credit Union Deposit Guarantee Corporation (CUDGC), a provincial corporation, guarantees the full repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

***Statement of compliance***

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors and authorized for issue on March 11, 2019.

## 2. CHANGE IN ACCOUNTING POLICIES

The Credit Union adopted the following new and/or revised standards, effective January 1, 2018. As indicated, adoption of the following new and/or revised standards, had a material impact on the Credit Union's financial statements.

***IFRS 9 Financial instruments***

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Credit Union adopted IFRS 9 as issued in July 2014. The requirements of IFRS 9 are substantially different from those of IAS 39 *Financial instruments: recognition and measurement*. The new standard fundamentally alters the classification and measurement of financial assets subsequent to initial recognition, including impairment and incorporates a new hedge accounting model.

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

***Classification of financial assets and financial liabilities***

IFRS 9 requires financial assets be classified into one of three subsequent measurement categories:

- amortized cost,
- fair value through other comprehensive income,
- or fair value through profit or loss.

Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. IFRS 9 eliminates the following IAS 39 classification categories:

- available for sale,
- held-to-maturity,
- and loans and receivables.

Derivatives embedded within host contracts that are financial assets in the scope of IFRS 9 are no longer separated from the host contract. Instead, the whole hybrid contract is assessed for classification in accordance with the above requirements.

The classification and measurement of financial liabilities is largely retained from IAS 39.

***Impairment of financial assets***

IFRS 9 replaces the methodology under IAS 39 and IAS 37 *Provisions, contingent liabilities and contingent assets* of recognizing impairment losses when incurred with a forward-looking expected credit loss model which requires a more timely recognition of losses expected to occur over the contractual life of the financial asset. IFRS 9 uses a single model for recognizing impairment losses on financial assets. This model also applies to certain loan commitments, financial guarantee contracts, trade receivables and contract assets. Application of the IFRS 9 model results in earlier recognition of impairment losses than under IAS 39. Equity investments are no longer assessed for impairment as all equity investments are measured at fair value.

## 2. CHANGE IN ACCOUNTING POLICIES (Continued)

### *Transition*

In accordance with the transitional provisions provided in IFRS 9, the Credit Union has applied the changes in accounting policies resulting from the adoption of IFRS 9 retrospectively but has elected not to restate comparative figures. All comparative information presented and disclosed for the prior year reflects the requirements of IAS 39. The comparative information related to the carrying amounts of loans commitments and financial guarantee contracts reflects the requirements of IAS 37 *Provisions, contingent liabilities and contingent assets.* Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized directly in retained earnings as at January 1, 2018. Additional transitional provisions applied are described below.

### *Classification and measurement*

For the purposes of determining the classification of financial assets, the business model test has been applied on the basis of facts and circumstances existing at the date of initial application with the resulting classification applied retrospectively.

In assessing the contractual cash flow characteristics, it was impracticable to assess the modified time value of money element of certain financial assets on the basis of facts and circumstances existing at initial recognition of the assets. Accordingly, the contractual cash flows of those financial assets were assessed at the date of initial application without taking into account this requirement of IFRS 9.

### *Impairment*

The credit risk at the date that a financial asset was initially recognized or, for loan commitments and financial guarantee contracts, the date that the entity became a party to the irrevocable commitment, has been determined on the basis of reasonable and supportable information available without undue cost or effort. This has been compared to the credit risk at the date of initial application for the purpose of determining whether there has been a significant increase in credit risk.

For the purposes of this assessment, the Credit Union has assumed that for low credit risk financial assets, credit risk has not increased significantly since initial recognition.

Notwithstanding the above, the Credit Union has applied the rebuttable presumption that there has been a significant increase in credit risk if contractual payments on a financial asset are more than 30 days past due.

### *Initial application of IFRS 9*

*Impact on equity*

The following table shows the impact, net of tax, of the initial application of IFRS 9 on various components of equity. There is no impact to other components of equity.

| | Impact of Initial Application of IFRS 9 |
|---|---|
| **Retained Earnings** | |
| Closing Balance under IAS 39 (December 31, 2017) | 96,135 |
| Re-classification of certain investments from available for sale to fair value through profit and loss | 548 |
| Recognition of expected credit losses under IFRS 9 | (3,756) |
| Opening Balance under IFRS 9 (January 1, 2018) | 92,927 |
| **Accumulated Other comprehensive loss** | |
| Closing balance under IAS 39 (December 31, 2017) | (122) |
| Re-classification of certain investments from available for sale to fair value through profit or loss | 548 |
| Reclassification of certain investments from available for sale to amortized cost | (426) |
| Opening balance under IFRS 9 (January 1, 2018) | - |

*Classification of financial assets and financial liabilities on the date of initial application of IFRS 9*

The following tables present the measurement categories and carrying amounts under IAS 39 as at December 31, 2017 and the new measurement categories and carrying amounts under IFRS 9 for the Credit Union's financial assets and financial liabilities as at January 1, 2018.

## 2. CHANGE IN ACCOUNTING POLICIES (Continued)

| | Sub-note | IAS 39 classification | IFRS 9 classification | IAS 39 carrying amount | IFRS 9 carrying amount |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash | | Amortized Cost | FVTPL (Mandatory) | 2,786 | 2,786 |
| Cash equivalents | | Loans and Receivables | Amortized Cost | 70,024 | 70,024 |
| Investments | 2 | Available for sale | FVTPL (mandatory) | | |
| SaskCentral Shares | | | | 9,050 | 9,050 |
| Concentra Shares | | | | 7,500 | 7,500 |
| Investment Funds | | | | 1,352 | 1,352 |
| Preferred Shares | | | | 513 | 513 |
| Investments | 1 | Loans and receivables | Amortized Cost | | |
| SaskCentral Demand Deposits | | | | 44,500 | 44,500 |
| Mortgage Pool Investments | | | | 406 | 406 |
| Investments | 1 | Available for sale | Amortized cost | | |
| Non-redeemable Term Deposits | | | | 14,504 | 14,500 |
| Marketable Bonds | | | | 2,472 | 2,472 |
| SaskCentral Liquidity Term Deposits | | | | 74,275 | 75,000 |
| Loans | 3 | Loans and receivables | Amortized cost | 1,120,839 | 1,115,818 |
| Other receivables | | Loans and receivables | Amortized cost | 1,797 | 1,797 |
| Derivative financial assets | | FVTPL (mandatory) | FVTPL (mandatory) | 1,906 | 1,906 |
| Total Financial Assets | | | | 1,351,924 | 1,347,624 |
| **Financial liabilities** | | | | | |
| Deposits | | Amortized cost | Amortized cost | 1,185,315 | 1,185,315 |
| Loans Payable | | Amortized cost | Amortized cost | 68,805 | 68,805 |
| Other Liabilities | | Amortized cost | Amortized cost | 4,490 | 4,490 |
| Member Capital | | Amortized cost | Amortized cost | 35,325 | 35,325 |
| Total Financial Liabilities | | | | 1,293,935 | 1,293,935 |

Application of the accounting policies adopted on the date of initial application of IFRS 9 resulted in the reclassifications as set out in the table above and explained below:

1 – SaskCentral and Concentra Bank liquidity term deposits redeemable prior to December 31, 2017, became non-redeemable at transition date and are recognized at amortized cost
2 – Certain equity investments were reclassified out of available for sale and into fair value through profit and loss. Equity investments include SaskCentral and Concentra Financial Preferred and Regular Shares, Investment in Co-operatives, Apex Investment Fund, and Prairies Ventures Fund. These investments were reclassified because they were held for trading and the Credit Union has not elected to designate these investments as fair value through other comprehensive income.
3 - Collective allowance of $807 recorded under IAS 39 was de-recognized and restated under the IFRS 9 expected credit loss requirements to $5,828.

The following table reconciles carrying amounts previously reported under IAS 39 on December 31, 2017, to the carrying amounts under IFRS 9 on January 1, 2018.

## 2. CHANGE IN ACCOUNTING POLICIES (Continued)

| | IAS 39 | Reclassification | Remeasurement | IFRS 9 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| **Amortized Cost** | | | | |
| Cash | | | | |
| Opening Balance | 2,786 | | | |
| To FVTPL | | (2,786) | | |
| Closing balance | | | | - |
| Cash equivalents | | | | |
| Opening balance | 70,024 | | | |
| Closing balance | | | | 70,024 |
| Investments | | | | |
| Opening balance | 44,906 | | | |
| From Available for sale | | 91,251 | | |
| Remeasurement | | | 721 | |
| Closing balance | | | | 136,878 |
| Loans | | | | |
| Opening balance | 1,120,839 | | | |
| Remeasurement | | | (5,021) | |
| Closing balance | | | | 1,115,818 |
| Other Receivables | | | | |
| Opening balance | 1,797 | | | |
| Closing balance | | | | 1,797 |
| Total amortized cost | 1,240,352 | 88,465 | (4,300) | 1,324,517 |
| **Available for Sale** | | | | |
| Investments | | | | |
| Opening balance | 109,666 | | | |
| To FVTPL (mandatory) | | (18,415) | | |
| To Amortized cost | | (91,251) | | |
| Closing balance | | | | - |
| Total available for sale | 109,666 | (109,666) | - | - |
| **FVTPL** | | | | |
| Cash | | | | |
| Opening balance | - | | | |
| from Amortized Cost | | 2,786 | | |
| Closing balance | | | | 2,786 |
| Investments | | | | |
| Opening balance | - | | | |
| From Available for sale | | 18,415 | | |
| Closing balance | | | | 18,415 |
| Derivative Financial Assets | | | | |
| Opening balance | 1,906 | | | |
| Closing balance | | | | 1,906 |
| Total FVTPL | 1,906 | 21,201 | - | 23,107 |
| Total Financial Assets | 1,351,924 | - | (4,300) | 1,347,624 |
| **Financial Liabilities** | | | | |
| **Amortized Cost** | | | | |
| Deposits | | | | |
| Opening balance | 1,185,315 | | | |
| Closing balance | | | | 1,185,315 |
| Loans Payable | | | | |
| Opening balance | 68,805 | | | |
| Closing balance | | | | 68,805 |
| Other Liabilities | | | | |
| Opening balance | 4,490 | | | |
| Closing balance | | | | 4,490 |
| Member Capital | | | | |
| Opening balance | 35,325 | | | |
| Closing balance | | | | 35,325 |
| Total amortized cost | 1,293,935 | | | 1,293,935 |

## 2. CHANGE IN ACCOUNTING POLICIES (Continued)

The following table reconciles the closing impairment allowance for financial assets measured in accordance with IAS 39 as at December 31, 2017 to the opening loss allowance determined in accordance with IFRS 9 at January 1, 2018 and the closing investments balance for financial assets measured in accordance with IAS 39 as at December 31, 2017 to the opening investments balance determined in accordance with IFRS 9 at January 1, 2018.

| | IAS 39 | Re-measurment | IFRS 9 |
|---|---|---|---|
| Allowances for expected credit losses | 807 | 5,021 | 5,828 |
| Investments | 154,886 | 721 | 155,293 |

### *IFRS 15 Revenue from contracts with customers*

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Credit Union adopted IFRS 15 *Revenue from contracts with customers* as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including:

- IAS 11 *Construction contracts*, IAS 18 *Revenue*,
- IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*,
- IFRIC 18 *Transfers of assets from customers*,
- and SIC 31 *Revenue – barter transactions involving advertising services*.

### *Transition*

The Credit Union applied the changes in the accounting policies resulting from IFRS 15 using modified retrospective application method. The impact of the net changes was deemed to be insignificant. Hence, no adjustment was made to the opening balance of retained earnings at January 1, 2018. The comparative information contained within these financial statements has not been restated and continues to be reported under previous revenue standards.

The application of the standard has not resulted in any substantial changes in the Credit Union's accounting policy for revenue recognition.

### *Initial application of IFRS 15*

There was no material impact on the financial statements from the retrospective application of IFRS 15 *Revenue from contracts with customers*.

## 3. BASIS OF PREPARATION

### *Basis of measurement*

The financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

### *Functional and presentation currency*

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

### *Significant accounting judgments, estimates and assumptions*

The preparation of the Credit Union's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in comprehensive income in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

### *Allowance for impaired loans – applicable before January 1, 2018*

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

**3. BASIS OF PREPARATION** (Continued)

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans that have been assessed individually and found not to be impaired and all individually insignificant loans are assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook.

***Allowance for impaired loans collective provision – applicable before January 1, 2018***

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For purposes of the collective provision loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

***Classification of financial assets – applicable from January 1, 2018***

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

***Impairment of financial assets – applicable from January 1, 2018***

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

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

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about:

- prepayments,
- the timing and extent of missed payments or default events.

In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

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

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date

## 3. BASIS OF PREPARATION (Continued)

- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

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

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to Value ratios
- Housing price indices

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

***Fair value of unquoted equity instruments – applicable from January 1, 2018***

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

***Deferred income taxes***

The calculation of deferred income tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred income tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of financial statement preparation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future years could be material.

***Income taxes***

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

***Financial instrument not traded in active markets – applicable before January 1, 2018***

For financial instruments not traded in active markets, where fair values are determined, they are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

***Impairment of non-financial assets***

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

***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 depreciation or amortization for each class of assets.

***Securitization de-recognition***

The determination of whether the Credit Union's securitization arrangements qualify for de-recognition requires management judgment on the evaluation of the criteria for de-recognition.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements have been summarized below. These accounting policies have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

Regulations to the Act specify that certain items are required to be disclosed in the consolidated financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these consolidated financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

***Foreign currency translation***

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in net income for the current period.

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

***Revenue recognition – Policy applicable before January 1, 2018 (comparative year)***

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

Interest income is recognized in net income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Interest penalties received as a result of loan prepayments by members are recognized as income in the year in which the prepayment is made, unless only minor modifications (based on a present value of future cash flows test) were made to the loan in which case they are deferred and amortized using the effective interest method.

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are recognized using the effective interest method over the estimated repayment term of the related loan.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Investment security gains and losses are recognized in accordance with the requirements of their classification as outlined further under the *Financial Instruments* policy note.

Loan syndication fees are recognized on completion of the syndication arrangement on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

Commission revenue is recognized net of broker commission expense as earned on the effective date of each policy.

Other revenue is recognized as services are provided to members.

***Revenue recognition – Policy applicable from January 1, 2018 under IFRS 15 revenue from contracts with customers***

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

***Services charge fees, commission and other revenue***

The Credit Union generates revenue from the Credit Union providing financial services to its members. Revenue is recognized as services are rendered.

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***FINANCIAL INSTRUMENTS – Policy applicable before January 1, 2018 (comparative year)***

### Classification and Measurement of Financial Instruments

All financial instruments are initially recognized at fair value. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. Measurement in subsequent years depends on whether the financial instrument has been classified as fair value through profit or loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. During the year, there has been no reclassification of financial instruments.

The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions.

*Transaction costs:*
The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments, except for those classified as at fair value through profit or loss, where transaction costs are expensed as incurred.

*Fair value through profit or loss (FVTPL):*
A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Credit Union's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of income.

The Credit Union's interest rate derivatives are classified as FVTPL as they are held for trading.

*Available for sale:*
Available for sale (AFS) assets include assets which may be sold in response to or in anticipation of changes in interest rates and repayment risk, or to meet liquidity needs. AFS financial assets are non-derivative financial assets that are designated as AFS and that are not classified in any of the other categories. AFS assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income (AOCI), until the financial asset is sold or de-recognized, at which time the cumulative gain or loss is transferred to net income. Fair value is determined in the manner described in Note 19.

The Credit Union has classified the following financial assets as AFS:

- SaskCentral shares
- Concentra shares
- Marketable bonds
- Investment funds
- Preferred shares
- Non-redeemable term deposits
- SaskCentral liquidity term deposits

*Loans and receivables:*
Loans and receivables are loans that the Credit Union has the intention and ability to hold until maturity. Loans are recorded at outstanding principal plus accrued interest. Loans and receivables include 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. Reported amounts are measured at amortized cost using the effective interest rate method, less any impairment.

The Credit Union has classified the following financial assets as loans and receivables:

- Cash and cash equivalents
- SaskCentral liquidity deposits
- Mortgage pool investments
- Other investments
- Loans
- Securitized mortgages
- Other receivables

*Held to maturity:*
Held to maturity (HTM) financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

positive intention and ability to hold until its maturity date, and which are not designated as at fair value through profit or loss or as available for sale.

HTM financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

The Credit Union does not have any financial assets classified as HTM.

*Other financial liabilities:*
Other financial liabilities are recorded at amortized cost using the effective interest rate method, and include all liabilities other than derivatives. Interest expense, calculated using the effective interest rate method, is recognized in net income.
The Credit Union has classified the following financial liabilities as other financial liabilities:

- Deposits
- Loans payable
- Other liabilities

*Derivative financial instruments:*
Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. In the ordinary course of business the Credit Union enters into derivative financial instruments, including interest rate swaps, to manage its exposure to interest rate risk. Fair value is determined in the manner described in Note 19.

Derivatives embedded in other non-derivative financial instruments or other host contracts are separated from their host contracts and accounted for as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument or contract is not measured at fair value through profit or loss.

Derivatives, including embedded derivatives that are recognized separately, are classified as FVTPL. Interest received or paid on derivatives is included in net interest income and changes in fair value are included in non-interest income.

### Impairment of Financial Assets

The Credit Union assesses financial assets, other than those carried at FVTPL, for indicators of impairment at each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Impairment losses are measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate for fixed rate instruments and the current effective rate at the date of impairment for variable rate instruments. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, which is reduced through the use of allowance accounts. Impairment losses are recognized in net income.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent recovery in the fair value of an impaired AFS equity instrument is recognized in other comprehensive income.

*Allowance for credit losses for loans:*
A loan is classified as impaired when there is reasonable doubt as to collectability or payments of interest or principal are past due 90 days. Objective evidence of impairment for loans could also include; default or delinquency by the borrower; indications that the borrower will enter bankruptcy or other observable data relating to a portfolio of loans, such as adverse changes in the payment status of borrowers in the portfolio; or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Credit Union writes off a loan balance when the Collections Department determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to repay the outstanding balance.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The allowance for credit losses comprises two parts – a specific allowance component and a collective allowance component, determined as follows:

- The Credit Union first records a specific allowance based on management's regular review and evaluation of individual loans. The allowance is based upon management's best estimate of the present value of the cash flows expected to be received, discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
- Loans for which a specific allowance has not been established are then included in groups of loans having similar credit risk characteristics and are subject to a collective allowance. The Credit Union records a collective allowance, when objective evidence of impairment within the groups of loans exists but the individually impaired loans cannot be identified. The Credit Union estimates the collective allowance for impairment using a formula based on its historical loss experience for similar groups of loans in similar economic circumstances and current economic conditions. As management identifies individually impaired loans the collective allowance is adjusted accordingly.

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are classified as held for sale and are measured at the lower of their previous carrying amount and fair value less cost to sell and are included in other assets.

*Investments:*
Objective evidence of impairment for investments could include a significant or prolonged decline in the fair value of the security below its cost or disappearance of an active market for the security.

When an AFS investment is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income.

***Financial instruments – Policy applicable from January 1, 2018***

***Financial assets***

***Recognition and initial measurement***

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

The Credit Union recognizes and derecognizes purchases and sales of financial assets on the trade date, which is the date that the Credit Union commits to selling or purchasing the financial asset. Interest is not accrued on the asset and corresponding liability until the settlement date when title of the financial asset passes.

***Classification and subsequent measurement***

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and de-recognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, accounts receivable, loans, and certain investments held.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon de-recognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash, certain investments, and derivative financial assets (which are interest rate swaps).

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

***Business model assessment***

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

***Contractual cash flow assessment***

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

***Reclassifications***

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

***Impairment***

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of, applying the Credit Union's accounting policies for impairment of financial assets.

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

The Credit Union applies the simplified approach for accounts receivable. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Refer to Note 19 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

### *De-recognition of financial assets*

The Credit Union applies its accounting policies for de-recognition of a financial asset to a part of a financial asset only when:

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

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

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

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

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

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

The Credit Union engages in certain securitization transactions resulting in transfers not qualifying for de-recognition, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

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

### Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's de-recognition policy. The Credit Union considers the following circumstances as an expiry of its contractual rights to the cash flows from an asset: changes to the present value of contractual cash flows of the original asset exceeding 10% (i.e. the Credit Union applies the guidance for modification of a financial liability by analogy), or substantial changes to the risk exposures arising from the financial asset.

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

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

### *Financial liabilities*

### *Recognition and initial measurement*

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

### Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The following financial liabilities are measured at fair value through profit or loss:

- Derivative liabilities (interest rate swaps)

In addition, on initial recognition the Credit Union may irrevocably designate certain financial liabilities to be measured at fair value through profit or loss in the following circumstances:

- The designation eliminates or significantly reduces an accounting mismatch
- A group of financial liabilities or financial liabilities and financial assets is managed and its performance evaluated on a fair value basis
- The financial liability is a host contract containing one or more embedded derivatives

Changes in the carrying amount of these financial liabilities are recognized in profit or loss. Where the Credit Union has designated a financial liability at fair value through profit or loss, the change in fair value of the financial liability attributable to the Credit Union's own credit risk is presented in other comprehensive income, except where doing so creates or enlarges an accounting mismatch. Those amounts recorded in other comprehensive income are not subsequently reclassified to profit or loss.

Financial liabilities measured at fair value through profit or loss include derivative liabilities (interest rate swaps).

When the transfer of a financial asset does not qualify for de-recognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in profit or loss.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized include deposits, loans payable, other liabilities, and member capital.

Financial liabilities are not reclassified subsequent to initial recognition.

***De-recognition of financial liabilities***

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

***Derivatives***

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

***Dividend income***

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

***Interest***

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

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

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

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

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

***Collateral***

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

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

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Cash and cash equivalents***

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

***Investments***

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

***Impairment of non-financial assets***

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

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

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

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

***Securitization***

The Credit Union securitizes loan assets, generally through the sale of these assets to third parties. As the Credit Union remains exposed to residual risk and reward through the retention of items such as servicing requirements and the right to excess spread, these assets have not been de-recognized, as the de-recognition criteria have not been met and they continue to be reported on the consolidated statement of financial position. The residual risks associated with these assets are mitigated by the Credit Union's risk policies.

***Syndication***

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

***Foreclosed assets***

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

***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is available for use.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The depreciation rates applicable for each class of asset during the current and comparative period are as follows:

| | |
|---|---|
| Buildings and improvements | 5 to 40 years |
| Furniture and equipment | 3 to 20 years |
| Automotive | 5 years |

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

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

***Intangible assets***

***Computer software***

The Credit Union's only intangible asset is computer software which is amortized to net income on a straight-line basis over its estimated useful life of 3 - 10 years. The useful life of computer software will be reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

Gains or losses on the disposal of intangible assets will be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognised in net income as other operating income or other operating costs, respectively.

***Income taxes***

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

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

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

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

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

***Leases***

A lease that transfers substantially all of the benefits and risks of ownership is classified as a finance lease. At the inception of a finance lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair market value at inception of the lease. Assets under finance leases are amortized on a straight-line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

***Employee benefits***

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

Credit Union contributions to the defined contribution plan are expensed as incurred.

***Membership shares***

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Borrowing Costs***

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, such as property, plant and equipment and intangible assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

***Standards issued but not yet effective***

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2018 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

***IFRS 9 Financial instruments (Amendments)***

In October 2017, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 *Financial Instruments*, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in November 2017, to address the classification of certain pre-payable financial assets.

The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held as well as consideration of whether certain eligibility conditions are met.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Credit Union has not yet determined the impact of this amendment on its financial statements.

***IFRS 16 Leases***

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union has not yet determined the impact of this standard on its financial statements.

***IFRIC 23 Uncertainty over Income Tax Treatments***

In June 2017, the IASB issued a new International Financial Reporting Interpretations Committee ("IFRIC") interpretation, to specify how to reflect the effects of uncertainty in accounting for income taxes. IAS 12 *Income Taxes* provides requirements on the recognition and measurement of current or deferred income tax liabilities and assets. However, it does not provide a specific requirement for the accounting for income tax when the application of tax law to a particular transaction or circumstance is uncertain. As a result, the interpretation aims to reduce the diversity in how entities recognise and measure a tax liability or tax asset when there is uncertainty over income tax treatments.

The new interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Credit Union has not yet determined the impact of this standard on its financial statements.

***IAS 28 Investments in Associates and Joint Ventures (Amendments)***

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures*, incorporated into Part I of the CPA Canada Handbook – Accounting by the AcSB in November 2017, to clarify the accounting for long term interests in associates or joint ventures.

The amendments clarify that IFRS 9 *Financial Instruments*, including its impairment requirements, apply to long-term interests in an associate or joint venture to which the equity method is not applied.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Credit Union has not yet determined the impact of this standard on its financial statements.

## 5. CASH AND CASH EQUIVALENTS

| | 2018 | 2017 |
|---|---|---|
| Cash on hand | 3,413 | 2,786 |
| Deposits on demand | 36,333 | 70,024 |
| | **39,746** | **72,810** |

On December 31, 2018 Synergy Credit Union had $889 owing on the line of credit with SaskCentral, which was offset by $37,222 in deposits on hand.

## 6. INVESTMENTS

| | 2018 | 2017 |
|---|---|---|
| **Amortized Cost (2017- Loans and Receivables)** | | |
| SaskCentral liquidity deposits | 44,015 | 44,500 |
| Mortgage pool investments | - | 406 |
| Accrued interest | - | 1 |
| Subtotal | 44,015 | 44,907 |
| **Amortized Cost (2017-Available for Sale)** | | |
| SaskCentral liquidity term deposits | 77,486 | 74,275 |
| Non-redeemable term deposits | 15,000 | 14,504 |
| Marketable bonds | 2,716 | 2,472 |
| Accrued interest | 364 | 254 |
| Subtotal | 95,566 | 91,505 |
| **Total amortized cost investments** | **139,581** | **136,412** |
| **Fair Value Through Profit Loss (FVTPL) (2017-Available for Sale)** | | |
| SaskCentral shares | 9,050 | 9,050 |
| Concentra shares | 7,500 | 7,500 |
| Investment funds | 1,540 | 1,352 |
| Preferred shares | 513 | 513 |
| Accrued interest | 66 | 59 |
| Subtotal | 18,669 | 18,474 |
| **Total fair value through profit loss (FVTPL)** | **18,669** | **18,474** |
| **Total investments** | **158,250** | **154,886** |

Pursuant to Regulation 18(1)(a) of *The Credit Union Regulations, 1999*, Credit Union Central of Saskatchewan (SaskCentral) requires the Credit Union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits with SaskCentral. CUDGC requires the Credit Union adhere to these prescribed statutory liquidity deposit requirements. As of December 31, 2018 and 2017, the Credit Union met the requirements.

SaskCentral is owned by Saskatchewan credit unions acting as their liquidity manager and key consulting service provider. SaskCentral maintains business relationships with, and invests in, a number of co-operative entities on behalf of Saskatchewan credit unions, including Concentra Bank, Credit Union Payment Services (CUPS), CU CUMIS Wealth Holdings LP (CUC Wealth) and Celero Solutions. SaskCentral holds 84.0% of the voting common shares of Concentra Bank.

## 7. LOANS

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Performing | Impaired | Allowance Specific | Allowance for Expected Credit Losses | Net Loans |
| Mortgages | | | | | |
| Agriculture | 99,193 | 273 | (176) | (17) | 99,273 |
| Commercial | 131,521 | 1,110 | (83) | (1,789) | 130,759 |
| Residential | 631,115 | 12,657 | (1,285) | (653) | 641,834 |
| Consumer loans | 134,486 | 3,247 | (2,042) | (2,165) | 133,526 |
| Business loans | 137,575 | 3,355 | (1,875) | (1,291) | 137,764 |
| Accrued interest | 3,155 | 566 | - | - | 3,721 |
| **Total loans** | **1,137,045** | **21,208** | **(5,461)** | **(5,915)** | **1,146,877** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Performing | Impaired | Allowance Specific | Allowance Collective | Net Loans |
| Mortgages | | | | | |
| Agriculture | 90,172 | 237 | - | - | 90,409 |
| Commercial | 123,340 | - | - | - | 123,340 |
| Residential | 630,034 | 9,946 | (272) | - | 639,708 |
| Consumer loans | 137,780 | 3,757 | (2,709) | (182) | 138,646 |
| Business loans | 125,330 | 1,426 | (810) | (625) | 125,321 |
| Accrued interest | 2,856 | 307 | - | - | 3,163 |
| **Total loans** | **1,109,512** | **15,673** | **(3,791)** | **(807)** | **1,120,587** |

Included in the above balances are securitized residential mortgages amounting to $50,566 (2017 - $69,130). These residential mortgages have been pledged as collateral for secured borrowings of $50,157 (2017 - $68,805).

## 7. **LOANS** (Continued)

### *Changes in Allowance for Credit Losses:*

| | **2018** | **2017** |
|---|---|---|
| Balance at beginning of year | 4,598 | 5,188 |
| IFRS 9 transition adjustments | 5,021 | - |
| Impairment losses recognized | 4,064 | 1,764 |
| Amounts written-off | (2,307) | (2,354) |
| **Balance at end of year** | **11,376** | **4,598** |

Of the total allowance for credit losses of $11,376 (2017 – $4,598), $5,461 (2017 – $3,791) is a specific provision and $5,915 (2017 – $807) is a collective provision.

### *Loans Past Due but not Impaired:*

A loan is considered past due when a payment had not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

Loans that are past due but not impaired as at December 31, are as follows:

| | **2018** | | | |
|---|---|---|---|---|
| | 1 to 59 days | 60 to 90 days | More than 90 days | Total all days |
| Mortgages | | | | |
| Agriculture | 4,030 | 112 | - | 4,142 |
| Commercial | 1,428 | 2,655 | - | 4,083 |
| Residential | 17,405 | 2,357 | - | 19,762 |
| Consumer loans | 3,074 | 251 | - | 3,325 |
| Business loans | 2,118 | 486 | - | 2,604 |
| **Total loans** | **28,055** | **5,861** | **-** | **33,916** |

| | **2017** | | | |
|---|---|---|---|---|
| | 1 to 59 days | 60 to 90 days | More than 90 days | Total all days |
| Mortgages | | | | |
| Agriculture | 1,906 | 201 | - | 2,107 |
| Commercial | 1,541 | - | - | 1,541 |
| Residential | 16,784 | 2,965 | - | 19,749 |
| Consumer loans | 3,994 | 185 | - | 4,179 |
| Business loans | 3,289 | 2,395 | - | 5,684 |
| **Total loans** | **27,514** | **5,746** | **-** | **33,260** |

## 8. PROPERTY, PLANT AND EQUIPMENT

| **Cost** | Land | Building and improvements | Furniture and equipment | Automotive | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2016 | 6,493 | 34,945 | 9,649 | 169 | 51,256 |
| Additions | - | 1,430 | 393 | - | 1,823 |
| Disposals | - | (220) | (293) | - | (513) |
| Transfers | - | - | - | - | - |
| Balance at December 31, 2017 | 6,493 | 36,155 | 9,749 | 169 | 52,566 |
| Additions | - | 691 | 181 | - | 872 |
| Disposals | - | - | (1,417) | - | (1,417) |
| Transfers | - | - | - | - | - |
| **Balance at December 31, 2018** | **6,493** | **36,846** | **8,513** | **169** | **52,021** |

| **Accumulated depreciation** | Land | Building and improvements | Furniture and equipment | Automotive | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2016 | - | 9,426 | 5,799 | 130 | 15,355 |
| Depreciation | - | 1,401 | 613 | 25 | 2,039 |
| Disposals | - | (41) | (287) | - | (328) |
| Balance at December 31, 2017 | - | 10,786 | 6,125 | 155 | 17,066 |
| Depreciation | - | 1,383 | 686 | 12 | 2,081 |
| Disposals | - | - | (1,403) | - | (1,403) |
| **Balance at December 31, 2018** | **-** | **12,169** | **5,408** | **167** | **17,744** |

| **Net book value** | Land | Building and improvements | Furniture and equipment | Automotive | Total |
|---|---|---|---|---|---|
| At December 31, 2017 | 6,493 | 25,369 | 3,624 | 14 | 35,500 |
| **At December 31, 2018** | **6,493** | **24,677** | **3,105** | **2** | **34,277** |

## 9. INTANGIBLE ASSETS

| Cost | Purchased software |
|---|---|
| Balance at December 31, 2016 | 2,991 |
| Additions | 226 |
| Disposals | (380) |
| Balance at December 31, 2017 | 2,837 |
| Additions | 299 |
| Disposals | (57) |
| **Balance at December 31, 2018** | **3,079** |

| Accumulated amortization | |
|---|---|
| Balance at December 31, 2016 | 2,658 |
| Amortization | 190 |
| Disposals | (367) |
| Balance at December 31, 2017 | 2,481 |
| Amortization | 204 |
| Disposals | (56) |
| **Balance at December 31, 2018** | **2,629** |

| Net book value | |
|---|---|
| At December 31, 2017 | 356 |
| **At December 31, 2018** | **450** |

## 10. DEPOSITS

| | 2018 | 2017 |
|---|---|---|
| Demand deposits | 687,780 | 748,211 |
| Term deposits | 500,097 | 432,712 |
| Accrued interest | 6,116 | 4,392 |
| | **1,193,993** | **1,185,315** |

## 11. LOANS PAYABLE

| | 2018 | 2017 |
|---|---|---|
| Financial liabilities from securitizations | 50,157 | 68,805 |
| | **50,157** | **68,805** |

*Financial Liabilities from Securitizations:*
During the year, the Credit Union securitized $19,528 (2017 - $8,383) in residential mortgages and recognized new related loans payable liabilities of $19,361 (2017 - $8,262). At December 31, 2018, the carrying amount of the secured borrowings was $50,157 (2017 - $68,805) with a weighted average interest rate of 1.88% (2017 – 1.69%). The Credit Union received the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in Note 19.

*SaskCentral:*
The Credit Union has an authorized line of credit bearing interest at prime less 0.50% in the amount of $8,000 from SaskCentral. Prime rate was 3.95% at December 31, 2018. At December 31, 2018 the Credit Union had $889 (2017 - $0) outstanding on this line of credit.

The Credit Union also has available through SaskCentral a commercial paper facility in the amount of $30,000. Under the program, the Credit Union may request drawings up to the established limit. The principal amount and interest are due on the maturity date of the commercial paper issued by SaskCentral. The interest rate payable is the commercial paper market term rate as established plus 0.375%. As of December 31, 2018 and 2017, the Credit Union had $0 drawn on this program, bearing nil interest. As at December 31, 2018 and 2017, the accrued interest on this commercial paper facility is $0.

All SaskCentral bank indebtedness agreements are secured by general security agreements registered against the assets of the Credit Union.

*Concentra Bank:*
The Credit Union has a secured quick line (revolving credit facility) in the amount of $50,000 from Concentra Bank. The intended purpose of the credit facility is to support the Credit Union's liquidity needs in extending loans to members and to finance any other operating requirements.

At December 31, 2018 and 2017, the Credit Union had no balance outstanding on this credit facility. The credit facility is secured by residential mortgages equaling 110% of the credit limit insured by CMHC or Genworth Financial Corporation, as well as a second charge security interest against the assets of the Credit Union. The interest rate payable under the facility is the three-month CDOR rate plus 1.00% with an annual stand-by fee of 0.20% per annum.

## 12. OTHER LIABILITIES

| | 2018 | 2017 |
|---|---|---|
| Accounts payable and accrued liabilities | 8,037 | 4,178 |
| Retained member capital for distribution | 311 | 312 |
| | **8,348** | **4,490** |

The Credit Union contributes annually to a defined contribution pension plan for employees. The annual pension expense of $859 (2017 - $867) is included in personnel expenses.

## 13. MEMBERSHIP SHARES AND ALLOCATION PAYABLE

Membership shares, including member ProfitShares, are as provided for by *The Credit Union Act 1998* and administered according to the Credit Union's Bylaws, which set out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC.

Membership share characteristics include freedom from mandatory charge and subordination to the rights of creditors and depositors.

| | 2018 | 2017 |
|---|---|---|
| Balance, beginning of year | 32,425 | 31,948 |
| Allocations to members | | |
| Interest rebate to borrowers | 767 | 743 |
| Bonus interest to investors | 776 | 759 |
| Share dividend | 953 | 629 |
| Redemptions on member accounts | (3,017) | (1,778) |
| Allocated membership shares | 31,904 | 32,301 |
| Other membership shares | 123 | 124 |
| **Total membership shares** | **32,027** | **32,425** |

The Board of Directors declared a patronage allocation in the amount of $2,485 on December 31, 2018 (2017 - $2,900). The patronage allocation approved by the Board of Directors is based on the amount of loan interest paid, deposit interest earned, member rewards, and a dividend based on outstanding ProfitShare balances as of December 31, 2018.

| | 2018 | 2017 |
|---|---|---|
| Interest rebate to borrowers | 820 | 770 |
| Bonus interest to investors | 621 | 780 |
| Member account rewards | 408 | 385 |
| Share dividend | 636 | 965 |
| | **2,485** | **2,900** |

## 14. OTHER REVENUE

| | 2018 | 2017 |
|---|---|---|
| Deposit fees and commissions | 3,805 | 3,724 |
| Wealth services | 2,593 | 2,402 |
| Insurance | 1,372 | 1,041 |
| Loan fees | 549 | 723 |
| Credit Card | 405 | 651 |
| Other | 222 | - |
| | **8,946** | **8,541** |

## 15. INCOME TAXES

| | 2018 | 2017 |
|---|---|---|
| Income tax expense is comprised of: | | |
| Current income tax expense | 2,051 | 2,167 |
| Deferred income tax recovery | (150) | (14) |
| | **1,901** | **2,153** |

A reconciliation of income taxes at statutory rates with the reported income taxes is as follows:

| | 2018 | 2017 |
|---|---|---|
| Income before income taxes | 8,734 | 10,173 |
| Combined federal and provincial tax rate | 27.00% | 26.75% |
| Income tax expense at statutory rate | 2,358 | 2,721 |
| Adjusted for the net effect of: | | |
| Non-deductible and other items | (128) | (125) |
| Credit union rate reduction | (329) | (443) |
| | **1,901** | **2,153** |

## 15. INCOME TAXES (Continued)

Deferred income tax assets and liabilities recognized are attributable to the following:

| | 2018 | 2017 |
|---|---|---|
| **Deferred income tax assets** | | |
| Property, plant and equipment | 322 | 331 |
| Loans | 1,745 | 320 |
| Investments | - | 84 |
| **Net deferred income tax assets** | **2,067** | **735** |

The net deferred income tax asset is expected to be recovered in more than twelve months from December 31, 2018.

## 16. CAPITAL MANAGEMENT

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

The Credit Union follows the standardized approach to calculate risk-weighted assets for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments.

Based on the prescribed risk of each type of asset, a weighting of 0% to 1250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC.

Tier 1 capital is defined as a Credit Union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirement for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 (CET1) capital and additional tier 1 capital. CET1 capital includes retained earnings, contributed surplus, and AOCI. Deductions from CET1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own use property. Additional tier 1 capital consists of qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 1 capital and are not included in common equity tier 1 capital. At the current time, the Credit Union does not have any qualifying membership or investment shares that meet the criteria established for additional tier 1 capital.

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

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

The Credit Union has adopted a capital management framework that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors.

The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2018:

| | Regulatory standard | Board minimum |
|---|---|---|
| Eligible capital to risk-weighted assets | 10.50% | 12.50% |
| Tier 1 capital to risk-weighted assets | 8.50% | 9.50% |
| CET1 capital to risk-weighted assets | 7.00% | 9.50% |
| Leverage ratio | 5.00% | 6.00% |

During the year ended December 31, 2018 and 2017, the Credit Union complied with all internal and external capital requirements.

## 16. CAPITAL MANAGEMENT (Continued)

*Eligible Capital:*

| | 2018 | 2017 |
|---|---|---|
| **Risk-weighted assets** | **789,303** | **789,979** |
| CETI capital comprises: | | |
| Retained earnings | 99,760 | 96,135 |
| Accumulated other comprehensive loss | - | (122) |
| Deductions from common equity tier 1 capital: | | |
| Intangible assets | (450) | (356) |
| Eligible CET1 capital | 99,310 | 95,657 |
| Additional tier 1 capital | - | - |
| **Total eligible tier 1 capital** | 99,310 | 95,657 |
| Tier 2 capital comprises: | | |
| Membership capital | 34,512 | 35,325 |
| Collective allowance | 5,915 | 807 |
| **Total tier 2 capital** | 40,427 | 36,132 |
| **Total eligible capital** | **139,737** | **131,789** |

*Regulatory Capital Adequacy Ratios:*

| | 2018 | 2017 |
|---|---|---|
| Total eligible capital to risk-weighted assets | 17.70% | 16.68% |
| Total tier 1 capital to risk-weighted assets | 12.58% | 12.11% |
| CET1 capital to risk-weighted assets | 12.58% | 12.11% |
| Leverage ratio | 10.02% | 9.42% |

## 17. RELATED PARTY TRANSACTIONS

A related party exists when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other, or is a member, or close family member of a member, of the key management personnel of the Credit Union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

The Board's Audit Committee reviews and monitors all related party transactions for compliance with legislation, standards of sound business practice and with Credit Union's policies and procedures. The Committee is charged with ensuring that all proposed related party transactions are fair to the Credit Union and that the best judgment of the Credit Union has not been compromised as a result of real or perceived conflict of interest.

Related parties are defined in *The Credit Union Act 1998* and include all directors or senior officers of the Credit Union, their spouses, their children under the age of 18, or any entity in which the director, senior officer, their spouse, or their children under the age of 18 has a substantial or controlling interest. This year the Credit Union has expanded its scope of senior officers to include the direct reports to Executive Management.

*Member Loans:*

The Credit Union, in accordance with its policy, grants loans to related parties at regular member rates or at preferred staff rates for senior officers. These loans are granted under the same lending policies applicable to other members. The Credit Union received interest from related parties in the amount of $404 (2017 - $268).

| | 2018 | 2017 |
|---|---|---|
| Loans outstanding at January 1 | 7,319 | 7,193 |
| Loans issued (repaid) during the year, net | 4,273 | 126 |
| | **11,592** | **7,319** |

*Deposit Accounts:*

Related parties may hold deposit accounts and have access to personal chequing accounts that do not incur service charges. Interest paid by the Credit Union to the related parties is $22 (2017 - $14).

| | 2018 | 2017 |
|---|---|---|
| Deposits at January 1 | 5,040 | 5,116 |
| Deposits received (repaid) during the year, net | (869) | (76) |
| | **4,171** | **5,040** |

*Ordinary course of Business Transactions:*

The Credit Union, in accordance with its policy and *The Credit Union Act 1998*, can enter into business transactions for the purchase of services with entities owned or significantly controlled by designated related parties. These transactions are in the Credit Union's ordinary course of business, are at market terms and conditions, and are reviewed and reported to the Audit Committee. The value of such services purchased by the Credit Union to entities owned or significantly controlled by designated related parties in 2018 was $60 (2017 - $134).

## 17. RELATED PARTY TRANSACTIONS (Continued)

*Key Management Compensation:*

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 (ELT) and members of the board who held offices during the financial year. The ELT is comprised of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, and Chief Innovation & People Officer.

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

| | 2018 | 2017 |
|---|---|---|
| Directors | | |
| Salaries and other short-term benefits | 148 | 158 |
| Executive leadership team | | |
| Salaries and other short-term benefits | 1,296 | 1,107 |
| Post-employment benefits | 68 | 55 |
| | **1,512** | **1,320** |

In the above table, remunerations shown as salaries and other short-term 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.

Members of the ELT receive a performance-based incentive in the form of variable compensation, which is included in salaries and other short-term benefits. Variable compensation is accrued in the fiscal year earned and paid in the following year. Figures in the above table represents the timing of when variable compensation amounts are accrued as a personnel expense as opposed to when they are paid. Variable compensation accrued for the ELT in 2018 is $276 (2017 - $247).

Travel and training costs to members of the board in 2018 were $55 (2017 - $22).

## 18. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Credit Union takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair values are determined where possible by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The Credit Union classifies fair value measurements of financial instruments recognized in the statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

- *Level 1:* Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities;
- *Level 2:* Fair value measurements are derived from inputs other than quoted prices that are included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* Fair value measurements derived from valuation techniques that include significant unobservable inputs.

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.

The following table summarizes the carrying amount and fair values of the Credit Union's financial instruments.

## 18. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value classifications | | | Carrying amount | Fair value classifications | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| **FINANCIAL ASSETS – Recurring measurements** | | | | | | | | |
| *FVTPL (2018), Available for sale investments (2017)* | | | | | | | | |
| Cash | 3,413 | - | 3,413 | - | - | - | - | - |
| SaskCentral shares | 9,050 | - | - | 9,050 | 9,050 | - | - | 9,050 |
| Concentra shares | 7,500 | - | - | 7,500 | 7,500 | - | - | 7,500 |
| SaskCentral liquidity term deposits | - | - | - | - | 74,275 | - | 74,275 | - |
| Non-redeemable term deposits | - | - | - | - | 14,504 | - | 14,504 | - |
| Marketable bonds | - | - | - | - | 2,472 | - | 2,472 | - |
| Investment funds | 1,540 | - | - | 1,540 | 1,352 | - | - | 1,352 |
| Preferred shares | 513 | - | - | 513 | 513 | - | - | 513 |
| Derivative financial assets | 1,019 | - | 1,019 | - | 1,906 | - | 1,906 | - |
| **Total financial assets – recurring measurements** | **23,035** | **-** | **4,432** | **18,603** | **111,572** | **-** | **93,157** | **18,415** |
| **FINANCIAL ASSETS – Fair values disclosed** | | | | | | | | |
| *Amortized cost (2018) Loans and receivables (2017)* | | | | | | | | |
| Cash and cash equivalents | 36,333 | - | 36,333 | - | 72,810 | - | 72,810 | - |
| SaskCentral liquidity term deposits | 77,486 | - | 77,486 | - | - | - | - | - |
| SaskCentral liquidity demand deposits | 44,015 | - | 44,015 | - | 44,500 | - | 44,500 | - |
| Non-redeemable term deposits | 15,000 | - | 15,000 | - | - | - | - | - |
| Marketable bonds | 2,716 | - | 2,716 | - | - | - | - | - |
| Mortgage pool investments | - | - | - | - | 406 | - | 406 | - |
| Loans | 1,146,877 | - | 1,159,420 | - | 1,120,587 | - | 1,131,943 | - |
| Other receivables | 187 | - | 187 | - | 1,797 | - | 1,797 | - |
| **Total financial assets – fair values disclosed** | **1,322,614** | **-** | **1,335,157** | **-** | **1,240,100** | **-** | **1,251,456** | **-** |
| **FINANCIAL LIABILITIES – Fair values disclosed** | | | | | | | | |
| *Other financial liabilities* | | | | | | | | |
| Deposits | 1,193,993 | - | 1,191,393 | - | 1,185,315 | - | 1,186,001 | - |
| Loans payable | 50,157 | - | 51,596 | - | 68,805 | - | 69,487 | - |
| Other liabilities | 8,348 | - | 8,348 | - | 4,490 | - | 4,490 | - |
| Member capital | 34,512 | - | - | 34,512 | 35,325 | - | - | 35,325 |
| **Total financial liabilities – fair values disclosed** | **1,287,010** | **-** | **1,251,337** | **34,512** | **1,293,935** | **-** | **1,259,978** | **35,325** |

**18. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

*Methods and Assumptions:*

- The fair values of short-term financial instruments including cash and cash equivalents, short-term investments, other receivables, other liabilities, and certain other assets and liabilities are approximately equal to their carrying values.
- Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.
- For variable interest rate loans that reprice frequently, fair values approximate carrying values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.
- Carrying values approximate fair values for deposits with adjustable rates without specified maturity terms. Fair values for other deposits and loans payable with specified maturity terms are estimated using discounted cash flow calculations at market rates for similar deposits with similar terms.
- The fair values of derivative financial instruments are 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 interest rates used to discount estimated cash flows, when applicable, are based on interest rates for identical products as at the reporting date.
- All recurring Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.
- For fair value measurements of Level 3 SaskCentral and Concentra Bank shares for 2018, the Credit Union has assessed that the fair value of the amounts is comparable to their amortized cost, which equals the par value of the shares. The shares are not quoted or traded, however when new shares are offered the price remains the same as the par value of all currently available shares. There was no impact of the measurement on profit or loss for the year.

Changes in recurring measurement level 3 assets:

| | **2018** | **2017** |
|---|---|---|
| Balance, beginning of year | 18,415 | 18,426 |
| Gains recognized in net income | 537 | 53 |
| Additions | 460 | - |
| Disposals | (809) | (64) |
| **Balance, end of year** | **18,603** | **18,415** |

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT

The nature of the Credit Union's financial instruments creates exposure to credit, liquidity and market risk. Management of these risks is established in policies and procedures determined by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

### Credit Risk

Credit risk is the risk of loss to the Credit Union if a customer or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans and receivables and principal and interest amounts due on investments.

Credit risk is managed in accordance with a governing policy established by the Board of Directors. The Board of Directors has delegated responsibility for the management of credit risk to the CEO. The CEO has in turn delegated responsibility for management of credit risk within the loan portfolio to the Retail Division, and for management of credit risk within the investment and derivatives portfolio to the Finance Division.

### Inputs, assumptions and techniques

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

The Credit Union considers loans and receivables to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to

**19. FINANCIAL INSTRUMENT RISK MANAGEMENT** (continued)

the Credit Union’s past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union. These loans are considered stage 3 loans.

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

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers. These loans are considered stage 2 loans. The Credit Union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming. Loans that are not determined to be stage 2 or stage 3 loans are considered stage 1 loans.

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been de-recognized, the Credit Union assesses for significant increases in credit risk by consideration of its ability to collect interest and principal payments on the modified financial asset, the reason for the modifications, the borrower’s payment performance compared to the modified contractual terms and whether such modifications increase the borrower’s ability to meet its contractual obligations.

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

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

The Credit Union will measure expected credit losses on an individual basis for the loans that are considered credit-impaired since it usually has information available to estimate the actual amounts that are expected to be recovered. The lifetime expected credit losses will be calculated as the difference between the carrying amount and the present value of expected recoveries (including the sale of collateral) for the individual loan. When measuring 12-month and lifetime expected credit losses, the Credit Union utilizes complex modelling, which uses current banking system loan data to assess probability of default, exposure at default, loss given default, and present value calculations.

Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses. Management also makes judgment on how many years of data to utilize or whether to weigh more recent years more heavily in the analysis.

*Write-offs*
Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when they have exhausted all attempts to obtain some of the loan back, including realizing on the security, if any, and disposing of related security. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

### Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments* (2018). The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. The gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

| **December 31, 2018** | **Loans Outstanding** | | | | **Allowance for Credit Losses (ACL)** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Gross Loans** | Stage 1 | Stage 2 | Stage 3 | **ACL** | **Gross Loans** |
| Mortgages | | | | | | | | | |
| Agriculture | 90,391 | 8,581 | 495 | **99,467** | 13 | 1 | 179 | **193** | **99,274** |
| Commercial | 95,220 | 34,327 | 3,084 | **132,631** | 188 | 975 | 709 | **1,872** | **130,759** |
| Residential | 565,323 | 69,290 | 9,159 | **643,772** | 189 | 598 | 1,151 | **1,938** | **641,834** |
| Consumer Loans | 121,720 | 14,389 | 1,624 | **137,733** | 570 | 2,455 | 1,182 | **4,207** | **133,526** |
| Business Loans | 107,146 | 29,744 | 4,039 | **140,929** | 96 | 1,086 | 1,984 | **3,166** | **137,763** |
| Accrued Interest | 2,614 | 455 | 652 | **3,721** | - | - | - | **-** | **3,721** |
| **Total** | **982,414** | **156,786** | **19,053** | **1,158,253** | 1,056 | 5,115 | 5,205 | **11,376** | **1,146,877** |

| **January 1, 2018** | **Loans Outstanding** | | | | **Allowance for Credit Losses (ACL)** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | **Gross Loans** | Stage 1 | Stage 2 | Stage 3 | **ACL** | **Gross Loans** |
| Mortgages | | | | | | | | | |
| Agriculture | 89,824 | 552 | 32 | **90,408** | 16 | 4 | 13 | **33** | **90,375** |
| Commercial | 92,229 | 27,375 | 3,735 | **123,339** | 217 | 953 | 203 | **1,373** | **121,966** |
| Residential | 585,219 | 46,773 | 7,990 | **639,982** | 238 | 620 | 133 | **991** | **638,991** |
| Consumer Loans | 128,713 | 10,698 | 2,127 | **141,538** | 700 | 2,147 | 1,770 | **4,617** | **136,921** |
| Business Loans | 104,142 | 20,851 | 1,762 | **126,755** | 153 | 1,683 | 769 | **2,605** | **124,150** |
| Accrued Interest | 2,409 | 307 | 447 | **3,163** | - | - | - | **-** | **3,163** |
| **Total** | **1,002,536** | **106,556** | **16,093** | **1,125,185** | 1,324 | 5,407 | 2,888 | **9,619** | **1,115,566** |

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

*Concentrations of credit risk*

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

### Amounts arising from expected credit losses

*Reconciliation of the loss allowance*

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

| 2018 | Allowance for Credit Losses (ACL) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Agriculture Mortgages | | | | |
| Balance at January 1, 2018 | 16 | 4 | 13 | 33 |
| Transfers | (3) | (3) | 166 | 160 |
| Balance at December 31, 2018 | **13** | **1** | **179** | **193** |
| Commercial Mortgages | | | | |
| Balance at January 1, 2018 | 217 | 953 | 203 | 1,373 |
| Transfers | (29) | 22 | 506 | 499 |
| Balance at December 31, 2018 | **188** | **975** | **709** | **1,872** |
| Residential Mortgages | | | | |
| Balance at January 1, 2018 | 237 | 620 | 134 | 991 |
| Transfers | (48) | (22) | 1,017 | 947 |
| Balance at December 31, 2018 | **189** | **598** | **1,151** | **1,938** |
| Consumer Loans | | | | |
| Balance at January 1, 2018 | 700 | 2,147 | 1,770 | 4,617 |
| Transfers | (130) | 308 | (588) | (410) |
| Balance at December 31, 2018 | **570** | **2,455** | **1,182** | **4,207** |
| Business Loans | | | | |
| Balance at January 1, 2018 | 153 | 1,683 | 769 | 2,605 |
| Transfers | (57) | (597) | 1,215 | 561 |
| Balance at December 31, 2018 | **96** | **1,086** | **1,984** | **3,166** |
| **Total allowance for credit losses** | | | | **11,376** |

*Investments:*

The following table summarizes the credit exposure of the Credit Union's investment portfolio.

| | 2018 | 2017 |
|---|---|---|
| AA | 2,729 | 2,485 |
| A | 7,558 | 7,550 |
| R-1 | 145,901 | 142,978 |
| Unrated | 2,062 | 1,873 |
| **Total investments** | **158,250** | **154,886** |

*Loan Portfolio:*

Please refer to Note 7 which summarizes credit risk exposures for the loan portfolio including performing loans, impaired loans, past due but not impaired loans, and allowances for credit losses.

*Exposure to Credit Risk:*

The Credit Union's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial asset (cash, investments, loans, securitized mortgages, other receivables and derivatives) is the carrying amount of those assets as indicated in the statement of financial position. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

In the normal course of business, the Credit Union has entered into various commitments to extend credit that may not be reported on the statement of financial position, as well as guarantees and standby letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. Commitments are included in Note 20.

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

### Liquidity Risk

Liquidity risk is the risk that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due. Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

*Risk Measurement:*

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective specific and market conditions and the related behavior of its members and counterparties. The Credit Union measures and manages the liquidity position from three risk perspectives:

- Short-term exposure (up to one month) based on historical changes in liquidity;
- Medium-term exposure (up to one year) based on forecasted cash flows; and
- Exposure to abnormal liquidity events based on various stress tests.

*Policies and Processes:*

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows. The Finance Division manages day-to-day liquidity within board-approved policies, and reports to the ALCO quarterly to ensure compliance. Management provides quarterly reports on these matters to the Risk Committee. The acceptable amount of risk is defined by policies approved by the Board and monitored by the ALCO and Risk Committee. The Credit Union's liquidity policies and practices include:

- Measuring, monitoring and forecasting of cash flows;
- Maintaining a sufficient pool of high quality liquid assets to meet operating needs;
- Maintaining access to credit and commercial paper facilities;
- Managed growth of the Credit Union's loan and deposit portfolios;
- Established access to asset sale programs through capital markets and credit union partners;
- The establishment of a board approved liquidity plan and related liquidity contingency plans; and
- Participation in the mandatory statutory liquidity program.

The following are the contractual maturities of the Credit Union's non-derivative and derivative financial liabilities.

| **2018** | Less than 1 year | 1 to 3 years | 3 to 5 years | Over 5 years |
|---|---|---|---|---|
| Deposits | 965,921 | 146,021 | 81,556 | 495 |
| Loans payable | 11,010 | 23,207 | 15,940 | - |
| Other liabilities | 8,141 | 207 | - | - |
| | **985,072** | **169,435** | **97,496** | **495** |

| **2017** | Less than 1 year | 1 to 3 years | 3 to 5 years | Over 5 years |
|---|---|---|---|---|
| Deposits | 976,233 | 143,584 | 64,698 | 800 |
| Loans payable | 29,929 | 25,929 | 12,947 | - |
| Other liabilities | 4,282 | 208 | - | - |
| | **1,010,444** | **169,721** | **77,645** | **800** |

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

### Liquidity Risk (Continued)

*Liquidity Coverage Ratio:*

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

- Consists of cash or assets that can be converted into cash at little or no loss of value; and
- Meets its liquidity needs for a 30 calendar day stress scenario.

Inflow and outflow values are calculated as outstanding balances maturing or callable within 30 days of various types of liabilities, off-balance sheet items or contractual receivables. These items are weighted after the application of haircuts (for HQLA) and inflow and outflow rates as prescribed by CUDGC. The LCR is calculated as the weighted value of HQLA divided by the weighted value of total net cash outflows.

| | 2018 | |
|---|---|---|
| High quality liquid assets (HQLA): | Actual Value | Weighted Value |
| Level 1 HQLA | 80,705 | 80,705 |
| Level 2A HQLA | 9,236 | 7,851 |
| Level 2B HQLA | 15,181 | 7,590 |
| **Total HQLA** | 105,122 | **96,146** |
| Cash outflows: | | |
| Stable retail deposits | 294,919 | 14,746 |
| Less stable retail deposits | 66,810 | 6,681 |
| Unsecured wholesale funding | 493,384 | 58,812 |
| Secured wholesale funding | - | - |
| Other contractual funding obligations | 214,554 | 15,122 |
| Total cash outflows | 1,069,667 | 95,361 |
| Cash inflows: | | |
| Inflows from loan repayments | 10,038 | 5,019 |
| Inflows from other counterparties not included in HQLA | 35,228 | 35,228 |
| Total cash inflows | 45,266 | 40,247 |
| Cash inflows after CUDGC maximum inflow cap applied, if required | | 40,247 |
| **Total net cash outflows** | | **55,114** |

| | 2017 | |
|---|---|---|
| High quality liquid assets (HQLA): | Actual Value | Weighted Value |
| Level 1 HQLA | 78,707 | 78,707 |
| Level 2A HQLA | 4,585 | 3,897 |
| Level 2B HQLA | 8,255 | 4,127 |
| Total HQLA | 91,547 | **86,731** |
| Cash outflows: | | |
| Stable retail deposits | 306,821 | 15,341 |
| Less stable retail deposits | 83,060 | 8,306 |
| Unsecured wholesale funding | 496,267 | 39,638 |
| Secured wholesale funding | - | - |
| Other contractual funding obligations | 226,080 | 12,809 |
| Total cash outflows | 1,112,228 | 76,094 |
| Cash inflows: | | |
| Inflows from loan repayments | 10,583 | 5,292 |
| Inflows from other counterparties not included in HQLA | 60,878 | 60,878 |
| Total cash inflows | 71,461 | 66,170 |
| Cash inflows after CUDGC maximum inflow cap applied, if required | | 57,071 |
| Total net cash outflows | | **19,023** |

*Quarterly LCR History:*

| | 2018 | 2017 |
|---|---|---|
| At March 31 | 478% | 152% |
| At June 30 | 210% | 173% |
| At September 30 | 342% | 204% |
| At December 31 | 174% | 456% |

As the LCR is a CUDGC prescribed standard, when a credit union is not in compliance, CUDGC may take any necessary action. Necessary action may include, but is not limited to:

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

The Credit Union has met and complied with its 2018 internal LCR limit of 100% and the CUDGC limit of 90% for 2018.

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

### Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors, such as interest rates, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. The primary market risks that the Credit Union is exposed to are interest rate risk and foreign currency risk.

The Finance Division manages day-to-day market risk within approved policies and reports quarterly to ALCO to ensure policy compliance. Management provides quarterly reports on these matters to the Risk Committee.

*Interest Rate Risk:*
The most significant form of market risk to the Credit Union is interest rate risk. Interest rate risk is the potential adverse impact on profit due to changes in interest rates. The Credit Union's exposure to interest rate risk arises due to timing differences in the repricing assets and liabilities, as well as due to financial assets and liabilities with fixed and floating rates. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time buckets.

The following table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing/maturity dates. Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The schedule does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

| **2018** | On demand | Within 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 36,333 | - | - | - | - | 3,413 | 39,746 |
| *Effective rate* | *1.60%* | - | - | - | - | - | *1.60%* |
| Investments | 44,445 | 27,716 | 30,503 | 36,983 | 513 | 18,090 | 158,250 |
| *Effective rate* | *1.84%* | *1.24%* | *2.19%* | *1.61%* | *0.73%* | - | *1.59%* |
| Loans | 288,729 | 29,135 | 118,108 | 684,446 | 26,459 | - | 1,146,877 |
| *Effective rate* | *5.60%* | *4.22%* | *4.01%* | *3.95%* | *4.91%* | - | *4.40%* |
| Derivative financial assets | - | - | - | - | - | 1,019 | 1,019 |
| Other receivables | - | - | - | - | - | 187 | 187 |
| | **369,507** | **56,851** | **148,611** | **721,429** | **26,972** | **22,709** | **1,346,079** |
| **Liabilities and equity** | | | | | | | |
| Deposits | 457,878 | 92,128 | 179,897 | 227,577 | 495 | 236,018 | 1,193,993 |
| *Effective rate* | *1.05%* | *2.22%* | *2.20%* | *2.40%* | *2.62%* | - | *1.36%* |
| Loans payable | - | 460 | 10,550 | 39,147 | - | - | 50,157 |
| *Effective rate* | *3.45%* | *2.09%* | *1.92%* | *2.10%* | - | - | *2.06%* |
| Other liabilities | - | - | - | - | - | 8,348 | 8,348 |
| Member capital | - | - | - | - | - | 34,512 | 34,512 |
| | **457,878** | **92,588** | **190,447** | **266,724** | **495** | **278,878** | **1,287,010** |
| Balance sheet mismatch | (88,371) | (35,737) | (41,836) | 454,705 | 26,477 | (256,169) | 59,069 |
| Derivatives | 125,000 | (75,000) | - | (50,000) | - | - | - |
| **Net mismatch** | **36,629** | **(110,737)** | **(41,836)** | **404,705** | **26,477** | **(256,169)** | **59,069** |

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

### Market Risk (continued)

*Interest Rate Risk* (continued)

| 2017 | On demand | Within 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 70,024 | - | - | - | - | 2,786 | 72,810 |
| *Effective rate* | *1.00%* | - | - | - | - | - | *1.00%* |
| Investments | 44,817 | 9,972 | 32,409 | 49,275 | 513 | 17,900 | 154,886 |
| *Effective rate* | *1.10%* | *1.38%* | *0.98%* | *0.88%* | *0.64%* | - | *0.91%* |
| Loans | 303,868 | 16,044 | 158,813 | 615,182 | 26,680 | - | 1,120,587 |
| *Effective rate* | *4.87%* | *4.52%* | *3.88%* | *3.84%* | *4.67%* | - | *4.16%* |
| Derivative financial assets | - | - | - | - | - | 1,906 | 1,906 |
| Other receivables | - | - | - | - | - | 1,797 | 1,797 |
| | **418,709** | **26,016** | **191,222** | **664,457** | **27,193** | **24,389** | **1,351,986** |
| **Liabilities and equity** | | | | | | | |
| Deposits | 510,818 | 53,956 | 169,675 | 208,281 | 800 | 241,785 | 1,185,315 |
| *Effective rate* | *0.78%* | *1.80%* | *1.70%* | *2.04%* | *2.38%* | - | *1.02%* |
| Loans payable | - | - | 29,929 | 38,876 | - | - | 68,805 |
| *Effective rate* | - | - | *1.84%* | *1.83%* | - | - | *1.83%* |
| Other liabilities | - | - | - | - | - | 4,490 | 4,490 |
| Member capital | - | - | - | - | - | 35,325 | 35,325 |
| | **510,818** | **53,956** | **199,604** | **247,157** | **800** | **281,600** | **1,293,935** |
| Balance sheet mismatch | (92,109) | (27,940) | (8,382) | 417,300 | 26,393 | (257,211) | 58,051 |
| Derivatives | 125,000 | - | - | (125,000) | - | - | - |
| **Net mismatch** | **32,891** | **(27,940)** | **(8,382)** | **292,300** | **26,393** | **(257,211)** | **58,051** |

The Credit Union estimates net income would be impacted by the following amounts given a +/- 1% change in interest rates. Given the non-linear relationship between broader market rates and rates on Credit Union deposits, the sensitivity of net income to interest rates is expected to decrease as market rates increase.

| Impact to net income | 2018 | 2017 |
|---|---|---|
| 1% rise in the prime interest rate | 926 | 49 |
| 1% decrease in the prime interest rate | (926) | (49) |

To manage its exposure to interest rate fluctuations and to manage the asset liability mismatch, the Credit Union enters into interest rate swaps. It minimizes the interest rate risk and cash required to liquidate the contracts by entering into counterbalancing positions.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Notional value | Fair value | Notional value | Fair value |
| Pay fixed 1.16% Expires 23-JAN-19 | (75,000) | 611 | (75,000) | 1,144 |
| Pay fixed 1.26% Expires 23-JAN-20 | (50,000) | 408 | (50,000) | 762 |
| | **(125,000)** | **1,019** | **(125,000)** | **1,906** |

## 19. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

### Market Risk (continued)

*Interest Rate Risk* (continued)

The notional principal amounts shown represents the contract or principal amount used in determining payments. These amounts are not exchanged themselves and serve only as the basis for calculating other amounts that do change hands.

The net interest revenue earned or expense paid on the swaps during the year was a net revenue of $792 (2017 – net expense of $158). The change in unrealized fair value of interest rate swaps for the year was a loss of $1,171 (2017 - gain of $1,702) and is recorded in non-interest revenue.

Board policy places limitations on exposure to interest rate risk by outlining maximum acceptable levels of asset liability gap, maximum acceptable levels of margin sensitivity to interest rates, and by placing restrictions on the types and quantities of asset classes that may be held in the Credit Union's investment portfolio.

*Foreign Currency risk:*

Foreign 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. Foreign currency risk arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. It is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period.

As at December 31, 2018, the Credit Union had $6,572 (2017 - $7,660) in U.S. dollar financial assets. This is comprised of a $2,000 (2017 - $2,000) U.S. dollar bond and the remainder is in U.S. dollar accounts with SaskCentral. These assets were held to offset exposure of $6,272 (2017 - $6,715) in U.S. dollar financial liabilities, primarily in the form of deposits from members.

## 20. COMMITMENTS

### Operating leases

The Credit Union currently has not entered into any agreements to lease equipment and property.

### Commitments subject to credit risk

Standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a member cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit. The Credit Union makes the following instruments available to its members:

- Standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- Documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions;
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit), guarantees or letters of credit;
- Irrevocable commitments to venture capital investments that are subject to cash calls; and
- Credit card guarantees to Collabria MasterCard representing assurances that the Credit Union will assume the associated credit risk if a member cannot meet their obligations to Collabria.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. As at December 31, 2018, the Credit Union had the following other commitments subject to credit risk:

| | **2018** | **2017** |
|---|---|---|
| Undrawn lines of credit | 185,101 | 197,856 |
| Standby letters of credit | 3,014 | 3,059 |
| Commitments to extend credit | 16,803 | 20,434 |
| Venture Capital cash calls | 7,540 | 4,000 |
| Collabria MasterCard guarantees | 95 | 210 |
| | **212,553** | **225,559** |

## 20. COMMITMENTS (Continued)

### Other commitments

The Credit Union has various other commitments that include community investments, banking system services and construction contracts. Future estimated payments for these commitments are as follows.

| | Estimated payments |
|---|---|
| 2019 | 1,444 |
| 2020 | 911 |
| 2021 | 934 |
| 2022 | 30 |
| 2023 | 30 |
| Thereafter | 110 |
| | **3,159** |

In the table above, property, plant and equipment commitments total $250 and intangible asset commitments total $250.

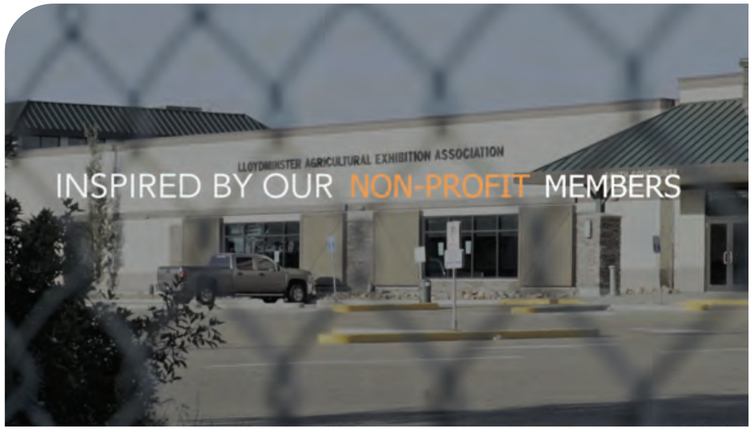
## 21. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.

## SCHEDULE 1: NON-INTEREST EXPENSES

For the years ended December 31

| ($ thousands) | 2018 | 2017 |
|---|---|---|
| **PERSONNEL** | | |
| Salaries | 14,238 | 13,748 |
| Employee profit sharing | 1,242 | 1,452 |
| Employee benefits | 2,439 | 2,608 |
| Other | 425 | 376 |
| | **18,344** | **18,184** |
| **OCCUPANCY** | | |
| Building depreciation | 1,439 | 1,401 |
| Building and land taxes | 375 | 347 |
| Building fire insurance | 157 | 143 |
| Building maintenance | 270 | 251 |
| Heat, light and water | 406 | 352 |
| Janitorial services | 455 | 454 |
| Other | 172 | 296 |
| | **3,274** | **3,244** |
| **MEMBER SECURITY** | | |
| CUDGC deposit insurance assessment | 945 | 874 |
| Fidelity and burglary insurance | 119 | 108 |
| Life savings insurance | 3 | 7 |
| | **1,067** | **989** |
| **GENERAL BUSINESS** | | |
| Advertising and donations | 933 | 842 |
| Automotive | 40 | 52 |
| Computer costs | 3,030 | 2,621 |
| Equipment depreciation | 626 | 613 |
| External audit | 149 | 116 |
| Foreclosed property | 250 | 255 |
| Legal and collection fees | 301 | 275 |
| Overdraft and fraud losses | 153 | 166 |
| RRSP/RRIP administration fees | 46 | 37 |
| Service and ATM charges | 1,500 | 1,105 |
| Stationary and supplies | 55 | 70 |
| Telephone and postage | 357 | 390 |
| Other | 418 | 404 |
| | **7,858** | **6,946** |
| **ORGANIZATION** | | |
| Annual meetings | 19 | 20 |
| Director compensation and expenses | 211 | 171 |
| SaskCentral dues | 254 | 334 |
| Other | 31 | 145 |
| | **515** | **670** |
| **TOTAL NON-INTEREST EXPENSES** | **31,058** | **30,033** |



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