Horizon Credit Union
Financial Statements
December 31, 2020

Contents

For the year ended December 31, 2020

Management's Responsibility

To the Members of Horizon Credit Union:

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. This 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 and Risk Committee are composed 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 and Risk 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 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 Committee and management to discuss their audit findings.

February 23, 2021

CEO

CFO

Independent Auditor's Report

To the Members of Horizon Credit Union:

Opinion

We have audited the financial statements of Horizon Credit Union (the "Credit Union"), which comprise the statement of financial position as at December 31, 2020, and the statements of 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, 2020, 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.

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.

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- 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.

Regina, Saskatchewan

February 23, 2021

MNP LLP

Chartered Professional Accountants

Horizon Credit Union
Statement of Financial Position
As at December 31, 2020

	2020	*2019*
Assets		
Cash and cash equivalents *(Note 5)*	**28,791,632**	17,687,366
Investments *(Note 6)*	**58,301,392**	28,139,676
Member loans receivable *(Note 7)*	**163,494,963**	184,085,072
Other assets *(Note 8)*	**522,557**	602,288
Property and equipment *(Note 9)*	**635,504**	735,217
	251,746,048	231,249,619
Liabilities		
Member deposits *(Note 11)*	**231,877,412**	212,472,094
Other liabilities *(Note 13)*	**1,080,717**	494,562
Membership shares *(Note 14)*	**25,520**	25,385
Equity accounts *(Note 14)*	**202,117**	208,478
	233,185,766	213,200,519

Commitments *(Note 20)*

Events after the reporting period *(Note 24)*

Members' equity		
Retained earnings	**18,560,282**	18,049,100
	251,746,048	231,249,619

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Horizon Credit Union
Statement of Comprehensive Income
For the year ended December 31, 2020

	2020	*2019*
Interest income		
Member loans	**6,805,169**	7,041,028
Investments	**792,856**	984,035
	7,598,025	8,025,063
Interest expense		
Member deposits	**1,923,792**	2,283,356
Borrowed money	**26**	59
	1,923,818	2,283,415
Gross financial margin	**5,674,207**	5,741,648
Other income	**1,051,594**	1,100,034
	6,725,801	6,841,682
Operating expenses		
Personnel	**3,624,554**	3,072,092
Security	**224,065**	197,137
Organizational	**181,646**	233,581
Occupancy	**258,116**	264,638
General business	**1,360,976**	1,374,335
	5,649,357	5,141,783
Income before provision for impaired loans and provision for (recovery of) income taxes	**1,076,444**	1,699,899
Provision for impaired loans *(Note 7)*	**390,764**	267,509
Income before provision for (recovery of) income taxes	**685,680**	1,432,390
Provision for (recovery of) income taxes *(Note 12)*		
Current	**197,760**	309,149
Deferred	**(23,262)**	(61,108)
	174,498	248,041
Comprehensive income	**511,182**	1,184,349

Horizon Credit Union
Statement of Changes in Equity
For the year ended December 31, 2020

	Retained earnings	*Total equity*
Balance December 31, 2018	**16,864,751**	**16,864,751**
Comprehensive income	**1,184,349**	**1,184,349**
Balance December 31, 2019	**18,049,100**	**18,049,100**
Comprehensive income	**511,182**	**511,182**
Balance December 31, 2020	**18,560,282**	**18,560,282**

The accompanying notes are an integral part of these financial statements

Horizon Credit Union
Statement of Cash Flows
For the year ended December 31, 2020

	2020	*2019*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from members' loans	**6,741,329**	6,964,550
Interest received from investments	**786,678**	1,004,134
Other income	**1,051,594**	1,035,289
Cash paid to suppliers and employees	**(4,721,936)**	(5,321,730)
Interest paid on deposits	**(1,899,873)**	(2,131,503)
Interest paid on borrowed money	**(26)**	(59)
Income taxes paid	**(301,010)**	(460,888)
	1,656,756	1,089,793
Financing activities		
Net change in member deposits	**19,381,399**	10,360,856
Net change in membership shares and equity accounts	**(6,226)**	(5,931)
	19,375,173	10,354,925
Investing activities		
Net change in investments	**(30,155,538)**	(585,173)
Net change in member loans receivable	**20,263,185**	(9,201,128)
Purchases of property, plant and equipment *(Note 9)*	**(35,310)**	(21,253)
	(9,927,663)	(9,807,554)
Increase in cash and cash equivalents	**11,104,266**	1,637,164
Cash and cash equivalents, beginning of year	**17,687,366**	16,050,202
Cash and cash equivalents, end of year	**28,791,632**	17,687,366

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Horizon Credit Union (the “Credit Union”) was formed pursuant to the *Credit Union Act, 1998* of Saskatchewan (“the Act”) and operates five Credit Union branches.

The Credit Union serves members and non-members in Melville, Grenfell, Wolseley, Neudorf, and Grayson, Saskatchewan and the surrounding communities. The address of the Credit Union’s registered office is 136 - 3rd Avenue East, Melville, Saskatchewan.

The Credit Union operates as one segment principally in personal and commercial banking in Saskatchewan. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of members and the nature of the regulatory environment.

The Credit Union conducts its principal operations through various branches, offering products and services including deposit business, individual lending, and independent business and commercial lending. The deposit business provides a wide range of deposit and investment products and sundry financial services to all members. The lending business provides a variety of credit products and services designed specifically for each particular group of borrowers. Other business comprises business of a corporate nature such as investment, risk management, asset liability management, treasury operations and revenue and expenses not expressly attributed to the business units.

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 February 23, 2021.

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2020. Adoption of these amendments had no effect on the Credit Union’s financial statements.

- *IFRS 3 Business Combinations*
- *IAS 1 Presentation of Financial Statements*
- *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

3. Basis of preparation

Basis of measurement

The financial statements have been prepared using the historical cost 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.

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.

3. **Basis of preparation** *(Continued from previous page)*

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.

COVID-19 Pandemic considerations

The Canadian economy has experienced significant disruption and market volatility related to the ongoing global COVID-19 pandemic. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of COVID-19, as well as government economic response and support efforts. The COVID-19 pandemic continues to evolve and the economic environment in which the Credit Union operates in continues to be subject to sustained volatility, which could continue to negatively impact the Credit Union's financial results, as the duration of the COVID-19 pandemic and the effectiveness of steps undertaken by governments and central banks in response to the COVID-19 pandemic remain uncertain. Results across all branches have been and continue to be impacted by the downstream implications from the changes in the macroeconomic environment, including lower interest rates, modest consumer spending relative to pre-pandemic levels, fluctuations in credit spreads, and changes in operating costs. To provide immediate and long-term relief for members impacted by the COVID-19 pandemic the Credit Union has offered payment deferrals, the majority of which have come to an end, however a few extend past year-end. Existing deferrals were provided on a case by case basis.

The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Credit Union's results is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates. The estimate most impacted by the pandemic is the measurement of the allowance for expected credit losses. Provisions for credit losses are slightly elevated, principally owing to the uncertain economic outlook. Information on significant judgments impacted by the COVID-19 pandemic that have the most significant effect on the amounts recognized in the financial statements is described in Note 17 Financial Instruments.

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

Classification of financial assets

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.

Key assumptions in determining the allowance for expected credit losses

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 and other economic circumstances
- Declining revenues, working capital deficiencies, increases in statement of financial position leverage and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- 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.

3. Basis of preparation *(Continued from previous page)*

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 and 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
- 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
- Effects of the pandemic on specific sectors to which the Credit Union has credit exposures

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 indicators

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

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. Further details are in Note 12.

Useful lives of property, plant and equipment

Estimates must be utilized in evaluating the useful lives of all property, plant and equipment for calculation of the depreciation for each class of assets. For further discussion of the estimation of useful lives, refer to the heading property, plant and equipment contained in Note 4.

Impairment of financial assets

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets and determining whether there has been a significant increase in credit risk since initial recognition in accordance with IFRS 9 *Financial instruments*. For more information, refer to Note 17.

3. Basis of preparation *(Continued from previous page)*

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.

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.

4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these 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

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

Service charge fees, commissions, and other revenue

The Credit Union generates revenue from providing financial and investing 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. Summary of significant accounting policies *(Continued from previous page)*

Financial instruments

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.

Classification and subsequent measurement

On initial recognition, financial assets are classified and 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 derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash equivalents, SaskCentral and Concentra liquidity deposits, portfolio bonds, member loans receivable and accrued interest thereon, and accounts receivable balances.

- 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 derecognition, 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 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.

- 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.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of SaskCentral Shares, Concentra Bank shares, and other equity investments.

4. Summary of significant accounting policies *(Continued from previous page)*

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 and how performance of the portfolio is evaluated.

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, as well as lease receivables, contract assets, and any financial guarantee contracts and loan commitments not measured at fair value through profit or loss. 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.

For member loans receivable, 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 and breaches of borrowing contracts such as default events or breaches of borrowing covenants, requests to restructure loan payment schedules, etc. 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 assets;
- 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.

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

4. Summary of significant accounting policies *(Continued from previous page)*

Refer to Note 17 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

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

The Credit Union derecognizes 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.

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 derecognition.

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 derecognition policy.

When the modifications do not result in derecognition 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.

4. Summary of significant accounting policies *(Continued from previous page)*

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, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

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.

Offsetting

Financial assets and financial liabilities are offset, with the net amount presented in the statement of financial position, when, and only when, the Credit Union has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material.

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.

4. Summary of significant accounting policies *(Continued from previous page)*

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.

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.

SaskCentral and Concentra Bank deposits and shares

SaskCentral and Concentra Bank deposits are measured at amortized cost. SaskCentral Shares and Concentra Bank Shares are measured at fair value, with adjustments to fair value recognized in profit or loss.

Portfolio investments

Investments in equity investments are measured at fair value, with adjustments recognized in profit or loss.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible 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.

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.

4. Summary of significant accounting policies *(Continued from previous page)*

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 derecognized from the Credit Union's 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 costs to sell. Foreclosed assets are recorded in member loans receivable.

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.

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

	Rate
Buildings	4-10 %
Computer equipment	10-33 %
Computer software	10-33 %
Furniture and equipment	10-33 %

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 are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized 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.

4. Summary of significant accounting policies *(Continued from previous page)*

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 allow 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

The Credit Union assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Credit Union assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Where the Credit Union is a lessee in a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Credit Union measures right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Credit Union expects that the ownership of the underlying asset will transfer to the Credit Union by the end of the lease term or if the cost of the right-of-use asset reflects that the Credit Union will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Credit Union under a residual value guarantee, the exercise price of a purchase option that the Credit Union is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Credit Union exercising an option to terminate the lease. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest method.

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

4. Summary of significant accounting policies *(Continued from previous page)*

The Credit Union has elected to not recognize right-of-use assets and lease liabilities for short-term leases and low value leases of a postage meter. Short-term leases are leases with a term of twelve months or less. Low value leases are leases where the underlying asset has a new value of $5,000 USD or less. The Credit Union recognizes the lease payments associated with these leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

Government grants

The Credit Union recognizes government assistance when there is reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The Credit Union recognizes government assistance as other income.

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. Pension benefits of $174,244 (2019 – $164,927) were paid to the defined contribution retirement plan during the year.

Membership shares and equity accounts

Membership shares and equity accounts 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*.

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, 2020 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.

IAS 16 Property, Plant, and Equipment

Amendments to IAS 16, issued in May 2020, prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be available for use. Instead, the proceeds from selling such items, and the costs of producing those items, would be recognized in profit or loss.

The amendments are effective for annual periods beginning or after January 1, 2022. The Credit Union has not yet determined the impact of these amendments on its financial statements.

IAS 36 Provisions, Contingent Liabilities, and Contingent Assets

Amendments to IAS 37, issued in May 2020, specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Credit Union has not yet determined the impact of these amendments on its financial statements.

5. Cash and cash equivalents

	2020	*2019*
Cash	**9,391,632**	9,687,366
Cash equivalents	**19,400,000**	8,000,000
	28,791,632	17,687,366

6. Investments

	2020	*2019*
Measured at amortized cost		
SaskCentral and Concentra liquidity deposits	**53,508,899**	22,311,162
Portfolio bonds	**1,000,000**	2,000,000
Accrued interest	**86,774**	80,595
	54,595,673	24,391,757
Measured at fair value through profit or loss		
SaskCentral and Concentra Bank shares	**3,111,758**	3,111,758
Other equity investments	**593,961**	636,161
	3,705,719	3,747,919
Total	**58,301,392**	28,139,676

The table below shows the credit risk exposure on investments, excluding liquidity reserves and balances on deposit with SaskCentral and Concentra Bank. Ratings are as provided by Dominion Bond Rating Services ("DBRS") unless otherwise indicated.

	2020	*2019*
Investment portfolio rating		
AA-	**1,000,000**	2,000,000
A	**1,000,000**	1,000,000
R1	**2,111,758**	2,111,758
Unrated	**593,961**	636,161
	4,705,719	5,747,919

SaskCentral shares are included in the R1 category above and Concentra Bank shares are included in the A category above.

Statutory liquidity

Pursuant to Regulations, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Credit Union Deposit Guarantee Corporation ("CUDGC"), requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2020 the Credit Union met the requirement.

6. Investments *(Continued from previous page)*

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 beginning at 80% as of January 1, 2017. The minimum requirement rises in equal steps of 10% annually to reach 100% on January 1, 2019 and continue thereafter. The objective of the LCR is to ensure that 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, by which time it is assumed corrective actions have been taken by the Credit Union and/or CUDGC.

This stress scenario noted above is viewed as a minimum requirement. The Credit Union conducts additional stress tests to assess the level of liquidity to hold beyond the regulatory minimum, and constructs scenarios that could cause difficulties for specific business activities. Internal stress tests have longer time horizons and results are reported to CUDGC upon request.

The LCR is calculated as the value of the stock in HQLA in stressed conditions divided by the total net cash outflows over the next 30 calendar days.

As at December 31, 2020, the Credit Union is in compliance with regulatory requirements.

7. Member loans receivable

Principal and allowance by loan type:

					2020
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance for expected credit losses**	**Net carrying value**
Agriculture loans	8,391,696	-	-	(66,304)	**8,325,392**
Commercial loans	1,457,374	-	-	(126,873)	**1,330,501**
Consumer loans	9,623,018	8,043	(4,043)	(20,847)	**9,606,171**
Lines of credit	3,716,703	-	-	(18,063)	**3,698,640**
Mortgages	77,646,679	309,605	(2,105)	(65,105)	**77,889,074**
Syndicated loans	34,724,650	3,219,542	(650,688)	(208,197)	**37,085,307**
Leases	25,126,605	262,543	(256,428)	(73,338)	**25,059,382**
	160,686,725	3,799,733	(913,264)	(578,727)	**162,994,467**
Foreclosed assets	35,522	-	(35,522)	-	**-**
Accrued interest	494,025	107,377	(100,906)	-	**500,496**
Total	161,216,272	3,907,110	(1,049,692)	(578,727)	**163,494,963**

7. Member loans receivable *(Continued from previous page)*

	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	Net carrying value *2019*
Agriculture loans	7,934,513	-	-	(68,660)	7,865,853
Commercial loans	1,558,856	-	-	(59,152)	1,499,704
Consumer loans	10,589,958	25,435	(10,232)	(17,839)	10,587,322
Lines of credit	4,334,325	-	-	(15,211)	4,319,114
Mortgages	74,407,693	404,617	(18,284)	(52,895)	74,741,131
Syndicated loans	54,299,043	1,543,986	(367,716)	(264,720)	55,210,593
Leases	29,436,495	262,543	(237,716)	(77,458)	29,383,864
	182,560,883	2,236,581	(633,948)	(555,935)	183,607,581
Foreclosed assets	750	-	(750)	-	-
Accrued interest	477,491	60,072	(60,072)	-	477,491
Total	183,039,124	2,296,653	(694,770)	(555,935)	184,085,072

The allowance for loan impairment changed as follows:

	2020	*2019*
Balance, beginning of year	**1,250,705**	993,307
Provision for impaired loans	**390,764**	267,509
	1,641,469	1,260,816
Less: accounts written off, net of recoveries	**13,050**	10,111
Balance, end of year	**1,628,419**	1,250,705

8. Other assets

	2020	*2019*
Accounts receivable	**942**	-
Corporate income tax recoverable	**111,390**	8,140
Prepaid expenses and deposits	**132,657**	339,842
Deferred tax asset (Note 12)	**277,568**	254,306
	522,557	602,288

9. Property and equipment

	Land	Buildings	Computer equipment	Computer software	Furniture and equipment	Total
Cost						
Balance at December 31, 2018	**96,374**	**2,076,046**	**850,019**	**894,463**	**238,116**	**4,155,018**
Additions	**-**	**-**	**21,253**	**-**	**-**	**21,253**
Balance at December 31, 2019	**96,374**	**2,076,046**	**871,272**	**894,463**	**238,116**	**4,176,271**
Additions	**-**	**3,460**	**26,845**	**-**	**5,006**	**35,311**
Disposals	**-**	**(118,113)**	**(405,714)**	**(872,307)**	**(123,683)**	**(1,519,817)**
Balance at December 31, 2020	**96,374**	**1,961,393**	**492,403**	**22,156**	**119,439**	**2,691,765**
Accumulated depreciation						
Balance at December 31, 2018	**-**	**1,560,963**	**629,792**	**880,981**	**231,736**	**3,303,472**
Depreciation	**-**	**62,686**	**68,195**	**4,431**	**2,270**	**137,582**
Balance at December 31, 2019	**-**	**1,623,649**	**697,987**	**885,412**	**234,006**	**3,441,054**
Depreciation	**-**	**57,405**	**67,778**	**4,431**	**3,094**	**132,708**
Disposals	**-**	**(115,874)**	**(405,713)**	**(872,308)**	**(123,606)**	**(1,517,501)**
Balance at December 31, 2020	**-**	**1,565,180**	**360,052**	**17,535**	**113,494**	**2,056,261**
Net book value						
At December 31, 2019	96,374	452,397	173,285	9,051	4,110	735,217
At December 31, 2020	**96,374**	**396,213**	**132,351**	**4,621**	**5,945**	**635,504**

10. Line of credit

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at prime minus 0.5%, in the amount of $4,300,000 (2019 - $4,300,000) from SaskCentral. As of December 31, 2020, the Credit Union has utilized $nil of its line of credit (2019 - $239,273).

Borrowings are secured by an assignment of book debts, financial services agreement, and an operating account agreement.

11. Member deposits

	2020	2019
Chequing, savings, plan 24	**152,428,761**	141,552,766
Registered savings plans	**24,011,574**	23,700,642
Term deposits	**54,566,426**	46,371,954
Accrued interest	**870,651**	846,732
	231,877,412	212,472,094

Member deposits are subject to the following terms:

- Chequing, savings and plan 24 products are due on demand and bear interest at rates up to 1.20% (2019 - 2.45%).
- Registered savings plans are subject to fixed and variable rates of interest up to 3.37% (2019 - 3.37%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 3.37% (2019 - 3.37%), with interest payments due monthly, annually or on maturity.

12. Income tax

Income tax expense recognized in net income

In 2020, based on the Credit Union's taxable capital, the applicable tax rate is the aggregate of the federal income tax rate of 15% (2019 - 15%), and the provincial tax rate of 12% (2019 - 12%). The credit union deduction in 2020 is 0% (2019 - 2.50%) resulting in a provincial tax rate of 12% (2019 - 9.50%).

Deferred income tax expense (recovery) recognized in net income

The deferred income tax recovery recognized in net income for the current year is a result of the following changes:

	2020	2019
Deferred tax asset		
Property and equipment	**93,929**	85,465
Allowance for impaired loans	**183,639**	168,841
Deferred tax asset	**277,568**	254,306
Deferred tax asset is reflected in the statement of financial position as follows		
Deferred tax asset	**277,568**	254,306

Reconciliation between average effective tax rate and the applicable tax rate

	2020	2019
Applicable tax rate	**27.00 %**	27.00 %
Credit Union deduction	**- %**	(2.50)%
Change in estimated deferred tax rate	**- %**	(6.55)%
Non-deductible and other items	**(1.55)%**	(0.63)%
Average effective tax rate (tax expense divided by profit before tax)	**25.45 %**	17.32 %

13. Other liabilities

	2020	*2019*
Accounts payable	**1,080,717**	494,562

14. Membership shares and equity accounts

Authorized:

Unlimited number of Common shares, at an issue price of $5.

Issued:

	2020	*2019*
5,104 Common shares (2019 - 5,077)	**25,520**	25,385
Equity accounts	**202,117**	208,478
Total	**227,637**	233,863

All common shares and equity accounts are classified as liabilities.

When an individual becomes a member of the Credit Union, they are issued a common share at $5 per share. Each member of the Credit Union has one vote, regardless of the number of common shares held. Equity accounts are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base.

During the year, the Credit Union issued 421 (2019 - 346) and redeemed 394 (2019 - 455) common shares.

15. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") of the Credit Union are the Chief Executive Officer, V.P. of Finance, V.P. of IT and Corporate Services, V.P. of Retail Services and members of the Board of Directors.

KMP remuneration includes the following expenses:

	2020	*2019*
Salaries and short-term benefits	**662,616**	562,418
Post-employment benefits	**51,561**	46,620
Other long-term benefits	**1,000**	-
Total remuneration	**715,177**	609,038

Transactions with key management personnel

The Credit Union, in accordance with its policy, may grant credit to its directors, management and staff at concessional rates of interest on their loans and facilities.

Loans made to KMP are approved under the same lending criteria applicable to members and are included in member loans on the statement of financial position. There are no loans to KMP that are impaired.

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in deposit accounts on the statement of financial position.

There are no benefits or concessional terms and conditions applicable to the family members of KMP.

These loans and deposits were made in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

	2020	*2019*
Aggregate loans to KMP	**1,788,737**	1,526,798
Aggregate revolving credit facilities to KMP	**157,000**	157,000
Less: approved and undrawn lines of credit	**(147,021)**	(144,974)
	1,798,716	1,538,824

	2020	*2019*
During the year the aggregate value of loans approved to KMP amounted to:		
Mortgages	**573,638**	104,000
Loans	**50,366**	104,377
	624,004	208,377

15. Related party transactions *(Continued from previous page)*

	2020	*2019*
Income and expense transactions with KMP consisted of:		
Interest earned on loans and revolving credit facilities to KMP	**52,041**	52,304
Interest paid on deposits to KMP	**5,221**	3,929
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	**506,644**	381,580
Term deposits	**9,160**	9,124
Registered plans	**398,887**	327,344
Total value of member deposits due to KMP	**914,691**	718,048

Directors' fees and expenses

	2020	*2019*
Directors' fees and committee remuneration	**43,240**	44,082
Directors' expenses	**1,925**	5,151
Meeting, training and conference costs	**1,113**	4,710

SaskCentral and Concentra Bank

The Credit Union is a member of SaskCentral, which acts as a depository for surplus funds received from and loans made to credit unions. SaskCentral also provides other services for a fee to the Credit Union and acts in an advisory capacity.

The Credit Union is related to Concentra Bank, which is owned in part by SaskCentral. Concentra Bank provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers.

Interest earned on investments during the year ended December 31, 2020 amounted to $753,271 (2019 - $883,655).

Interest paid on borrowings during the year ended December 31, 2020 amounted to $26 (2019 - $59).

Payments made for affiliation dues for the year ended December 31, 2020 amounted to $23,095 (2019 - $43,342).

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions was formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Bank.

16. Capital management

A capital management framework is included in policies and procedures established by the Board of Directors. The Credit Union's objectives when managing capital are to:

- Adhere to regulatory capital requirements as minimum benchmarks;
- Co-ordinate strategic risk management and capital management;
- Develop financial performance targets/budgets/goals;
- Administer a patronage program that is consistent with capital requirements;
- Administer an employee incentive program that is consistent with capital requirements; and
- Develop a growth strategy that is coordinated with capital management requirements.

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 a risk-weighted asset calculation 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 1,250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5%. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement. Eligible capital consists of total tier 1 and tier 2 capital.

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 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus and accumulated other comprehensive income ("AOCI"). Deductions from common equity tier 1 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 and other investment shares issued by the Credit Union that meet the criteria for inclusion in 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 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.

The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2020:

	Regulatory standards	*Board standards (Minimum of target range)*
Total eligible capital to risk-weighted assets	**10.50 %**	**12.00 %**
Tier 1 capital to risk-weighted assets	**8.50 %**	**10.00 %**
Common equity tier 1 capital to risk-weighted assets	**7.00 %**	**10.00 %**
Leverage ratio	**5.00 %**	**6.50 %**

16. Capital management *(Continued from previous page)*

During the year, the Credit Union complied with all internal and external capital requirements.

The following table summarizes key capital information:

	2020	***2019***
Eligible capital		
Common equity tier 1 capital	**18,555,661**	**18,040,049**
Additional tier 1 capital	**-**	-
Total tier 1 capital	**18,555,661**	**18,040,049**
Total tier 2 capital	**806,364**	**789,798**
Total eligible capital	**19,362,025**	**18,829,847**
Risk-weighted assets		
Total eligible capital to risk-weighted assets	**13.66 %**	13.08 %
Total tier 1 capital to risk-weighted assets	**13.09 %**	12.53 %
Common equity tier 1 capital to risk-weighted assets	**13.09 %**	12.53 %
Leverage ratio	**7.55 %**	8.00 %

17. Financial instruments

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

Accordingly, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union
- Balance risk and return
- Manage credit, market and liquidity risk through preventative and detective controls
- Ensure credit quality is maintained
- Ensure credit, market, and liquidity risk is maintained at acceptable levels
- Diversify risk in transactions, member relationships and loan portfolios
- Price according to risk taken, and
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit and Risk Committee and Conduct Review Committee.

There have been no significant changes from the previous year in the Credit Union’s risks to which it is exposed or its general policies and procedures for managing risk.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from member loans receivable.

17. Financial instruments *(Continued from previous page)*

Risk management process

Credit risk management is integral to the Credit Union's activities. Management and the Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements
  - Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge; and
  - Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements
- Borrowing member character requirements
- Limits on aggregate credit exposure per individual and/or related parties
- Limits on concentration of credit risk by loan type, industry and economic sector
- Limits on the types of credit facilities and services offered
- Internal loan approval processes and loan documentation standards
- Loan re-negotiation, extension and renewal processes
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors
- Control and monitoring processes including portfolio risk identification and delinquency tolerances
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans
- Overdraft control and administration processes
- Loan syndication processes

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

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

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

17. Financial instruments *(Continued from previous page)*

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2020	*2019*
Unadvanced lines of credit	**18,192,631**	15,759,703
Guarantees and standby letters of credit	**230,000**	214,000
Commitments to extend credit	**4,466,720**	3,832,060
	22,889,351	19,805,763

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 member loans 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 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.

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.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. When a financial instrument is considered to have low credit risk, it is assumed that there has not been a significant increase in credit risk since initial recognition.

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.

Payment deferrals

In response to the COVID-19 pandemic, the Credit Union considered payment deferral requests from eligible members. The agreement to a payment deferral on its own does not represent a significant increase in credit risk, and the loan does not automatically move from Stage 1 to Stage 2 for IFRS 9 purposes. Facilities with payment deferrals are not considered past due. Loans with deferrals that have moved from Stage 1 to Stage 2 have experienced a significant increase in credit risk due to the adverse shift in economic conditions. In assessing credit risk, the Credit Union monitors the credit quality of impacted borrowers using sound credit risk management practices. The loan modifications due to payment deferrals did not result in any modification gains or losses. Details regarding the number and balance of loans under payment deferral terms within Stages 1 and 3 are as follows:

Stage 1 includes two loans with total balances outstanding of $1,803,856.

Stage 3 includes one loan with a total balance outstanding of $1,879,927.

17. Financial instruments *(Continued from previous page)*

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 (residential mortgages, commercial loans/mortgages, agricultural loans/mortgages, consumer loans, and lines of credit). Otherwise, expected credit losses are measured on an individual basis.

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 members 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.

As indicated in Note 3, COVID-19 and the measures taken by Canadian federal, provincial and municipal governments to limit the spread of COVID-19 have had a material adverse impact on the Canadian economy. To mitigate the economic impact, governments have enacted policy measures to provide economic stimulus and financial support to both individuals and businesses.

The Credit Union has run a number of simulations on its collective allowance, incorporating assumptions about the resulting macroeconomic impacts of the COVID-19 pandemic, based on information and facts available at December 31, 2020. The macroeconomic factors that affect the Credit Union ECL calculations are: Saskatchewan unemployment rates, provincial housing starts, national interest rates, national GDP growth, and national oil prices. The information for these assumptions is based off 2021 economic forecasts. Each factor is forecast in a base case, a best case and a worst case scenario. These scenarios are weighted, and the weighted average is used to build the estimate for expected credit losses. These assumptions were shocked up and down 10% - 30% in the best and worst case scenarios.

The typical weighting used in the model is 80% base, 10% best and 10% worst case, as the base case is historically the most likely scenario. Due to uncertainties around COVID-19, the weightings chosen at December 31, 2020 were adjusted to 50% base, 10% best, and 40% worst case.

Management had to use judgment in several areas to assess if the estimate the model calculated was reasonable or if an overlay was needed to increase or decrease the allowance. The negative effects of the global economic shut down, increased unemployment and depressed oil prices had to be weighed against the more positive aspects of government support programs, government loan programs, loan deferrals, and rent deferrals. At December 31, 2020, management booked an overlay of $nil.

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 an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value. The contractual amount outstanding on financial assets which were written off during the year and continue to be subject to enforcement activity is $13,050 (2019 – $10,111).

17. Financial instruments *(Continued from previous page)*

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*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

Except as noted below, the gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

	12-month ECL	*2020 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial loans and lines of credit				
Low Risk	**46,848,449**	**-**	**-**	**46,848,449**
Medium Risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**3,219,542**	**3,219,542**
Total gross carrying amount	**46,848,449**	**-**	**3,219,542**	**50,067,991**
Less: loss allowance	**343,364**	**-**	**751,595**	**1,094,959**
Total carrying amount	**46,505,085**	**-**	**2,467,947**	**48,973,032**
Consumer loans and lines of credit				
Low Risk	**11,644,253**	**-**	**-**	**11,644,253**
Medium Risk	**-**	**9,495**	**-**	**9,495**
Default	**-**	**-**	**8,043**	**8,043**
Total gross carrying amount	**11,644,253**	**9,495**	**8,043**	**11,661,791**
Less: loss allowance	**26,626**	**76**	**4,043**	**30,745**
Total carrying amount	**11,617,627**	**9,419**	**4,000**	**11,631,046**
Residential mortgages and lines of credit				
Low Risk	**50,614,709**	**-**	**-**	**50,614,709**
Medium Risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**309,605**	**309,605**
Total gross carrying amount	**50,614,709**	**-**	**309,605**	**50,924,314**
Less: loss allowance	**67,968**	**-**	**2,105**	**70,073**
Total carrying amount	**50,546,741**	**-**	**307,500**	**50,854,241**
Agricultural Loans				
Low Risk	**50,897,108**	**-**	**-**	**50,897,108**
Medium Risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**327,908**	**327,908**
Total gross carrying amount	**50,897,108**	**-**	**327,908**	**51,225,016**
Less: loss allowance	**140,568**	**-**	**256,427**	**396,995**
Total carrying amount	**50,756,540**	**-**	**71,481**	**50,828,021**

17. Financial instruments *(Continued from previous page)*

	12-month ECL	*2020 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Local government loans and lines of credit				
Low Risk	**648,906**	**-**	**-**	**648,906**
Medium Risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Total gross carrying amount	**648,906**	**-**	**-**	**648,906**
Less: loss allowance	**125**	**-**	**-**	**125**
Total carrying amount	**648,781**	**-**	**-**	**648,781**
TOTAL				
Low Risk	**160,653,425**	**-**	**-**	**160,653,425**
Medium Risk	**-**	**9,495**	**-**	**9,495**
Default	**-**	**-**	**3,865,098**	**3,865,098**
Total gross carrying amount	**160,653,425**	**9,495**	**3,865,098**	**164,528,018**
Less: loss allowance	**578,651**	**76**	**1,014,170**	**1,592,897**
Total carrying amount	**160,074,774**	**9,419**	**2,850,928**	**162,935,121**

	12-month ECL	*2019 Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial loans and lines of credit				
Low risk	50,684,080	-	-	50,684,080
Medium risk	-	-	-	-
Default	-	-	1,543,986	1,543,986
Total gross carrying amount	50,684,080	-	1,543,986	52,228,066
Less: loss allowance	307,536	-	417,752	725,288
Total carrying amount	50,376,544	-	1,126,234	51,502,778
Consumer loans and lines of credit				
Low risk	12,545,014	-	-	12,545,014
Medium risk	-	27,060	-	27,060
Default	-	-	25,435	25,435
Total gross carrying amount	12,545,014	27,060	25,435	12,597,509
Less: loss allowance	22,752	192	12,435	35,379
Total carrying amount	12,522,262	26,868	13,000	12,562,130

17. Financial instruments *(Continued from previous page)*

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Residential mortgages and lines of credit				
Low risk	63,985,775	-	-	63,985,775
Medium risk	-	4,973	-	4,973
Default	-	-	404,617	404,617
Total gross carrying amount	63,985,775	4,973	404,617	64,395,365
Less: loss allowance	77,927	-	26,117	104,044
Total carrying amount	63,907,848	4,973	378,500	64,291,321
Agricultural loans				
Low risk	54,290,800	-	-	54,290,800
Medium risk	-	150,071	-	150,071
Default	-	-	262,543	262,543
Total gross carrying amount	54,290,800	150,071	262,543	54,703,414
Less: loss allowance	144,397	3,036	237,716	385,149
Total carrying amount	54,146,403	147,035	24,827	54,318,265
Local government loans and lines of credit				
Low risk	699,397	-	-	699,397
Medium risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	699,397	-	-	699,397
Less: loss allowance	95	-	-	95
Total carrying amount	699,302	-	-	699,302
TOTAL				
Low risk	182,205,066	-	-	182,205,066
Medium risk	-	182,104	-	182,104
Default	-	-	2,236,581	2,236,581
Total gross carrying amount	182,205,066	182,104	2,236,581	184,623,751
Less: loss allowance	552,707	3,228	694,020	1,249,955
Total carrying amount	181,652,359	178,876	1,542,561	183,373,796

17. Financial instruments *(Continued from previous page)*

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 Melville, 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.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial loans and lines of credit				
Balance at December 31, 2019	**307,536**	**-**	**417,752**	**725,288**
Net remeasurement of loss allowance	**35,828**	**-**	**333,843**	**369,671**
Balance at December 31, 2020	**343,364**	**-**	**751,595**	**1,094,959**
Consumer loans and lines of credit				
Balance at December 31, 2019	**22,752**	**192**	**12,435**	**35,379**
Net remeasurement of loss allowance	**3,874**	**(116)**	**(8,392)**	**(4,634)**
Balance at December 31, 2020	**26,626**	**76**	**4,043**	**30,745**
Residential mortgages and lines of credit				
Balance at December 31, 2019	**77,927**	**-**	**26,117**	**104,044**
Net remeasurement of loss allowance	**(9,959)**	**-**	**(24,012)**	**(33,971)**
Balance at December 31, 2020	**67,968**	**-**	**2,105**	**70,073**
Agricultural loans and lines of credit				
Balance at December 31, 2019	**144,397**	**3,036**	**237,716**	**385,149**
Net remeasurement of loss allowance	**(3,829)**	**(3,036)**	**18,711**	**11,846**
Balance at December 31, 2020	**140,568**	**-**	**256,427**	**396,995**

17. Financial instruments *(Continued from previous page)*

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Local government loans and lines of credit				
Balance at December 31, 2019	**95**	**-**	**-**	**95**
Net remeasurement of loss allowance	**30**	**-**	**-**	**30**
Balance at December 31, 2020	**125**	**-**	**-**	**125**
TOTAL				
Balance at December 31, 2019	**552,707**	**3,228**	**694,020**	**1,249,955**
Net remeasurement of loss allowance	**25,944**	**(3,152)**	**320,150**	**342,942**
Balance at December 31, 2020	**578,651**	**76**	**1,014,170**	**1,592,897**

Financial instruments for which the impairment requirements of IFRS 9 do not apply

The carrying amount of SaskCentral and Concentra Bank shares best represents the Credit Union's maximum exposure to credit risk for those items. The Credit Union holds no collateral or other credit enhancements on these balances.

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, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member owner needs.

Risk measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides quarterly reports on these matters to the Credit Union's Board of Directors.

Objectives, policies and processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

Interest rate risk

Interest rate risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in net income may increase or decrease in response to changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

17. Financial instruments *(Continued from previous page)*

In managing interest rate risk, the Credit Union relies primarily upon use of asset - liability and interest rate sensitivity simulation models, which is monitored by the Credit Union. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union’s financial instruments.

Sensitivity analysis is used to assess the change in value of the Credit Union’s financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a quarterly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $262,510 (2019 - $397,843) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $262,510 (2019 - $397,843) over the next 12 months.

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristic; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to the Board of Directors.

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match repricing or maturity dates of loans and investments and member deposits within policy limits. These limits are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between loans and investments and member deposits for those particular maturity dates. Certain items on the statement of financial position, such as non-interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive in the table below.

Amounts with variable interest rates, or due on demand, are classified as on demand.

A significant amount of member loans receivable and member deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

Interest rate sensitivity

In the table below, the carrying amounts of financial instruments are presented in the periods in which they next reprice to market rates or mature and are summed to show the net interest rate sensitivity gap.

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual repricing date or maturity date. The schedule below does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

17. Financial instruments *(Continued from previous page)*

				(In thousands)		***2020***	*2019*
	On demand	***Within 3 months***	***Over 3 months to 1 year***	***Over 1 year***	***Non-Interest Sensitive***	***Total***	*Total*
Assets							
Cash and cash equivalents	19,400	-	-	-	9,392	**28,792**	17,687
Average yield %	*0.23*	-	-	-	-	*0.15*	*0.76*
Investments	34,399	2,500	8,122	13,133	147	**58,301**	28,140
Average yield %	*0.37*	*1.36*	*1.61*	*1.81*	-	*0.91*	*1.79*
Member loans receivable	26,158	9,143	30,963	96,700	530	**163,494**	184,085
Average yield %	*4.08*	*3.93*	*3.69*	*3.83*	-	*3.84*	*4.10*
	79,957	**11,643**	**39,085**	**109,833**	**10,069**	**250,587**	229,912
Liabilities							
Member deposits	103,197	14,675	31,658	42,658	39,690	**231,878**	212,472
Average yield %	*0.22*	*1.78*	*0.99*	*2.06*	-	*0.72*	*1.08*
Accounts payable	-	-	-	-	1,081	**1,081**	495
Membership shares	-	-	-	-	25	**25**	25
Equity accounts	-	-	-	-	202	**202**	208
	103,197	**14,675**	**31,658**	**42,658**	**40,998**	**233,186**	213,200
Net sensitivity	**(23,240)**	**(3,032)**	**7,427**	**67,175**	**(30,929)**	**17,401**	16,712

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such liquidity for operating and regulatory purposes. Refer to Note 6 for further information about the Credit Union's regulatory requirements.

Liquidity risk is managed through a three tiered structure consisting of the local Credit Union level, the provincial Credit Union level and the national Credit Union level.

Locally, the Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows; and
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union’s responses thereto.

17. Financial instruments *(Continued from previous page)*

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with SaskCentral;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits; and
- Monitoring of term deposits.

Provincially, SaskCentral manages a statutory liquidity pool of marketable investment securities on behalf of Saskatchewan Credit Unions to facilitate clearing and settlement, daily cash flow management and emergency liquidity support. Nationally, credit union centrals are represented by one central which acts as the Group Clearer, Central 1 Credit Union. The Group Clearer is a member of the Canadian Payments Association and pools provincial cash flows to settle with the Bank of Canada.

The following table details contractual maturities of financial liabilities:

As at December 31, 2020:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	**189,220**	**12,642**	**30,016**	**231,878**
Accounts payable	**1,081**	**-**	**-**	**1,081**
Membership shares	**-**	**-**	**25**	**25**
Equity accounts	**-**	**-**	**202**	**202**
Total	**190,301**	**12,642**	**30,243**	**233,186**

As at December 31, 2019:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Member deposits	161,178	22,117	29,177	212,472
Accounts payable	495	-	-	495
Membership shares	-	-	25	25
Equity accounts	-	-	208	208
Total	161,673	22,117	29,410	213,200

17. Financial instruments *(Continued from previous page)*

The Credit Union manages liquidity risk on a net asset and liability basis. The following tables explain the contractual maturities of financial assets held for the purpose of managing liquidity risk.

As at December 31, 2020:

(In thousands)

	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	**28,792**	**-**	**-**	**28,792**
Investments	**45,168**	**3,120**	**10,013**	**58,301**
Member loans receivable	**66,795**	**31,092**	**65,607**	**163,494**
Total	**140,755**	**34,212**	**75,620**	**250,587**

As at December 31, 2019:

(In thousands)

	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	17,687	-	-	17,687
Investments	18,400	6,620	3,120	28,140
Member loans receivable	78,494	23,245	82,346	184,085
Total	114,581	29,865	85,466	229,912

18. Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

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

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

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses the net present value technique. The Credit Union uses assumptions and estimates in determining actual balances, actual rates, market rates (for similar instruments) and payment frequency.

18. Fair value measurements *(Continued from previous page)*

Financial assets and financial liabilities measured at fair value

The Credit Union's financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

In thousands	***Fair Value***	***Level 1***	***Level 2***	***2020 Level 3***
Financial assets				
Cash	**9,392**	**9,392**	**-**	**-**
Other equity investments	**594**	**-**	**-**	**594**
Concentra Bank shares	**1,000**	**-**	**-**	**1,000**
SaskCentral shares	**2,112**	**-**	**-**	**2,112**
Total financial assets	**13,098**	**9,392**	**-**	**3,706**

In thousands	*Fair Value*	*Level 1*	*Level 2*	*2019 Level 3*
Financial assets				
Cash	9,687	9,687	-	-
Other equity investments	636	-	-	636
Concentra Bank shares	1,000	-	-	1,000
SaskCentral shares	2,112	-	-	2,112
Total financial assets	13,435	9,687	-	3,748

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.

18. Fair value measurements *(Continued from previous page)*

For fair value measurements of Level 3 SaskCentral shares and Concentra Bank, the Credit Union has assumed 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.

Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

					2020
In thousands	***Carrying amount***	***Fair Value***	***Level 1***	***Level 2***	***Level 3***
Financial assets measured at amortized cost					
Cash equivalents	**19,400**	**19,400**	**-**	**19,400**	**-**
Investments	**54,596**	**55,182**	**-**	**55,182**	**-**
Member loans receivable	**163,494**	**163,325**	**-**	**163,325**	**-**
Accounts receivable	**1**	**1**	**-**	**1**	**-**
Total financial assets	**237,491**	**237,908**	**-**	**237,908**	**-**
Financial liabilities measured at amortized cost					
Member deposits	**231,878**	**233,326**	**-**	**233,326**	**-**
Accounts payable	**1,081**	**1,081**	**-**	**1,081**	**-**
Membership shares	**25**	**25**	**-**	**-**	**25**
Equity accounts	**202**	**202**	**-**	**-**	**202**
Total financial liabilities	**233,186**	**234,634**	**-**	**234,407**	**227**

					2019
In thousands	*Carrying amount*	*Fair Value*	*Level 1*	*Level 2*	*Level 3*
Financial assets					
Cash equivalents	8,000	8,000	-	8,000	-
Investments	24,392	24,449	-	24,449	-
Member loans receivable	184,085	182,022	-	182,022	-
Total financial assets	216,477	214,471	-	214,471	-
Financial liabilities					
Member deposits	212,472	213,361	-	213,361	-
Accounts payable	495	495	-	495	-
Membership shares	25	25	-	-	25
Equity accounts	208	208	-	-	208
Total financial liabilities	213,200	214,089	-	213,856	233

18. Fair value measurements *(Continued from previous page)*

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

All fair values disclosed and categorized within Level 2 of the hierarchy use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to their amortized cost.

19. Summary information about financial assets and financial liabilities

The following tables provide a reconciliation between line items in the Statement of Financial Position and the categories of financial instruments.

In thousands	***As at December 31, 2020*** Mandatorily at FVTPL	Amortized cost	Total carrying amount
Financial assets			
Cash and cash equivalents	**9,392**	**19,400**	**28,792**
Investments	**3,706**	**54,596**	**58,302**
Member loans receivable	**-**	**163,495**	**163,495**
Total financial assets	**13,098**	**237,491**	**250,589**
Financial liabilities			
Member deposits	**-**	**231,877**	**231,877**
Other liabilities	**-**	**1,081**	**1,081**
Membership shares and equity accounts	**-**	**228**	**228**
Total financial liabilities	**-**	**233,186**	**233,186**

	As at December 31, 2019 Mandatorily at FVTPL	*Amortized cost*	*Total carrying amount*
Financial assets			
Cash and cash equivalents	9,687	8,000	17,687
Investments	3,748	24,392	28,140
Member loans receivable	-	184,085	184,085
Total financial assets	13,435	216,477	229,912
Financial liabilities			
Member deposits	-	212,472	212,472
Other liabilities	-	495	495
Membership shares and equity accounts	-	233	233
Total financial liabilities	-	213,200	213,200

20. Commitments

In 2016, the Credit Union entered into a seven year commitment with Celero for the provision of retail banking services. The annual operating fee is calculated based on the average number of outstanding accounts throughout the year. The annual operating fees to December 31, 2020 were $187,677 (2019 - $191,741) and recorded as an expense. The annual estimated operating fee to December 31, 2021 is $181,594.

In 2011, the Credit Union entered into a ten year agreement with the City of Melville for the naming rights of the Horizon Credit Union Centre. The annual sponsorship is $20,000 and the agreement was set to expire in 2020. Due to COVID-19, the City of Melville has extended this sponsorship to cover 2021 at no additional cost to the Credit Union.

In 2018, the Credit Union entered into an agreement to purchase units in the APEX III Investment Fund. The Credit Union makes advances to the Fund when requested which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2020, the Credit Union has advanced $131,795 (2019 - $56,175) of their total commitment of $500,000 to the APEX III fund.

21. Other legal and regulatory risk

Legal and regulatory risk is the risk that the Credit Union has not complied with requirements set out in terms of compliance such as standards of sound business practice, anti-money laundering legislation or their code of conduct/conflict of interest requirements. In seeking to manage these risks, the Credit Union has established policies and procedures and monitors to ensure ongoing compliance.

22. Canada Emergency Wage Subsidy ("CEWS")

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in April 2020. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. This subsidy is retroactive to March 15, 2020. The qualification and application of the CEWS is assessed over multiple four-week application periods. During the year, the Credit Union applied for and received $131,271 as part of this subsidy.

23. Canada Emergency Business Account Program

Under the Canada Emergency Business Account ("CEBA") Program, with funding provided by the Government of Canada and Export Development Canada ("EDC") as the Government of Canada’s agent, the Credit Union provides loans to its business banking members. In June 2020, eligibility for the CEBA loan program was expanded to include businesses that did not meet the payroll requirements of the initial program but had other eligible non-deferrable expenses. Under the CEBA Program, eligible businesses receive a $60,000 interest-free loan until December 31, 2022. If $40,000 is repaid on or before December 31, 2022, the remaining amount of the loan is eligible for forgiveness. If the loan is not repaid by December 31, 2022, it will be extended for an additional 3-year term bearing an interest rate of 5% per annum. The funding provided to the Credit Union by the Government of Canada in respect of the CEBA Program represents an obligation to pass-through collections on the CEBA loans and is otherwise non-recourse to the Credit Union. Accordingly, the Credit Union is required to remit all collections of principal and interest on the CEBA loans to the Government of Canada but is not required to repay amounts that its members fail to pay or that have been forgiven. The Credit Union receives an administration fee to recover the costs to administer the program for the Government of Canada. Loans issued under the program are not recognized on the Credit Union's Statement of Financial Position, as the Credit Union transfers substantially all risks and rewards in respect of the loans to the Government of Canada. As of December 31, 2020, the Credit Union had funded approximately $3.2 million in loans under the program.

24. Events after the reporting period - business combination

On June 15, 2020, the membership of Horizon Credit Union (HCU), Cornerstone Credit Union (CCU) and Plainsview Credit Union (PCU) voted in favour of an amalgamation. The amalgamation was approved by the Credit Union Deposit Guarantee Corporation pursuant to subsection 307(2)(d) of the Act on June 25, 2020, with the newly amalgamated Credit Union operating as Cornerstone Credit Union Financial Group Limited effective January 1, 2021. All assets and liabilities will be transferred from HCU and PCU into CCU at fair value upon amalgamation.