

Horizon Credit Union
Financial Statements
December 31, 2018

Horizon Credit Union
Contents

For the year ended December 31, 2018

	Page
Management's Responsibility	
Independent Auditor's Report	
Financial Statements	
Statement of Financial Position.....	1
Statement of Comprehensive Income.....	2
Statement of Changes in Members' Equity.....	3
Statement of Cash Flows.....	4
Notes to the Financial Statements	5

Management's Responsibility

To the Members of Horizon Credit Union:

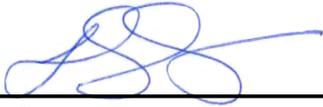
Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is 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 28, 2019



CEO



V.P. of Finance

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, 2018, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

Saskatoon, Saskatchewan

February 28, 2019

MNP LLP

Chartered Professional Accountants

Horizon Credit Union Statement of Financial Position

As at December 31, 2018

	2018	2017
Assets		
Cash and cash equivalents (Note 5)	16,050,202	7,296,211
Investments (Note 6)	27,574,602	31,859,287
Member loans receivable (Note 7)	175,074,975	171,115,518
Other assets (Note 8)	547,465	4,263,479
Property, plant and equipment (Note 9)	851,546	849,514
	220,098,790	215,384,009
Liabilities		
Member deposits (Note 11)	201,959,385	198,591,649
Other liabilities (Note 13)	1,034,860	723,388
Membership shares (Note 14)	25,930	26,450
Equity accounts (Note 14)	213,864	216,051
	203,234,039	199,557,538
Commitments (Note 20)		
Members' equity		
Retained earnings	16,864,751	15,826,471
	220,098,790	215,384,009

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, 2018

	2018	2017
Interest income		
Member loans	6,449,689	5,998,418
Investments	1,089,935	659,007
	7,539,624	6,657,425
Interest expense		
Member deposits	1,940,999	1,646,130
Borrowed money	418	1,978
	1,941,417	1,648,108
Gross financial margin	5,598,207	5,009,317
Other income	1,475,421	1,199,032
	7,073,628	6,208,349
Operating Expenses		
Personnel	3,132,743	3,047,626
Security	192,901	188,431
Organizational	164,502	143,628
Occupancy	248,146	241,867
General business	1,712,136	1,413,293
	5,450,428	5,034,845
Income before provision for (recovery of) impaired loans and provision for (recovery of) income taxes	1,623,200	1,173,504
Provision for (recovery of) impaired loans (Note 7)	(239)	41,988
Income before provision for (recovery of) income taxes	1,623,439	1,131,516
Provision for (recovery of) income taxes (Note 12)		
Current	317,289	173,690
Deferred	(90,144)	(15,098)
	227,145	158,592
Comprehensive income	1,396,294	972,924

The accompanying notes are an integral part of these financial statements

Horizon Credit Union
Statement of Changes in Members' Equity
For the year ended December 31, 2018

	<i>Retained earnings</i>	<i>Total equity</i>
Balance December 31, 2016	14,853,547	14,853,547
Comprehensive income	972,924	972,924
Balance December 31, 2017	15,826,471	15,826,471
Comprehensive income	1,396,294	1,396,294
IFRS 9 transition adjustments <i>(Note 2)</i>	(358,014)	(358,014)
Balance December 31, 2018	16,864,751	16,864,751

The accompanying notes are an integral part of these financial statements

Horizon Credit Union
Statement of Cash Flows
For the year ended December 31, 2018

	2018	2017
Cash provided by (used for) the following activities		
Operating activities		
Interest received from members' loans	6,465,022	5,996,072
Interest received from investments	1,053,515	674,825
Other income	1,475,421	1,199,032
Cash paid to suppliers and employees	(4,888,169)	(8,225,208)
Interest paid on deposits	(1,904,370)	(1,699,404)
Interest paid on borrowed money	(418)	(1,978)
Income taxes paid	(212,682)	(118,328)
	1,988,319	(2,174,989)
Financing activities		
Net change in member deposits	3,331,107	3,152,377
Net change in membership shares and equity accounts	(2,707)	(3,774)
	3,328,400	3,148,603
Investing activities		
Net change in investments	4,493,367	3,481,135
Net change in member loans receivable	(905,088)	(6,687,913)
Purchases of property, plant and equipment <i>(Note 9)</i>	(151,007)	(103,022)
	3,437,272	(3,309,800)
Increase (decrease) in cash and cash equivalents	8,753,991	(2,336,186)
Cash and cash equivalents, beginning of year	7,296,211	9,632,397
Cash and cash equivalents, end of year	16,050,202	7,296,211

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 28, 2019.

2. Change in accounting policies

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

IFRS 9 Financial instruments

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

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

Classification of financial assets and financial liabilities

IFRS 9 requires financial assets be classified into one of three subsequent measurement categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss. Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. IFRS 9 eliminates the following IAS 39 classification categories: available-for-sale, held-to-maturity, and loans and receivables.

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

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

2. Change in accounting policies *(Continued from previous page)*

Impairment of financial assets

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

Transition

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

Classification and measurement

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

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

Impairment

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

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

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

For certain financial assets, the Credit Union was unable to determine whether there has been a significant increase in the credit risk since initial recognition without undue cost or effort. As a result, the loss allowance for these financial assets will be recognized at an amount equal to lifetime expected credit losses at each reporting date until those assets are derecognized unless the credit risk is considered low at a future reporting date.

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

2. **Change in accounting policies** (Continued from previous page)

Initial application of IFRS 9

Impact on equity

The following table shows the impact of the initial application of IFRS 9 on equity.

	Impact of initial application of IFRS 9
Retained earnings	
Closing balance under IAS 39 (December 31, 2017)	15,826
Recognition of expected credit losses under IFRS 9	(530)
Reclassification of equity investments from available-for-sale to fair value through profit or loss	172
Opening balance under IFRS 9 (January 1, 2018)	15,468

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

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

<i>In thousands</i>	Sub-note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets					
Cash		FVTPL (designated)	FVTPL (mandatory)	3,996	3,996
Cash equivalents	1	FVTPL (designated)	Amortized cost	3,300	3,300
Portfolio bonds	1	FVTPL (designated)	Amortized cost	5,007	5,007
SaskCentral liquidity and Concentra Bank term deposits		Held to maturity	Amortized cost	23,006	23,006
Concentra Bank shares		Held to maturity	FVTPL (mandatory)	1,000	1,000
SaskCentral shares		Available-for-sale	FVTPL (mandatory)	2,112	2,112
Other equity investments	2	Available-for-sale	FVTPL (mandatory)	671	843
Member loans receivable		Loans and receivables	Amortized cost	171,115	170,585
Accounts receivable		Loans and receivables	Amortized cost	3,609	3,609
Total financial assets				213,816	213,458
Financial liabilities					
Member deposits		Amortized cost	Amortized cost	198,592	198,592
Accounts payable		Amortized cost	Amortized cost	684	684
Membership shares and equity accounts		Amortized cost	Amortized cost	243	243
Total financial liabilities				199,519	199,519

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

2. Change in accounting policies (Continued from previous page)

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

1 – As a result of the adoption of IFRS 9, cash equivalents and portfolio bonds were reclassified out of the fair value through profit or loss category and into amortized cost category. This reclassification occurred because the cash equivalents and portfolio bonds consist solely of payments of principal and interest and the Credit Union has determined that they are held within a business model for which the objective is to hold assets for contractual cash flows.

2 – Other equity investments were previously recognized as available-for-sale and measured at cost due to no quoted price in an active market. Other equity investments include Apex Investment Funds and Prairies Ventures Fund. These investments are now recognized at fair value, based on net asset value per unit held, available quarterly in fund reports.

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

<i>In thousands</i>	IAS 39	Reclassification	Remeasurement	IFRS 9
Financial assets				
Amortized cost				
Cash equivalents				
Opening balance	-			
From FVTPL		3,300		
Closing balance				3,300
SaskCentral and Concentra Bank deposits				
Opening balance	-			
From Held-to-maturity		23,006		
Closing balance				23,006
Portfolio bonds				
Opening balance	-			
From fair value through profit or loss		5,007		
Closing balance				5,007
Member loans receivable				
Opening balance	171,115			
Remeasurement			(530)	
Closing balance				170,585
Concentra Bank shares				
Opening balance	-			
To fair value through profit or loss		(1,000)		
Closing balance				(1,000)
Total amortized cost	171,115	30,313	(530)	200,898

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

2. **Change in accounting policies** (Continued from previous page)

FVTPL

Cash and cash equivalents				
Opening balance	7,296			
To amortized cost		(3,300)		
Closing balance				3,996
Concentra Bank Shares				
Opening balance	-			
From held-to-maturity		1,000		
Closing balance				1,000
SaskCentral shares				
Opening balance	-			
From available-for-sale		2,112		
Closing balance				2,112
Other equity investments				
Opening balance	-			
From available-for-sale		671		
Remeasurement			172	
Closing balance				843
Total FVTPL	7,296	483	172	7,951
Total financial assets	178,411	30,796	(358)	208,849

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

<i>In thousands</i>	IAS 39	Remeasurement	IFRS 9
Loans and receivables under IAS 39			
Amortized cost under IFRS 9 (includes member loans receivable)	226	530	756
Total	226	530	756

2. Change in accounting policies *(Continued from previous page)*

IFRS 15 Revenue from contracts with customers

Effective January 1, 2018 (hereafter referred to as the “initial date of application”), the Credit Union adopted IFRS 15 *Revenue from Contracts with Customers* as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

Transition

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

The application of the standard has resulted in a change in the Credit Union's accounting policy for revenue recognition. See Note 4 for details of the Credit Union's revenue recognition policies.

Initial application of IFRS 15

There was no material impact on the financial statements from the retrospective application of IFRS 15.

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

Significant accounting judgments, estimates and assumptions

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

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

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

Allowance for impaired loans - applicable before January 1, 2018 (IAS 39)

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

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

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

Member loans receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on member loans receivable is disclosed in more detail in Note 7.

Key assumptions in determining the allowance for impaired loans collective provision - applicable before January 1, 2018 (IAS 39)

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

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

Classification of financial assets – applicable from January 1, 2018 (IFRS 9)

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 – applicable from January 1, 2018 (IFRS 9)

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 balance sheet 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.

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

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

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

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

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios

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.

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.

Type of joint arrangement

The Credit Union determined that Credit Union Electronic Account Management Services Association ("CEAMS") is a joint venture because the venturers have rights to the net assets of the arrangement if the venture were liquidated. Effective December 31, 2017 the CEAMS joint venture has been dissolved.

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.

Financial instruments not traded in active markets

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

Impairment of available-for-sale financial assets - applicable before January 1, 2018 (IAS 39)

Management determines when an available-for-sale financial asset is impaired in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. This determination requires significant judgment. Management evaluates the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

When the fair value declines, management makes assumptions about the decline in value to determine if it is an impairment to be recognized in net income.

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

At December 31, 2018, no impairment losses have been recognized for available-for-sale assets. The carrying amount of available-for-sale assets at December 31, 2017 was \$2,782,536.

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 principle 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 - policy applicable before January 1, 2018 (comparative year)

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

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

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

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

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

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

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

Loan syndication fees are recognized on completion of the syndication arrangement. Incremental direct costs for originating or acquiring a loan are netted against origination fees.

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

Other revenue is recognized as services are provided to members.

Revenue recognition - Policy applicable from January 1, 2018 under IFRS 15 Revenue from contracts with customers

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

Service charge fees, commissions, and other revenue

The Credit Union generates revenue from the Credit Union providing various financing 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.

Financial instruments - policy applicable before January 1, 2018 (IAS 39)

Classification and measurement

All financial instruments are initially recognized at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below. Transactions to purchase or sell these items are recorded on the settlement date. During the year, there has been no reclassification of financial instruments.

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Credit Union's financial instruments classified as fair value through profit or loss include cash, cash equivalents, and portfolio bonds.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. The Credit Union's shares in SaskCentral and other equity investments have been classified as available-for-sale.

Financial assets classified as held-to-maturity are subsequently measured at amortized cost using the effective interest rate method. The Credit Union's financial instruments classified as held-to-maturity include shares in Concentra Bank and specific SaskCentral and Concentra Bank deposits.

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

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all member loans receivable and accrued interest thereon, and accounts receivable balances.

Financial instruments classified as other financial liabilities include all member deposits and accrued interest thereon, borrowings, accounts payable, membership shares and equity accounts. Other financial liabilities are subsequently carried at amortized cost.

Derecognition of financial assets

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
 - The Credit Union has transferred substantially all the risks and rewards of the asset, or
 - The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union's continuing involvement in the asset. In that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income.

The Credit Union designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments in this category are the embedded derivatives.

Derivative financial instruments

Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in comprehensive income.

Financial instruments – Policy applicable from January 1, 2018 (IFRS 9)

Financial assets

Recognition and initial measurement

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

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

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

Classification and subsequent measurement

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

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss.
- 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.
- 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, Investment in Co-operatives, APEX I and II Investment Funds, Prairie Ventures and West Central Pelleting.

Refer to Note 17 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

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.

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

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.

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

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:

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

- The Credit Union has transferred substantially all the risks and rewards of the asset, or
- The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the 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.

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.

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

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.

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.

Policy applicable from January 1, 2018

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.

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

Policy applicable before January 1, 2018 (IAS 39)

SaskCentral and Concentra Bank deposits and shares

SaskCentral and Concentra Bank deposits are accounted for as held-to-maturity, adjusted to recognize other than a temporary impairment in the underlying value, or as available-for-sale, based on management's intent. Shares are accounted for as available-for-sale at cost, as no market exists for these investments.

Portfolio Investments

Investments in securities are classified as available-for-sale or held-to-maturity, based on management's intent. Held-to-maturity investments are adjusted to recognize other than a temporary impairment in the underlying value.

Investments in equity instruments that do not have a quoted market price in an active market are classified as available-for-sale and measured at cost.

Member loans receivable - Policy applicable before January 1, 2018 (IAS 39)

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Allowance for loan impairment - Policy applicable before January 1, 2018 (IAS 39)

Allowance for loan impairment represents specific and collective provisions established as a result of reviews of individual loans and groups of loans. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Credit Union makes judgments about the credit worthiness of the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Individual allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan. Collective allowances are established by reviewing specific arrears and current economic conditions.

Restructured loans are not considered impaired where reasonable assurance exists that the borrower will meet the terms of the modified debt agreement. Restructured loans are defined as loans greater than 90 days delinquent that have been restructured outside the Credit Union's normal lending practices as it relates to extensions, amendments and consolidations.

Loans are classified as impaired, and a provision for loss is established, when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. It is the Credit Union's policy that whenever a payment is 90 days past due, loans are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of the debt.

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

In such cases, a specific provision is established to write down the loan to the estimated future net cash flows from the loan discounted at the loans' original effective interest rate. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its fair value calculated based on an observable market price. Any previously accrued but unpaid interest on the loan is charged to the allowance for loan impairment. Interest income after the impairment is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Impairment of financial assets - Policy applicable before January 1, 2018 (IAS 39)

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in net income.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

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

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

Employee benefits

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

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of \$169,737 (2017 – \$164,192) 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, 2018 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments (Amendments)

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

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

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

IFRS 16 Leases

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

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union does not expect this standard to have a material impact on its financial statements. The Credit Union expects to apply the standard for its financial statements dated December 31, 2019.

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

IFRIC 23 Uncertainty over income tax treatments

In June 2017, the International Accounting Standards Board ("IASB") issued a new International Financial Reporting Interpretations Committee ("IFRIC") interpretation, to specify how to reflect the effects of uncertainty in accounting for income taxes. The interpretation aims to reduce the diversity in how entities recognise and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The new interpretation is effective for annual periods beginning on or after January 1, 2019. The Credit Union has not yet determined the impact of this standard on its financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendments)

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

The amendments clarify that IFRS 9 *Financial Instruments*, including its impairment requirements, apply to long-term interests in an associate or joint venture to which the equity method is not applied. The amendments are effective for annual periods beginning on or after January 1, 2019. The Credit Union has not yet determined the impact of this standard on its financial statements.

5. **Cash and cash equivalents**

	2018	2017
Cash	7,350,202	3,996,211
Cash equivalents	8,700,000	3,300,000
	16,050,202	7,296,211

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

6. Investments

	2018	2017
Measured at amortized cost (2017 - Held-to-maturity)		
SaskCentral liquidity deposits	21,493,631	23,005,944
Accrued interest - current	87,318	32,197
	21,580,949	23,038,141
Measured at fair value through profit or loss (2017 - Available-for-sale)		
SaskCentral shares	2,111,758	2,111,758
Other equity investments	868,518	670,778
	2,980,276	2,782,536
Measured at fair value through profit or loss (2017 - Held-to-maturity)		
Concentra Bank shares	1,000,000	1,000,000
Measured at amortized cost (2017 - fair value through profit or loss)		
Portfolio bonds	2,000,000	5,006,532
Accrued interest - current	13,377	32,078
	2,013,377	5,038,610
Total	27,574,602	31,859,287

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.

	2018	2017
Investment portfolio rating		
AA-	1,000,000	2,006,514
A+	-	1,000,018
A	2,000,000	3,000,000
R1	2,111,758	2,111,758
Unrated	868,519	670,778
	5,980,277	8,789,068

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, 2018 the Credit Union met the requirement.

Liquidity Coverage Ratio (LCR)

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

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

6. Investments *(Continued from previous page)*

- 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, 2018, the Credit Union is in compliance with regulatory requirements.

7. Member loans receivable

Principal and allowance by loan type:

				2018	
	Principal performing	Principal impaired	Allowance specific	Allowance for expected credit losses	
				Net carrying value	
Agriculture loans	8,098,695	167,181	-	(86,570)	8,179,306
Commercial loans	2,041,192	15,000	(15,000)	(21,616)	2,019,576
Consumer loans	10,041,772	23,074	(18,893)	(17,280)	10,028,673
Lines of credit	4,203,950	-	-	(13,953)	4,189,997
Mortgages	67,867,137	525,705	(13,669)	(52,132)	68,327,041
Syndicated loans	57,218,153	1,549,143	(215,331)	(300,459)	58,251,506
Leases	23,725,897	111,663	(108,845)	(110,923)	23,617,792
	173,196,796	2,391,766	(371,738)	(602,933)	174,613,891
Foreclosed assets	716	-	(716)	-	-
Accrued interest	461,084	17,920	(17,920)	-	461,084
Total	173,658,596	2,409,686	(390,374)	(602,933)	175,074,975

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

7. Member loans receivable (Continued from previous page)

	Principal performing	Principal impaired	Allowance specific	Allowance collective	2017 Net carrying value
Agriculture loans	8,300,559	-	-	(8,313)	8,292,246
Commercial loans	2,502,378	15,000	(15,000)	(8,313)	2,494,065
Consumer loans	10,720,934	82,680	(46,138)	(8,313)	10,749,162
Lines of credit	5,446,375	-	-	-	5,446,375
Mortgages	67,198,415	-	-	(8,313)	67,190,102
Syndicated loans	53,913,362	1,084,152	(130,295)	(137,503)	54,729,716
Leases	21,677,312	-	-	(54,877)	21,622,435
	169,759,335	1,181,832	(191,433)	(225,632)	170,524,101
Foreclosed assets	165,370	-	(50,370)	-	115,000
Accrued interest	476,417	4,898	(4,898)	-	476,417
Total	170,401,122	1,186,730	(246,702)	(225,632)	171,115,518

The allowance for loan impairment changed as follows:

	2018	2017
Balance, beginning of year	472,334	544,379
IFRS 9 transition adjustments	530,276	-
Provision for (recovery of) impaired loans	(239)	41,988
	1,002,371	586,367
Less: accounts written off, net of recoveries	9,064	114,033
Balance, end of year	993,307	472,334

8. Other assets

	2018	2017
Accounts receivable	9,248	3,608,987
Prepaid expenses and deposits	345,019	551,438
Deferred tax asset	193,198	103,054
	547,465	4,263,479

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

9. Property, plant and equipment

	<i>Land</i>	<i>Buildings</i>	<i>Computer equipment</i>	<i>Computer software</i>	<i>Furniture and equipment</i>	<i>Total</i>
Cost						
Balance at December 31, 2016	96,374	2,026,330	667,861	872,308	238,116	3,900,989
Additions	-	-	80,867	22,155	-	103,022
Balance at December 31, 2017	96,374	2,026,330	748,728	894,463	238,116	4,004,011
Additions	-	49,716	101,291	-	-	151,007
Balance at December 31, 2018	96,374	2,076,046	850,019	894,463	238,116	4,155,018
Accumulated depreciation						
Balance at December 31, 2016	-	1,432,724	538,232	774,888	216,554	2,962,398
Depreciation	-	65,264	40,653	76,973	9,209	192,099
Balance at December 31, 2017	-	1,497,988	578,885	851,861	225,763	3,154,497
Depreciation	-	62,975	50,907	29,120	5,973	148,975
Balance at December 31, 2018	-	1,560,963	629,792	880,981	231,736	3,303,472
Net book value						
At December 31, 2017	96,374	528,342	169,843	42,602	12,353	849,514
At December 31, 2018	96,374	515,083	220,227	13,482	6,380	851,546

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 (2017 - \$3,700,000) from SaskCentral. As of December 31, 2018, the Credit Union has utilized \$nil of its line of credit (2017 - \$nil).

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

11. Member deposits

	<i>2018</i>	<i>2017</i>
Chequing, savings, plan 24	131,836,658	123,665,843
Registered savings plans	23,161,326	23,063,836
Term deposits	46,266,521	51,203,719
Accrued interest	694,880	658,251
	201,959,385	198,591,649

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 2.60% (2017 - 1.85%).
- Registered savings plans are subject to fixed and variable rates of interest up to 3.00% (2017 - 3.00%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 3.15% (2017 - 3.15%), with interest payments due monthly, annually or on maturity.

12. Income tax

Income tax expense recognized in net income

The applicable tax rate is the aggregate of the federal income tax rate of 10% on income under \$500,000 and 15% on income greater than \$500,000 (2017 - 10.5% and 15%), and the provincial tax rate of 2% on income eligible for the Credit Union deduction and income under \$600,000 and 12% on income not eligible for the Credit Union deduction and income greater than \$600,000 (2017 - 2% and 11.75%).

Deferred income tax 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:

	2018	2017
Deferred tax asset		
Property, plant and equipment	62,571	54,639
Allowance for impaired loans	130,627	48,415
Net deferred tax asset	193,198	103,054

Net deferred tax asset is reflected in the statement of financial position as follows:

Deferred tax asset	193,198	103,054
--------------------	---------	---------

Reconciliation between average effective tax rate and the applicable tax rate

	2018	2017
Applicable tax rate	27.00 %	26.75 %
Credit Union deduction	(5.00)%	(7.31)%
Small business deduction	(0.94)%	(2.23)%
Tax on IFRS 9 Transition Adjustments	(4.35)%	- %
Non-deductible and other items	(2.72)%	(3.19)%
Average effective tax rate (tax expense divided by profit before tax)	13.99 %	14.02 %

In March 2017, the provincial government announced a decrease in the provincial tax rate to 11% in half-point increments effective July 1, 2017 and July 1, 2019. This proposal was subsequently reversed with the tax rate reverting to the previous 12% rate effective January 1, 2018. The resulting general corporate income tax rate will be 12.00% (2017 - 11.75%) on income greater than \$500,000.

The provincial government also announced a phase-out of the credit union tax reduction over a four year period commencing in 2017. Provincially the result is 50% of the Credit Union's taxable income will be taxed at a rate of 12.00% with the remaining income that is eligible for the deduction continuing to be taxed at a rate of 2% for 2018. By 2020, 100% of the Credit Union's taxable income greater than \$600,000 will be taxed at a rate of 12%.

13. Other liabilities

	2018	2017
Accounts payable	891,261	684,396
Corporate income tax payable	143,599	38,992
	1,034,860	723,388

14. Membership shares and equity accounts

Authorized:

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

Issued:

	2018	2017
5,186 Common shares (2017 - 5,290)	25,930	26,450
Equity accounts	213,864	216,051
Total	239,794	242,501

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 609 (2017 - 318) and redeemed 713 (2017 - 462) 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:

	2018	2017
Salaries and short-term benefits	529,078	483,953
Post-employment benefits	44,264	43,359
Other long-term benefits	1,400	50
Total remuneration	574,742	527,362

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.

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

	2018	2017
Aggregate loans to KMP	1,785,384	1,930,934
Aggregate revolving credit facilities to KMP	158,000	158,000
Less: approved and undrawn lines of credit	(143,000)	(142,196)
	1,800,384	1,946,738

	2018	2017
During the year the aggregate value of loans approved to KMP amounted to:		
Mortgages	117,940	164,610
Loans	23,792	105,422
	141,732	270,032

	2018	2017
Income and expense transactions with KMP consisted of:		
Interest earned on loans and revolving credit facilities to KMP	62,329	60,931
Interest paid on deposits to KMP	3,740	3,504

	2018	2017
The total value of member deposits from KMP as at the year-end:		
Chequing and demand deposits	429,343	401,234
Term deposits	18,331	71,583
Registered plans	279,476	276,743
Total value of member deposits due to KMP	727,150	749,560

Directors' fees and expenses

	2018	2017
Directors' fees and committee remuneration	46,145	32,034
Directors' expenses	5,173	4,171
Meeting, training and conference costs	4,377	1,113

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, 2018 amounted to \$1,036,484 (2017 - \$515,241).

Interest paid on borrowings during the year ended December 31, 2018 amounted to \$418 (2017 - \$1,978).

Payments made for affiliation dues for the year ended December 31, 2018 amounted to \$46,107 (2017 - \$61,739).

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 2018:

	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 %	12.00 %
Common equity tier 1 capital to risk-weighted assets	7.00 %	12.00 %
Leverage ratio	5.00 %	6.50 %

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

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

The following table summarizes key capital information:

	2018	2017
Eligible capital		
Common equity tier 1 capital	16,851,269	15,783,869
Additional tier 1 capital	-	-
<hr/>		
Total tier 1 capital	16,851,269	15,783,869
Total tier 2 capital	842,727	468,133
<hr/>		
Total eligible capital	17,693,996	16,252,002
<hr/>		
Risk-weighted assets		
Total eligible capital to risk-weighted assets	13.14 %	12.00 %
Total tier 1 capital to risk-weighted assets	12.51 %	11.65 %
Common equity tier 1 capital to risk-weighted assets	12.51 %	11.65 %
Leverage ratio	7.84 %	7.28 %

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 members' 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
 - 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
- 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:

	2018	2017
Unadvanced lines of credit	15,775,051	13,810,470
Guarantees and standby letters of credit	35,000	35,000
Commitments to extend credit	5,633,011	7,864,712
	21,443,062	21,710,182

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

The Credit Union considers loans and advances 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. 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.

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.

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

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.

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 \$9,062 (2017 – \$114,034).

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments* (2018) and IAS 39 *Financial instruments: recognition and measurement* (2017). 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	2018 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Commercial Loans				
Low Risk	10,493,266	-	-	10,493,266
Medium Risk	-	-	-	-
Default	-	-	15,000	15,000
Total gross carrying amount	10,493,266	-	15,000	10,508,266
Less: loss allowance	21,616	-	15,000	36,616
Total carrying amount	10,471,650	-	-	10,471,650
Consumer Loans				
Low Risk	9,968,562	-	-	9,968,562
Medium Risk	-	53,621	-	53,621
Default	-	-	24,754	24,754
Total gross carrying amount	9,968,562	53,621	24,754	10,046,937
Less: loss allowance	16,860	420	18,893	36,173
Total carrying amount	9,951,702	53,201	5,861	10,010,764
Residential Mortgages				
Low Risk	45,294,489	-	-	45,294,489
Medium Risk	-	345,041	-	345,041
Default	-	262,238	273,264	535,502
Total gross carrying amount	45,294,489	607,279	273,264	46,175,032
Less: loss allowance	47,393	4,739	13,669	65,801
Total carrying amount	45,247,096	602,540	259,595	46,109,231

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

	12-month ECL	2018 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Agricultural Loans				
Low Risk	21,905,421	-	-	21,905,421
Medium Risk	-	14,873	-	14,873
Default	-	-	167,181	167,181
Total gross carrying amount	21,905,421	14,873	167,181	22,087,475
Less: loss allowance	86,070	500	-	86,570
Total carrying amount	21,819,351	14,373	167,181	22,000,905
Syndicated Loans				
Low Risk	57,221,778	-	-	57,221,778
Medium Risk	-	-	-	-
Default	-	-	1,552,767	1,552,767
Total gross carrying amount	57,221,778	-	1,552,767	58,774,545
Less: loss allowance	300,459	-	215,331	515,790
Total carrying amount	56,921,319	-	1,337,436	58,258,755
Leases				
Low Risk	23,663,563	-	-	23,663,563
Medium Risk	-	-	-	-
Default	-	-	186,503	186,503
Total gross carrying amount	23,663,563	-	186,503	23,850,066
Less: loss allowance	110,923	-	108,845	219,768
Total carrying amount	23,552,640	-	77,658	23,630,298
Line of Credit				
Low Risk	4,191,439	-	-	4,191,439
Medium Risk	-	-	-	-
Default	-	-	-	-
Total gross carrying amount	4,191,439	-	-	4,191,439
Less: loss allowance	13,953	-	-	13,953
Total carrying amount	4,177,486	-	-	4,177,486
TOTAL				
Low Risk	172,738,518	-	-	172,738,518
Medium Risk	-	413,535	-	413,535
Default	-	262,238	2,219,469	2,481,707
Total gross carrying amount	172,738,518	675,773	2,219,469	175,633,760
Less: loss allowance	597,274	5,659	389,658	992,591
Total carrying amount	172,141,244	670,114	1,829,811	174,641,169

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

	<i>2017 Total</i>
Commercial loans	
Total gross carrying amount	2,517,378
Less: loss allowance	23,313
Total carrying amount	2,494,065
Consumer Loans	
Total gross carrying amount	10,803,614
Less: loss allowance	54,451
Total carrying amount	10,749,163
Residential Mortgages	
Total gross carrying amount	67,198,415
Less: loss allowance	8,313
Total carrying amount	67,190,102
Agricultural Loans	
Total gross carrying amount	8,300,559
Less: loss allowance	8,313
Total carrying amount	8,292,246
Syndicated Loans	
Total gross carrying amount	54,997,514
Less: loss allowance	267,798
Total carrying amount	54,729,716
Leases	
Total gross carrying amount	21,677,312
Less: loss allowance	54,877
Total carrying amount	21,622,435
Lines of Credit	
Total gross carrying amount	5,446,375
Less: loss allowance	-
Total carrying amount	5,446,375
TOTAL	
Total gross carrying amount	170,941,167
Less: loss allowance	417,066
Total carrying amount	170,524,101

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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. Comparative amounts for 2017 represent the allowance account for credit losses measured under the requirements of IAS 39 *Financial instruments: recognition and measurement*.

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Commercial Loans				
Balance at December 31, 2017	-	-	-	23,313
Balance at January 1, 2018	26,392	-	-	26,392
Transfer to 12-month ECL	615	-	-	615
Balance at December 31, 2018	27,007	-	-	27,007
Consumer Loans				
Balance at December 31, 2017	-	-	-	54,452
Balance at January 1, 2018	22,834	316	29,461	52,611
Transfer to 12-month ECL	207	-	-	207
Transfer to lifetime ECL (not credit impaired)	-	104	-	104
Transfer to (from) lifetime ECL (credit impaired)	-	-	(8,887)	(8,887)
Balance at December 31, 2018	23,041	420	20,574	44,035
Residential Mortgages				
Balance at December 31, 2017	-	-	-	8,313
Balance at January 1, 2018	45,331	6,524	17,758	69,613
Transfer to 12-month ECL	2,063	-	-	2,063
Transfer to lifetime ECL (not credit impaired)	-	(1,785)	-	(1,785)
Transfer to lifetime ECL (credit impaired)	-	-	5,708	5,708
Balance at December 31, 2018	47,394	4,739	23,466	75,599
Agricultural Loans				
Balance at December 31, 2017	-	-	-	8,313
Balance at January 1, 2018	48,515	-	-	48,515
Transfer to 12-month ECL	39,973	-	-	39,973
Transfer to lifetime ECL (not credit impaired)	-	500	-	500
Balance at December 31, 2018	88,488	500	-	88,988

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Syndicated Loans				
Balance at December 31, 2017	-	-	-	267,798
Balance at January 1, 2018	211,198	-	153,009	364,207
Transfer to 12-month ECL	89,225	-	-	89,225
Transfer to lifetime ECL (credit impaired)	-	-	80,946	80,946
Balance at December 31, 2018	300,423	-	233,955	534,378
Leases				
Balance at December 31, 2017	-	-	-	54,877
Balance at January 1, 2018	81,757	-	-	81,759
Transfer to 12-month ECL	29,164	-	-	29,164
Transfer to lifetime ECL (credit impaired)	-	-	111,663	111,663
Balance at December 31, 2018	110,921	-	111,663	222,584
TOTAL				
Balance at December 31, 2017	417,066	-	-	417,066
Balance at January 1, 2018	436,027	6,840	200,228	643,095
Transfer to 12-month ECL	161,247	-	-	161,247
Transfer to (from) lifetime ECL (not credit impaired)	-	(1,181)	-	(1,181)
Transfer to lifetime ECL (credit impaired)	-	-	189,430	189,430
Balance at December 31, 2018	597,274	5,659	389,658	992,591

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.

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

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.

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 \$383,861 (2017 - \$244,077) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by \$383,861 (2017 - \$244,077) 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.

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

	<i>(In thousands)</i>					2018	2017
	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year	Non-Interest Sensitive	Total	Total
Assets							
Cash and cash equivalents	8,700	-	-	-	7,350	16,050	7,296
Average yield %	1.40	-	-	-	-	0.76	0.34
Investments	4,533	2,506	5,004	15,148	384	27,575	31,859
Average yield %	1.60	2.12	2.05	1.77	-	1.80	1.05
Member loans receivable	35,379	9,906	36,044	93,463	283	175,075	171,116
Average yield %	5.28	3.70	3.77	3.74	-	4.05	3.89
Accounts receivable	-	-	-	-	9	9	3,609
	48,612	12,412	41,048	108,611	8,026	218,709	213,880
Liabilities							
Member deposits	94,606	9,317	22,949	45,284	29,803	201,959	198,592
Average yield %	0.86	1.50	1.29	1.71	-	0.81	0.81
Accounts payable	-	-	-	-	891	891	684
Membership shares	-	-	-	-	26	26	26
Equity accounts	-	-	-	-	214	214	216
	94,606	9,317	22,949	45,284	30,934	203,090	199,518
Net sensitivity	(45,994)	3,095	18,099	63,327	(22,908)	15,619	14,362

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.

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;

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

- 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, 2018:

	<i>(In thousands)</i>			
	< 1 year	1-2 years	> 3 years	Total
Member deposits	156,675	14,046	31,238	201,959
Accounts payable	891	-	-	891
Membership shares	-	-	26	26
Equity accounts	-	-	214	214
Total	157,566	14,046	31,478	203,090

As at December 31, 2017:

	<i>(In thousands)</i>			
	< 1 year	1-2 years	> 3 years	Total
Member deposits	153,212	18,492	26,888	198,592
Accounts payable	684	-	-	684
Membership shares	-	-	26	26
Equity accounts	-	-	216	216
Total	153,896	18,492	27,130	199,518

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, 2018:

	<i>(In thousands)</i>			
	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	16,050	-	-	16,050
Investments	12,427	7,016	8,132	27,575
Member loans receivable	81,612	26,508	66,955	175,075
Accounts receivable	9	-	-	9
Total	110,098	33,524	75,087	218,709

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

As at December 31, 2017:

	<i>(In thousands)</i>			
	< 1 year	1-2 years	> 3 years	Total
Cash and cash equivalents	7,296	-	-	7,296
Investments	23,714	1,010	7,135	31,859
Member loans receivable	81,009	28,209	61,898	171,116
Accounts receivable	3,609	-	-	3,609
Total	115,628	29,219	69,033	213,880

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.

Assets and liabilities measured at fair value

The Credit Union's assets and 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:

<i>In thousands</i>	Fair Value	Level 1	Level 2	2018 Level 3
Financial assets				
Cash	7,350	7,350	-	-
Other equity investments	869	-	769	100
Concentra Bank shares	1,000	-	-	1,000
SaskCentral shares	2,112	-	-	2,112
Total financial assets	11,331	7,350	769	3,212

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

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

<i>In thousands</i>	<i>Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>2017 Level 3</i>
Financial assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	7,296	7,296	-	-
Portfolio bonds	5,007	-	5,007	-
Total financial assets	12,303	7,296	5,007	-

All recurring Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

For fair value measurements of Level 3 SaskCentral shares for 2018, 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.

For 2017, the Credit Union's SaskCentral shares and investments in other equity instruments that do not have a quoted market price in an active market are classified as available-for-sale and measured at cost, therefore are not included in the above table. Amortized cost of these items totalled \$2,783.

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:

<i>In thousands</i>	<i>Carrying amount</i>	<i>Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>2018 Level 3</i>
Financial assets measured at amortized cost					
Cash equivalents	8,700	8,700	-	8,700	-
Investments	23,594	24,257	-	24,257	-
Member loans receivable	175,075	172,844	-	172,844	-
Accounts receivable	9	9	-	9	-
Total financial assets	207,378	205,810	-	205,810	-
Financial liabilities measured at amortized cost					
Member deposits	201,959	202,318	-	202,318	-
Accounts payable	891	891	-	891	-
Membership shares	26	26	-	-	26
Equity accounts	214	214	-	-	214
Total financial liabilities	203,090	203,449	-	203,209	240

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

18. Fair value measurements (Continued from previous page)

<i>In thousands</i>	<i>Carrying amount</i>	<i>Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>2017 Level 3</i>
Financial assets					
Investments	24,070	23,989	-	23,989	-
Member loans receivable	171,116	169,723	-	169,723	-
Accounts receivable	3,609	3,609	-	3,609	-
Total financial assets	198,795	197,321	-	197,321	-
Financial liabilities					
Member deposits	198,592	199,218	-	199,218	-
Accounts payable	684	684	-	684	-
Membership shares	26	26	-	-	26
Equity accounts	216	216	-	-	216
Total financial liabilities	199,518	200,144	-	199,902	242

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.

<i>In thousands</i>	<i>As at December 31, 2018</i>		
	<i>Mandatorily at FVTPL</i>	<i>Amortized cost</i>	<i>Total carrying amount</i>
Financial assets			
Cash and cash equivalents	7,350	8,700	16,050
Investments	3,980	23,594	27,574
Member loans receivable	-	175,075	175,075
Other assets	-	9	9
Total financial assets	11,330	207,378	218,708
Financial liabilities			
Member deposits	-	201,959	201,959
Other liabilities	-	891	891
Membership shares and equity accounts	-	240	240
Total financial liabilities	-	203,090	203,090

Horizon Credit Union
Notes to the Financial Statements
For the year ended December 31, 2018

19. Summary information about financial assets and financial liabilities *(Continued from previous page)*

<i>In thousands</i>	<i>As at December 31, 2017</i>					<i>Total carrying amount</i>
	<i>Held-to-maturity</i>	<i>Loans and receivables</i>	<i>Available-for-sale</i>	<i>Designated at FVTPL</i>	<i>Other amortized cost</i>	
Financial assets						
Cash and cash equivalents	-	-	-	7,296	-	7,296
Investments	24,070	-	2,782	5,007	-	31,859
Member loans receivable	-	171,116	-	-	-	171,116
Other assets	-	3,609	-	-	-	3,609
Total financial assets	24,070	174,725	2,782	12,303	-	213,880
Financial liabilities						
Member deposits	-	-	-	-	198,592	198,592
Other liabilities	-	-	-	-	684	684
Membership shares	-	-	-	-	26	26
Equity accounts	-	-	-	-	216	216
Total financial liabilities	-	-	-	-	199,518	199,518

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, 2018 were \$192,666 and recorded as an expense. The annual estimated operating fee to December 31, 2019 is \$191,741.

In October 2013, the Credit Union entered into an agreement to purchase units in the APEX II 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 2018 the Credit Union had committed \$400,000 to the APEX II Fund, of which \$325,570 was advanced.

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 expires in 2020.

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 2018, the Credit Union has advanced \$nil 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.