TCU financial group

CREDIT UNION

We'll help you get there

ANNUAL REPORT 2013

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MESSAGE FROM BOARD OF DIRECTORS', PRESIDENT AND CEO

The 2013 Annual Report provides an overview of a very successful year for TCU Financial Group. On behalf of the Board of Directors, management and staff of TCU Financial Group we are pleased to present our 2013 Annual Report.

Delivering to our Members

At TCU our primary focus is to help you, the member, achieve your financial goals by providing you with the best products and services in the financial industry at competitive interest rates. We are committed and determined to provide market leading value to our members.

Our financial results in 2013 were very impressive as noted in the Management Discussion & Analysis and the Financial Statements. As the sixth largest credit union in Saskatchewan, we continue to be financially strong with over $622 million in assets on the credit union side, another $138 million of assets under administration on the wealth management side and just under $42 million in member equity.

We recognize that our members expect us to provide them with innovative products and services that will be beneficial to them and provide convenience and accessibility. Innovative services like the Personal Teller Machines, a video-conferencing system, a number of online banking enhancements and extended hours of service have proven to be very popular in helping our members conduct their financial business with TCU.

Positioning for the Future

We are proud to introduce the launch of a new way to manage your finances and day-to-day banking. We will be opening an innovative new branch in Saskatoon's Stonebridge neighbourhood, which will be the first branch of its kind in Canada. The Stonebridge branch will also be the new home of TCU Wealth Management.

Keys to success

Members are the heart of our business. We are sincerely thankful and grateful that you have chosen TCU as your financial services provider. We will continue to work hard to earn your trust and confidence.

Another key to our success is our culture and our staff. We have made a commitment to ensure that TCU is a great place to work. TCU continues to ensure that our staff has the training, professional development and resources available to remain focused on providing outstanding service and the expertise to enable our members to realize their financial potential.

Our People

We are fortunate to have great people at TCU, who are the envy of the financial industry. Accordingly, we would like to take this opportunity to thank all of the Board of Directors and employees for their enthusiasm and contributions to our success throughout 2013. This level of commitment and expertise will ensure that TCU will continue to help our members achieve their financial goals long into the future.

We also want to take this opportunity to acknowledge and congratulate Kerry Bachiu who has served on our Board for the past six years. We would like to thank Kerry for her contribution to the Board and to TCU's success, and wish her the best in the future.
Respectfully,

Dwight Kaytor President	Morris Smysnuik Chief Executive Officer

DEDICATED TO OUR MEMBERS

TCU Financial Group is a Saskatchewan based Credit Union providing a full suite of financial products and services to the residents, organizations and businesses of Saskatchewan.

OUR PURPOSE

Helping you realize your financial potential.

OUR PASSION

Building a lifelong relationship with you by delivering progressive financial solutions in support of what is important to you.

OUR PROMISE

As your trusted financial partner, we will provide you with a "value added" experience. Ultimately we consider ourselves successful when we help you achieve your financial goals and potential. Our tag line says it best - "We'll help you get there".

We add value and help you reach your financial goals by:

Providing **outstanding service**:

- Understanding and even anticipating your needs and wowing you repeatedly with our advice & solutions
- Making our products and services available to you when, where and how you want them – whether that be in branch, online, or from your mobile device
- Providing products and services that are easy to understand and use
- Being accountable to you
- Treating you as an individual not a number
- Serving you with care and respect

Offering **great pricing**:

- Pricing is based on our relationship with you. The more business conducted with TCU, the greater your opportunity for higher earnings on investments or savings on loans.
- Interest Rates and Service Charges will be competitive within the marketplace. Our rates and fees will be comparable to our competitors and at times and with certain products TCU will offer the best price in the marketplace.

BOARD OF DIRECTORS

In 2013, TCU's Board of Directors consisted of ten members – four from Regina and six from Saskatoon. The Board held six regular Board meetings, one strategic planning meeting and 17 committee meetings. Our Board of Directors is committed to maintaining focus on the members, the communities we serve and the financial sustainability of TCU Financial Group Credit Union.

Dwight Kaytor
President
Regina
Term Expires: 2016

Earl Warwick
Vice President
Saskatoon
Term Expires: 2015

Kerry Bachiu
Regina
Term Expires: 2014

Brendan Bitz
Saskatoon
Term Expires: 2014

Derwyn Crozier-Smith
Saskatoon
Term Expires: 2016

Stephanie Mansfield
Regina
Term Expires: 2016

Tony Linner
Saskatoon
Term Expires: 2015

Darcy McLean
Saskatoon
Term Expires: 2014

Steve Tunison
Regina
Term Expires: 2016

Joanne Weninger
Saskatoon
Term Expires: 2015

MANAGEMENT DISCUSSION & ANALYSIS

The Management Discussion & Analysis (MD & A) is presented to enable readers to assess material changes in the financial conditions and operating results of TCU Financial Group Credit Union for the year ended December 31, 2013, compared with prior years. This MD & A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the year ended December 31, 2013, and should be read together. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from the Credit Union's annual Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS).

Corporate profile

TCU Financial Group Credit Union (TCU) is a Saskatchewan Credit Union regulated by *The Credit Union Act (1998)* and *The Credit Union Regulations (1999)*. TCU must also comply with the Credit Union Deposit Guarantee Corporation's (CUDGC) Standards of Sound Business Practices, and with our own articles, bylaws and policies. The Board of Directors is ultimately responsible for ensuring that TCU is managed and operated in a sound and prudent manner. TCU's management is responsible for managing, monitoring and controlling credit union operations in accordance with the legislation, the standards and Board policy.

TCU's mandate is to provide our members with a full range of financial products and services, which includes banking and wealth management services. These products and services will be delivered through one of the following business units of the Credit Union:

- The Credit Union provides the traditional retail banking services and products such as consumer and business loans, consumer and business deposit account products, ATM, and internet banking facilities.
- TCU Wealth Management Inc. is a wholly-owned subsidiary of TCU and provides wealth management services such as mutual funds, securities brokerage, estate and financial planning.
- TCU Holdings Inc. is also a wholly-owned subsidiary of TCU, and holds and manages all TCU buildings and land.

TCU is the sixth largest credit union in Saskatchewan with assets of $622,684,000. TCU has assets under administration of $10,930,000 in syndicated loans. TCU Wealth Management Inc. has assets under administration of $138,737,000.

TCU and TCU Wealth Management Inc. serve 18,664 members through four retail branch locations in Regina and Saskatoon. Head Office is located in Saskatoon.

GOVERNANCE

As a financial co-operative, TCU Financial Group Credit Union is governed by a Board of Directors which is comprised of ten Directors, all of whom are independent of management. The functions of the Board include the sanctioning of strategic business plans, corporate mission, vision, values and guiding principles; monitoring corporate performance against strategic business plans; overseeing operations; ensuring compliance with laws and regulations; keeping members informed regarding plans, strategies and performance of the Credit Union; performance management and compensation of the CEO; and other related matters as they may arise. During 2013, the Board of Directors held six regular meetings and one strategic planning meeting.

The Board of Directors has formed five committees to assist with the governance process.

Audit & Risk Management Committee – The purpose of this committee is to provide independent oversight of the credit union's operations and to ensure the accuracy, integrity, security, prudence and legality of its financial transactions and records. Additionally, this committee works closely with the Internal Audit & Risk Management Department to oversee the enterprise risk management process and to ensure the adequacy of internal controls and compliance with the various regulatory requirements. During 2013, the Audit & Risk Management Committee was comprised of five Directors and met five times.

Governance & Policy Committee – The purpose of this committee is to ensure that an appropriate governance structure is in place; to oversee the Board of Directors election process; and the Board evaluation and development process. Additionally, this committee works closely with Executive Management to formulate policies and practices to meet the needs of our members, staff and the corporate entity. During 2013, the Governance & Policy Committee was comprised of five Directors and met five times.

Conduct Review Committee – The purpose of this committee is to ensure the integrity and objectivity of its directors, officers and employees. This committee monitors and reviews related party transactions to ensure they are fair to the Credit Union and that best judgment is exercised with related party relationships, considering both real and perceived conflict of interest. This committee is comprised of the entire Board of Directors of TCU Financial Group Credit Union. The committee reviews the conduct review report as matters arise during the course of a regular Board meeting.

Executive Committee – The purpose of this committee is to act in the capacity of, and on behalf of the Board of Directors between regular or special Board meetings on all Board matters except those which the Board may not, in compliance with legislative requirements, delegate. Additionally, this committee sets the Board of Director's regular meeting and planning meeting agendas.
The Executive Committee consists of the President and Vice-President of the Board of Directors and the Chief Executive Officer. During 2013, this committee met five times.

CEO Compensation & Performance Evaluation Committee – The purpose of this committee is to ensure that a fair, equitable and competitive compensation program is provided for the CEO. Additionally, this committee conducts the CEO performance evaluation process and sets the performance plan for the following year. The CEO Compensation & Performance Evaluation Committee consists of four members of the Board of Directors which are the President, Vice-President, Chair of the Audit & Risk Management Committee and Chair of the Governance & Policy Committee. During 2013, this committee met twice.

MANAGEMENT STRUCTURE

In addition to the Board of Directors Committees, the management structure consists of the following:

Executive Management – Executive Management is responsible to oversee the operation of the Credit Union and its subsidiaries as directed through the strategic plan and policies approved by the Board of Directors. Additionally, Executive Management is responsible for developing processes that identify measures and monitor and control risks. TCU has an extensive enterprise risk management process and reports risk management performance to the Board through the Audit & Risk Management Committee. Executive Management consists of the Chief Executive Officer, Executive Manager-Retail Banking, Executive Manager-Finance & Accounting, Executive Manager-Corporate Services and Executive Manager-Business Strategies & Innovation.

Asset Liability Management Committee (ALCO) – The ALCO committee is responsible for understanding, monitoring and managing interest rate risk, liquidity risk, capital adequacy risk and management of strategies in terms of the overall balance sheet structure focusing on achieving financial targets and capital optimization. The ALCO Committee, which consists of Executive Management and the Senior Manager of Internal Audit & Risk Management, reports to the Audit & Risk Management Committee. This committee met four times during 2013.

Subsidiary Companies – TCU Financial Group Credit Union has two wholly owned subsidiary companies – TCU Wealth Management Inc. and TCU Holdings Inc. Information regarding these two subsidiary companies is provided in a separate section in this report.

BUSINESS ENVIRONMENT

A number of major economic forecasters expect Saskatchewan to lead most other provinces in economic growth for 2014. On the heels of another strong performance in 2013, the Conference Board of Canada expects the Saskatchewan economy to grow by 2.3% in 2014 even after taking into consideration weaker prospects for the potash and mineral fuels industry. In contrast to the weakness in the mining industry, the construction industry is expected to continue its boom cycle in Saskatchewan in 2014.

On the federal front, the Bank of Canada continues to employ a low interest rate policy. The benchmark overnight rate has remained unchanged at 1.00% for over 3 years, and there doesn't appear to be anything on the horizon that will change this policy any time soon. As a result, don't expect the prime interest rate to change in 2014, perhaps even well into 2015.

The global economy continues to expand at a moderate pace even as the economy in the United States is gathering momentum. On the domestic front, the Bank of Canada (the "Bank") observed that recent real GDP growth did not help improve the rebalancing towards exports and investments. According to the Bank, the housing sector has been stronger than expected but only because people continue to take advantage of the low residential mortgage interest rate environment while it still exists. However, the Bank continues to project a softening of the real estate market. Non-commodity exports continue to disappoint and the price of oil produced in Canada has eased further. There is no reason to believe that potash prices will escalate in the near future. Business investment spending is up from previous low levels, but is still recovering more slowly than anticipated. On balance, the Bank sees no reason to adjust its expectation of a gradual return to full production capacity around the end of 2015.

TCU Financial Group Credit Union (TCU) and its subsidiary companies operate primarily in the two major markets in Saskatchewan, that being Regina and Saskatoon. The strength of the Saskatchewan economy, and particularly the growth experienced in our two major markets, bodes well for TCU's future. We are encouraged by the moderate economic growth in the United States and in some European quarters as well.

The fiercely competitive environment experienced in 2013 will continue into 2014, and perhaps accelerate even more as financial intermediaries compete for the deposit dollars to meet loan demand. In anticipation of the continued low interest rate environment, we believe our member loan growth will again be very good in 2014, and we should not have any difficulty in achieving our growth targets. On the other hand, we are expecting an extremely aggressive competitive environment for member deposits. This will result in potentially having to pay higher interest rates for deposits, which will translate into a lower interest rate margin in 2014 for TCU. We have set a very aggressive target for member deposit growth at 11.49% for 2014, and recognize that we will have to work very hard to achieve that growth target. As a result of a robust loan demand, and challenges in deposit growth, we anticipate some liquidity risk challenges in 2014. However, we do have a number of liquidity risk management mitigation strategies at our disposal, and so we should be in a good position to mitigate this risk. With lower interest rate margins, profitability will also be a challenge in 2014, as it was in 2013. However, effectively controlling the operating expenses will help us to achieve our net operating profit target. Just like in 2013, we will continue to make significant investments in technology in 2014 in an effort to allow us to deliver services to our members in a very cost effective and efficient manner.

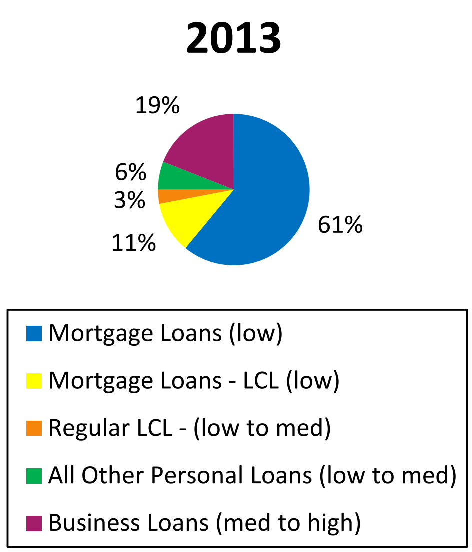
TCU will also expand our branch network in 2014. TCU has secured a lease with North Ridge Development Corporation to establish a retail branch location in the Stonebridge neighbourhood of Saskatoon. This branch will not be your typical, traditional branch environment, but will rely very heavily on delivering financial services to our members through the use of technology like the Personal Teller Machine and video-conferencing equipment. Members will however, encounter a knowledgeable and friendly face upon entering this branch facility as they will be welcomed by a Branch Host who will assist them in the using this technology.

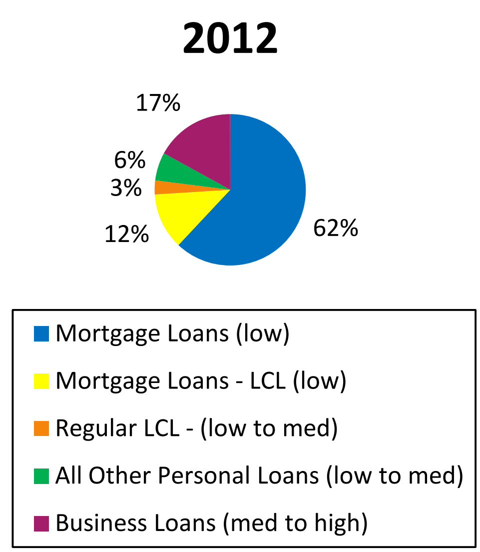
In addition to the retail branch at this location, TCU Wealth Management will also be located on these premises. This location will provide the much needed exposure and visibility which will assist us in growing our wealth management business line.

Financial performance review

TCU Financial Group

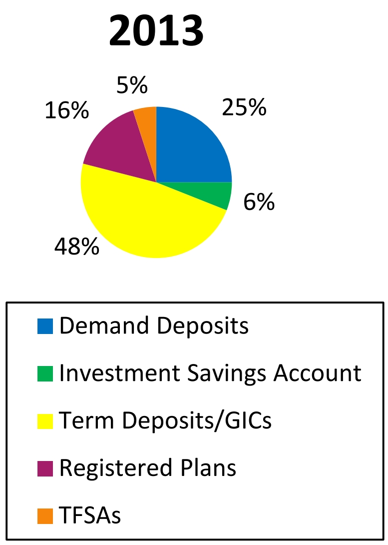
Balance sheet assets at December 31, 2013 were at $622,684,000 as compared to $552,452,000 at the end of 2012 representing 12.71% growth, as compared to 7.59% growth in 2012. The average growth of balance sheet assets over the last five years was 9.01%. Total balance sheet member loans at December 31, 2013 were at $506,638,000 as compared to $443,101,000 at the end of 2012, representing 14.34% growth as compared to 13.40% growth in 2012. The average growth of our member loans portfolio over the last five years was at 9.94%. Syndicated Loans under administration (loans purchased from other credit unions) at December 31, 2013 were at $10,930,000 as compared to $10,627,000 at end of 2012. Even though TCU added just over $4.0 million to the syndicated loan portfolio in 2013, loan payments made against these syndicated loans resulted in only a slight increase in the balance over 2012. In 2009, TCU securitized a number of mortgage loans through the Canada Mortgage & Housing Corporation's Canada Mortgage Bond Program administered through Concentra Financial. The balance outstanding at December 31, 2013 was $5,590,000. This contract will expire in September 2014 and it is our intention to bring the outstanding balance of these loans back to TCU. TCU's loan portfolio is weighted predominantly towards stable, lower risk personal and mortgage loans. Residential mortgage loans and mortgage secured line of credit loans account for 73% of our loan portfolio. Our commercial loan portfolio accounts for 19% of our total loan portfolio. The following graph will provide a breakdown of our balance sheet loans portfolio. The commentary in brackets behind each category identifies the risk rating for this group of loans.

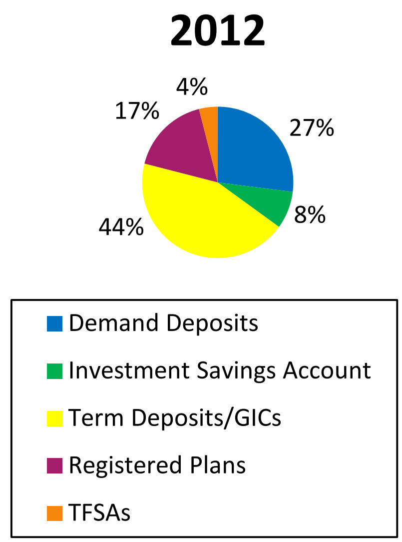




Total balance sheet member deposits at December 31, 2013 were at $554,865,000 as compared to $500,761,000 at the end of 2012, representing 10.80% growth as compared to 8.15% growth in 2012. The average growth of member deposits over the last five years was at 9.58%. Competition for member deposits continued to be extremely strong in 2013.

Most of TCU's member deposits are concentrated in the higher rate investment type accounts. The following graph provides the breakdown of our member deposits in the various demand and investment products. The increase in the term deposit balance is reflective of members choosing to take advantage of the many term deposit specials offered throughout 2013.





Liquidity

TCU's loan to asset ratio as at December 31, 2013 was at 81.36%, as compared to 80.21% at the end of 2012.

The loan demand during 2013 was steady, but a significant increase in our member loan balance came in the last quarter of the year when we disbursed a number of commercial loan transactions. With the anticipation that the Bank of Canada will continue with its low interest rate policies throughout 2014, we again anticipate steady demand in loan activity for 2014, and are budgeting for over an 8% growth in member loans for 2014.

Acquiring deposits from our members continues to be a high priority, and will be even more so for 2014. We will need to attract member deposits in order to meet the anticipated loan demand. In anticipation of a very aggressive competitive environment for member deposits, TCU may also need to use other liquidity management strategies such as syndicating some of our loan portfolio if member deposit growth does not meet the loan demand. We are budgeting for an 11.49% growth in member deposits in 2014.

TCU, along with all other Saskatchewan Credit Unions, is required to maintain 10% of liabilities on deposit with SaskCentral, as the manager of the provincial liquidity program. These liquidity investments provide a safety net of liquid funds to satisfy payment obligations and to also protect against unforeseen liquidity events. In addition to these statutory liquidity investments, TCU also maintains an investment portfolio of other liquid investments to meet daily liquidity requirements.

Profitability

Comprehensive Income in 2013 was just under $2,787,000, as compared to just over $3,802,000 in 2012. The net operating income in 2013 was just over $3,651,000 as compared to $3,716,000 in 2012. Financial statement reporting standards require us to report "comprehensive income" which includes unrealized gains/losses on investments and derivatives. In 2013, the unrealized gains/losses on investments and derivatives calculated to be an unrealized loss of just over $925,000 as compared to an unrealized loss of $274,000 in 2012.

TCU's total annualized return on assets (ROA) for 2013 was .45% on comprehensive income, and .59% on net operating income, as compared to .69% on comprehensive income and .67% on net operating income in 2012.

Net interest margin is the total revenue received from loan and investment interest less total interest expense paid on member deposits and provision for credit and investment losses. TCU's net interest margin was at 2.338% at December 31, 2013, which was slightly lower than the net interest margin of 2.370% at the end of 2012.

Net interest margins deteriorated throughout the first half of 2013, but then started to increase during the second half of 2013. We expect the net interest rate margin to be slightly lower at the end of 2014. The main reason for this deterioration is the continued low interest rate environment and the very strong competitive environment for both loans and deposits. This means that the interest rates we will be able to charge on our loans and the interest rates we will have to pay for deposits will tighten.

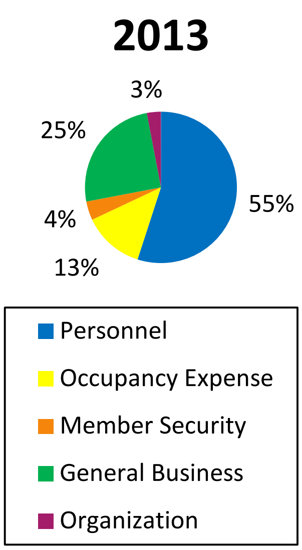
Non-interest revenue includes revenue from sources like commissions and charges, service fees, administration fees on syndicated loans and fixed asset income. TCU's non-interest revenue for 2013 was at $2,584,000 as compared to $3,435,000 in 2012. The unrealized gains and losses on investments and derivatives as indicated above accounted for the difference between 2013 and 2012. Interest expense includes the interest paid to our member deposits, and interest paid on borrowed money. The total interest expense for 2013 was just over $8,549,000 as compared to just over $7,757,000 in 2012. The increased growth in member deposits over 2013, as well as the continued shift of member deposits from the Investment Savings Account and other Demand Deposits to the higher interest bearing Term Deposits accounted for most of the difference.

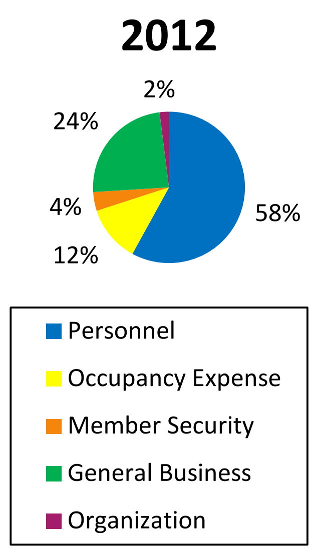
Provision for loan losses for 2013 was at ($392,000) as compared to $391,000 in 2012. In 2010, we needed to establish a provision for doubtful loans for a commercial loan in the amount of $650,000 because of delinquency issues. However, this delinquency issue did not materialize and we were able to eliminate the $650,000 allowance. We wrote off $242,000 in loans in 2013. Overall, TCU's delinquency and loan loss provisions are exceptionally low and well below industry ratios for an organization with a loan portfolio over $500 million.

Non-interest expenses include operating expenses such as personnel, occupancy, member security, general business and governance costs. Non-interest expenses for 2013 were at $12,537,000, as compared to $12,861,000 in 2012, or a decrease of 2.58%. One of our primary focuses is to grow assets without a corresponding increase in operating expenses. In other words, we want to continue to work towards decreasing our operating expenses as a percentage of assets. In 2013, our operating expense to asset ratio was at 2.01% as compared to 2.33% in 2012. On all levels, in terms of managing our operating expense, TCU was able to accomplish this exceedingly well in 2013. TCU still maintains one of the lowest operating expense ratios for a multi-branch credit union in Saskatchewan.

Personnel Costs represent 55% of our total operating expenses, followed by General Business expenses (data processing costs, marketing, depreciation, etc) at 25%.

The following graph presents a breakdown of TCU's operating expenses.





Efficiency Ratio is a calculation that determines the cost of raising $1.00 of revenue. In 2013, TCU's Efficiency Ratio was at 72.71%, which did not change from 2012. In other words, it costs TCU $0.7271 to raise $1.00 of revenue in 2013. Our primary focus is to continue to improve on our Efficiency Ratio to where it is below 70%.

Member equity and capital

Member equity and capital are the primary measurements of a credit union's financial strength. TCU's capital management policy is that we will at all times remain adequately capitalized, maintaining a prudent cushion of retained earnings and equity to protect our economic survival and to finance new opportunities.

There are two measurements we use in regards to capital and member equity:

1) Total capital as a percentage of risk-weighted assets – TCU's risk weighted ratio at the end of 2013 stood at 13.60%, as compared to 14.65% in 2012. The standard as set by our regulator is that a credit union must maintain a minimum of 8.00% of total capital as a percentage of

risk weighted assets. TCU's internal capital management policy is for the risk weighted capital ratio to be within the range of 10% to 12%. We are well within both the regulatory requirement and our own standards. Our regulator will be imposing new capital standards in 2016 as a result of the implementation of BASEL III regulatory standards. TCU's risk weighted ratio is already compliant within the new BASEL III standard.

2) Total capital as a percentage of total assets – TCU's Tier 1 capital to asset ratio at the end of 2013 stood at 6.60%, as compared to 7.07% in 2012. The standard as set by our regulator is that a credit union must maintain a minimum of 5.00% of total capital as a percentage of total assets. The primary reason for this ratio being lower than in 2012 was that asset growth was above the budgeted target.

TCU's Member Equity position as at December 31, 2013 was at $41,605,000 as compared to $38,819,000 at the end of 2012.

Operational review

Throughout 2013, TCU implemented a number of key initiatives to enhance member service and to position the credit union for future developments or functionality. These initiatives are as follows:

- A "New to Canada" program was established to assist new Canadians with their financial needs.
- Signed a new agreement with CUETS to continue offering credit card services to our members.
- "eDocs" functionality allows our members to view documents, like their mortgage document, on-line through MemberDirect. TCU is the first, and so far, the only credit union in Canada to offer this service.
- To help promote TCU's brand awareness, we extended our naming rights contract with TCU Place to 2026.
- TCU is very proud of our long history of supporting the communities we serve. In 2013, TCU committed over $150,000 in sponsorships and donations to various organizations within our communities.
- Initiatives being worked on that will be introduced in 2014:
  - Remote Deposit Capture (RDC) or "Deposit Anywhere™" that allows members to securely deposit cheques into their account using the camera on their Apple or Android device.
  - MemberDirect access specifically designed for businesses.
  - On-line functionality that will allow individuals to open accounts and set up products like term deposits and RRSP's on-line.
  - Personal Financial Management (PFM) functionality through MemberDirect will assist members to manage their financial goals.
  - And, as indicated in a previous section, a new branch and wealth management location in Stonebridge.

From a Corporate Culture or Human Resources perspective, TCU continues to employ strategies and initiatives to enhance our corporate culture and to be the kind of organization that people will want to work for. TCU Financial Group and TCU Wealth Management Inc. have an outstanding staff complement. Members tell us over and over again that our employees are exceptional and provide a level of service that exceeds their expectations. We anticipate strong competition for skilled labor, and so TCU will have to be a leader in initiating policies that will not only engage and retain existing staff, but also make TCU companies the employer of choice.

From a Risk Management perspective, TCU had one audit in 2013 as follows:

- Our annual external audit conducted by Virtus Group Chartered Accountants. Their report is included in this Annual Report. Our Internal Audit Department conducts reviews of TCU's operations, processes and controls on a year round basis. Findings from these reviews are reported to the Audit & Risk Management Committee.

TCU Wealth Management Inc.

TCU Wealth Management Inc. is a wholly-owned subsidiary of TCU and provides wealth management services such as mutual funds, securities brokerage, estate and financial planning.

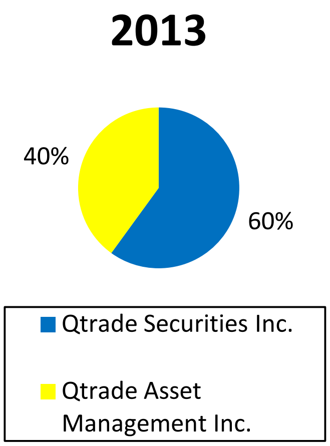
The Board of Directors of TCU Wealth Management Inc. is as follows:

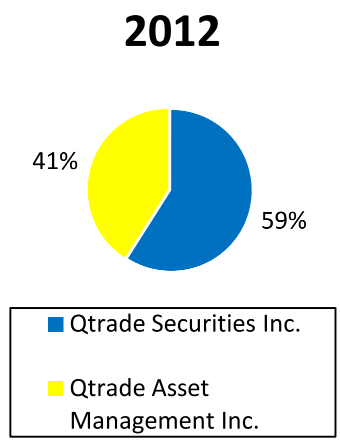
- Morris Smysnuik – CEO, TCU Financial Group Credit Union
- Darcy McLean – Representative of the TCU Financial Group Credit Union Board of Directors
- Derwyn Crozier-Smith – Client Representative
- Modest Kowal – Client Representative
- Orest Bodnarchuk – Industry Representative
- Linda Jijian – Industry Representative

TCU Wealth Management Inc. also has its own management structure, as follows:

- Celeste Labrecque – General Manager
- Jill Norrish – Senior Manager Wealth Management

TCU Wealth Management Inc. continues to be an integral part of our organization. We believe that it will be imperative for our wealth management subsidiary to be successful in order for our organization to sustain itself into the future as an autonomous financial intermediary. TCU Wealth Management Inc.'s assets under administration are broken down into two categories – mutual funds administered through Qtrade Asset Management Inc. and securities investments administered through Qtrade Securities Inc. Total assets under administration at December 31, 2013 were at $138,737,000 as compared to $110,895,000 at the end of 2012, representing an overall increase of 25.11% as compared to 9.79% in 2012. Qtrade Asset Management Inc. assets under administration at December 31, 2013 were at $54,934,000 as compared to $45,279,000 at the end of 2012, or a 21.32% increase as compared to 10.98% in 2012. Qtrade Securities Inc. assets under administration at December 31, 2013 were at $83,803,000, as compared to $65,616,000 at the end of 2012, or a 27.72% increase as compared to 8.99% in 2012. The breakdown between the two categories is presented below.





Future Considerations

The Saskatchewan Credit Union system is continuing to go through a transitional phase where credit unions are considering mergers or strategic relationships that are changing the credit union landscape in Saskatchewan. Currently there are 52 credit unions in Saskatchewan. Through mergers, we expect that number will decrease in 2014. While very cognizant and always vigilant in terms of these developments, TCU continues to work towards remaining as an autonomous credit union within the Saskatchewan Credit Union system. As long as we continue to add value to our members, our Board believes that TCU has a place in the financial intermediary space in Saskatchewan.

We expect 2014 to be another challenging year for TCU. While we have budgeted for respectable growth targets in both member loans and member deposits, it is acknowledged that attaining the growth targets for member deposits will be challenging. We expect a very strong competitive environment which will result in competing for deposits and loans through aggressive pricing, which will only serve to lower interest rate margins even more for TCU.

We have been very successful at gaining efficiencies and controlling our operating expenses in 2013, and expect to do the same in 2014. We recognize that the path to our success as an autonomous credit union is to grow our business without a corresponding increase in our operating expenses. We don't see these efficiencies coming through staff cutbacks or service reduction, but see these efficiencies coming through continued investments in technology. Investments made in technology like the Personal Teller Machine and the video-conferencing technology allows TCU to offer additional service levels in a very cost effective and efficient manner.

In summary, we will dedicate our resources and efforts towards our primary goal which is to ensure that our members receive outstanding service and value in their dealings with TCU at very competitive pricing. We are committed to growing our member deposit base on the Credit Union side, and assets under management on the Wealth Management side. We continue to work extremely hard to deliver on our "Purpose", "Passion" and "Promise" statement which is based on our Eight Guiding Principles and represents the high level direction of our Credit Union in terms of what members can expect of TCU when conducting their financial transactions with us. The Eight Guiding Principles will ensure that TCU will exceed expectations in regards to providing outstanding service levels to our members/clients; be very price competitive, if not the best price; provide value added service to our members/clients and, of course, maintain a level of profitability and growth that will sustain our Credit Union into the long term. In order to accomplish the direction conveyed by these guiding principles, TCU will be challenged to use both our human resource element and technology to efficiently and effectively deliver financial products and services to our members/clients through delivery channels that our members want and expect. Just as we will be challenged to be more innovative in terms of effectively delivering financial services to our members/clients, our members/clients will also be challenged to be more accepting of innovative and newer technologies, particularly as it applies to our new branch in Stonebridge. In summary, as it was in 2013, we expect 2014 to be just as challenging a year from a financial perspective, but also a very exciting year from an innovative perspective.

MANAGEMENT OF RISK

Overview

TCU Financial Group Credit Union (TCU) is committed to prudently employ a range of risk management strategies to mitigate the various risks that it is exposed to within the financial industry. TCU employs an enterprise risk management framework (ERM) in order to enhance the management of these risks. Based on this framework, TCU uses six categories to help define the risk exposure. These categories are:

- Credit Risk
- Liquidity Risk
- Market (Interest rate) Risk
- Strategic Risk
- Operational Risk
- Legal and Regulatory Risk

TCU's risk management framework includes:

- Risk identification and classification
- Risk mitigation review and assessment
- Policy and procedure reviews and amendments
- Compliance and audit reviews
- Reporting

Senior Management is responsible for establishing the framework which will identify and classify the risks, as well as establishing effective policies and processes to manage the risks. The Board of Directors, both directly or through Board committees, reviews and approves key policies and reporting to ensure proper oversight to the risk management process.

The Board of Directors is responsible to approve the overall business plan including any recommendations from various committees. The Board also receives reporting from the various committees as it relates to approvals made by those committees.

The Audit & Risk Management Committee receives direct reporting from Senior Management and is responsible for monitoring the risk management framework and making recommendations to the Board regarding acceptable levels of risk. The committee is also responsible to provide oversight of the external and internal audit process and the adequacy of internal controls.

Executive and Senior Management are responsible for the implementation of strategies and policies approved by the Board as well as reporting to the Board or specific committees to ensure proper oversight is maintained.

The ALCO (Asset and Liability Management) committee consists of Executive Management and the Senior Manager of Internal Audit & Risk Management. The committee is responsible for the monitoring of liquidity and interest rate risk as well as overall credit exposure. This committee provides regular reporting to the Board related to liquidity, market risk and capital management activities undertaken by Management. Enhanced risk management activities continue to evolve in support of regulatory requirements and risk management best practices with respect to capital adequacy and capital and liquidity stress testing.

TCU has also established an independent internal audit/quality assurance framework. Reporting from this framework is delivered to Management with a summary provided to the Audit & Risk Management Committee on a quarterly basis to assist in the oversight of TCU internal controls.

Credit Risk

Credit risk analysis includes a review of TCU loan portfolio diversity, loan policy and the ability to recover our loans by way of member payments or the realization of security. TCU employs loan underwriting policies and procedures based on recommended industry requirements and standards. Loan delinquency and "loan loss write offs" continue to be maintained below industry standards and are monitored and reported to the Board on a regular basis. Loan portfolio concentrations are also reported to the Board of Directors. The largest percentage of our loan book remains with the consumer and residential mortgage loan products, but we continue to make significant inroads with diversification into commercial and syndicated loans.

Liquidity Risk

Liquidity Risk analysis includes a review of strategies around member deposit acquisition and other loan funding sources. TCU has established liquidity, capital management and asset/liability management (ALM) policies, approved by the Board of Directors, which provide direction in managing the associated risks. Loan syndication continues to be one strategy employed to mitigate liquidity pressures, however, acquiring member deposits remains a key focus. Competition for deposit dollars continues to be strong. Existing borrowing facilities with SaskCentral (Concentra) also form part of the management strategy. Management develops strategies designed to attract deposits and non-interest revenue streams. The ALCO committee is responsible to manage liquidity risk based on the approved policy and to provide reporting to the board.

Market (Interest Rate) Risk

Market Risk analysis includes a review of market conditions, asset/liability matching and interest margins. Pressure on interest margin remains a key area of risk for TCU. In addition to the ALCO committee, TCU has employed the services of an outside consultant to assist with our balance sheet management including scenario simulation, stress testing based on changes in interest rates, and review possible scenarios for long term planning. Interest rate swaps are employed as one strategy to manage interest rate risk. Senior Management conducts ongoing reviews of product offerings, product delivery and product pricing to help ensure profitability. Reporting is provided to the Board regularly.

Strategic Risk

Strategic Risk analysis includes a review of TCU's brand, strategic direction, competition for members and employees as well as TCU's role in the communities in which we serve. TCU has a formal planning process and operates from a Balanced Scorecard approach reflecting key strategic focus areas. Management reports to the Board on the progress to plan for initiatives designed around our members, corporate culture, financial performance metrics, growth and innovation tactics. Our strategic direction is set by the Board which is reviewed at least annually. In addition, TCU has set benchmark metrics that if not achieved, initiates a high level review of our strategic direction to ensure future success of the Credit Union. Annual planning meetings with Executive Management and Directors set the direction for the Credit Union. Executive and Senior Management are responsible to develop objectives and action plans. The Board is responsible to review and approve the Balanced Scorecard annually. TCU actively participates in the community both from a corporate perspective and by individual employees.

Operational Risk

Operational Risk analysis includes a review primarily of human resources and information systems as well as internal controls and business continuity planning. Operational risk occurs when TCU is not able to develop or deliver products and services to its' members due to human error, inadequate or failed technical issues, inadequate internal controls, lack of trained or qualified staff or other resources, etc. Competition remains a key risk area and TCU's ability to respond to operational risk issues is paramount to our success. TCU has established policies and procedures, internal controls and compliance activities and conducts regular reviews of these controls. Among other initiatives, attracting and retaining highly skilled and competent staff remains a priority. Dedicating resources and initiatives to technology, information systems and alternative service delivery channels has been a key focus as we maximize the use of Personal Teller Machines, video-conferencing and other service delivery methods in an effort to enhance our member access points in a cost effective manner. Outsourced experts are engaged where needed to ensure a high level of knowledge and support for key initiatives. TCU has adopted a Code of Conduct for employees and directors. TCU also requests and receives audit reports from key suppliers to ensure that these organizations are able to remain viable partners for our organization.

Legal and Regulatory Risk

Legal and Regulatory Risk analysis includes a review of fraud and fiduciary risk exposure as well as the cost to implement regulatory or compliance regimes and the possible effect of non-compliance with laws, rules, regulations or ethical standards. TCU has policies, procedures and internal controls in place to mitigate our exposure to these risks as well as assist TCU in complying with laws and regulations. TCU has a designated Compliance Officer to oversee the compliance regime. In addition, the internal audit/quality assurance framework provides an independent assessment of the compliance regime on an annual basis. Internal audit/quality assurance also provides ongoing assessment of internal controls. Reporting is provided to Senior Management ongoing and to the Audit & Risk Management Committee on quarterly basis to ensure the Board's oversight of the compliance and control processes.

MANAGEMENT'S RESPONSIBILITY

To the Members of
TCU Financial Group

Management has responsibility for preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for consolidated financial statements to members lies with the Board of Directors. An Audit and Risk Management Committee of Directors is appointed by the Board to review financial statements in detail with management and to report to the Board of Directors prior to their approval of the consolidated financial statements for publication.

Independent auditors appointed by the members audit the consolidated financial statements and meet separately with both the Audit and Risk Management Committee and management to review their findings. The independent auditors report directly to the members and their report follows. The independent auditors have full and free access to the Audit and Risk Management Committee to discuss their audit and their findings as to the integrity of the Credit Union's financial reporting and the adequacy of the system of internal controls.

Chief Executive Officer

Executive Manager – Finance & Accounting

INDEPENDENT AUDITORS' REPORT

To the Members,
TCU Financial Group

We have audited the accompanying consolidated financial statements of **TCU Financial Group** which comprise the consolidated statement of financial position as at **December 31, 2013** and the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at **December 31, 2013** and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Virtus Group LLP

March 5, 2014
Saskatoon, Saskatchewan

Chartered Accountants

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013
(with comparative figures for 2012)

	Note	2013	2012
ASSETS			
Cash and cash equivalents	4	$3,361,184	$8,082,102
Investments	5	97,299,196	87,261,765
Loans	6	506,637,684	443,100,661
Accounts Receivable		1,014,604	851,327
Prepaid Expenses		2,474,207	539,498
Derivatives		643,255	659,092
Property, Plant and Equipment	7	11,232,427	11,858,114
Other Assets	8	21,170	99,146
		$622,683,727	$552,451,705
LIABILITIES			
Deposits	9	$554,865,223	$500,761,402
Loans Payable	10, 20	20,676,514	7,232,425
Accounts Payable		5,987,981	5,952,479
Other Liabilities (Assets)	11	(564,684)	(428,147)
Membership Shares	12	113,545	114,900
		$581,078,579	$513,633,059
EQUITY			
Retained Earnings		$41,184,588	$38,458,604
Accumulated Other Comprehensive Income		420,560	360,042
		$41,605,148	$38,818,646
		$622,683,727	$552,451,705

APPROVED BY THE BOARD:

Director

Director

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(with comparative figures for the year ended December 31, 2012)

	Note	2013	2012
INTEREST INCOME			
Loan Interest		$19,191,292	$17,901,521
Investments		3,121,018	3,864,834
		$22,312,310	$21,766,355
INTEREST EXPENSE			
Deposits		$8,333,792	$7,468,685
Borrowed Money		215,269	288,870
		$8,549,061	$7,757,555
NET INTEREST INCOME		$13,763,249	$14,008,800
Provision for (recovery of) credit losses	6	(392,023)	390,576
		$14,155,272	$13,618,224
NON-INTEREST INCOME			
Gains (losses) – Held for Trading Instruments		($925,312)	($273,523)
Other Revenue		3,509,374	3,708,679
		$2,584,062	$3,435,156
OPERATING EXPENSES			
Personnel		$6,947,881	$7,397,970
Security		493,671	467,540
Organizational		315,819	311,142
Occupancy		760,185	758,657
Depreciation and amortization		826,402	848,691
General Business		3,192,975	3,076,504
		$12,536,933	$12,860,504
Income before income tax		$4,202,401	$4,192,876
Income tax expense	18	1,476,417	750,535
NET INCOME		$2,725,984	$3,442,341

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(with comparative figures for the year ended December 31, 2012)

	2013	2012
NET INCOME	$2,725,984	$3,442,341
OTHER COMPREHENSIVE INCOME (NET OF TAX)		
Items that will not be reclassified subsequently to profit or loss:		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized gains and (losses) on:		
Available-for-sale financial assets	60,518	360,042
Reclassification of (gains) and losses on:		
Available-for-sale financial assets disposed of in the year	0	0
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	$60,518	$360,042
TOTAL COMPREHENSIVE INCOME	$2,786,502	$3,802,383

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(with comparative figures for the year ended December 31, 2012)

	Retained earnings	Unrealized gain/losses - AFS financial assets	Total equity
Balance at January 1, 2012	$35,016,263	$0	$35,016,263
Total comprehensive income for the period:			
Net income	$3,442,341	$0	$3,442,341
Other comprehensive income:			
Net change in fair value of available for sale financial assets, net of tax	$0	$360,042	$360,042
Net amount reclassified to profit and loss for available for sale financial assets, net of tax	$0	$0	$0
Total other comprehensive income	$0	$360,042	$360,042
Total comprehensive income for the period	$3,442,341	$360,042	$3,802,383
Balance at December 31, 2012	$38,458,604	$360,042	$38,818,646
Balance at January 1, 2013	$38,458,604	$360,042	$38,818,646
Total comprehensive income for the period:			
Net income	$2,725,984	$0	$2,725,984
Other comprehensive income:			
Net change in fair value of available for sale financial assets, net of tax	0	60,518	60,518
Net amount reclassified to profit and loss for available for sale financial assets, net of tax	$0	$0	$0
Total other comprehensive income	$0	$60,518	$60,518
Total comprehensive income for the period	$2,725,984	$60,518	$2,786,502
Balance at December 31, 2013	$41,184,588	$420,560	$41,605,148

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(with comparative figures for the year ended December 31, 2012)

	2013	2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Comprehensive Income	$2,786,502	$3,802,383
Items not involving cash:		
Amortization	601,021	850,206
Charge for credit impairment	(392,023)	390,576
Changes in other assets and other liabilities	(2,121,045)	88,168
Cash flows from (used in) operating activities	$874,455	$5,131,333
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Deposits, shares	$54,102,466	$37,747,970
Loans payable	13,444,089	(2,675,808)
Cash flows from (used in) financing activities	$67,546,555	$35,072,162
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Investments	($10,021,593)	$17,789,080
Loans	(63,145,001)	(52,764,588)
Property and equipment	24,666	(1,202,078)
Cash flows from (used in) investing activities	($73,141,928)	($36,177,586)
Net increase (decrease) in cash resources	($4,720,918)	$4,025,909
Cash and cash equivalents - beginning of year	8,082,102	4,056,193
Cash and cash equivalents - end of year	$3,361,184	$8,082,102

NOTES

1. INCORPORATION AND GOVERNING LEGISLATION

TCU Financial Group Credit Union is a for profit corporation governed by *The Credit Union Act, 1998* in the Province of Saskatchewan, Canada. The Credit Union's registered office is located in Saskatoon, Saskatchewan. The Credit Union provides financial services to customers through branches in Saskatoon, Regina and surrounding areas.

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Part I of the Canadian Institute of Chartered Accountants (CICA) Handbook - International Financial Reporting Standards (IFRS). The financial statements comply with IFRS adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on March 5, 2014.

The consolidated financial statements have been prepared on the historical cost basis, except for the following financial instruments which are measured at fair value: Central 1 bid deposits, Concentra bid deposits, SaskCentral demand deposit, provincial and corporate bonds, and derivative assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates and Key Judgments

The preparation of the financial statements required management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, as well as, the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

(i) *Valuation of Financial Instruments*

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described further in Note 3. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include consideration of liquidity and other risks affecting the specific instrument.

(ii) *Allowances for Credit Losses*

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

The collective allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective allowance, management considers factors such as credit quality, historical loss experience and current economic conditions.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Credit Union and its subsidiaries. Assets, liabilities, income and expenses are included in the consolidated financial statements after eliminating intercompany transactions and balances.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of its returns. Control is reassessed if facts and circumstances indicate that there are changes to one or more of these criteria. When the Credit Union has less than a majority of voting rights of an investee, the Credit Union assesses whether it has power over the investee by determining if it has the practical ability to unilaterally direct relevant activities. The financial statements of subsidiaries are included in the financial statements from the date control commences until the date that control ceases. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Included in the consolidated financial statements are the following entities:

Entity	Percentage Ownership
TCU Wealth Management Inc.	100%
TCU Holdings Inc.	100%

Significant Accounting Changes

The following standards were adopted in the current fiscal year and are reflected in these financial statements:

- IAS 1 Presentation of Financial Statements: In the Statement of Comprehensive Income, it is now required to classify other comprehensive income items into those items that will not be reclassified subsequently to profit or loss and those items that will be reclassified subsequently to profit or loss when specific conditions are met.

- IFRS 10 Consolidated Financial Statements: The standard implements a new definition of control which impacts whether an investee is consolidated or not.
- IFRS 12 Disclosure of Interest in Other Entities: This new standard outlines the disclosure requirements for interests in subsidiaries and joint arrangements.
- IFRS 13 Fair Value Measurement: The standard provides a definition of fair value, guidance on determining fair value and disclosure requirements.

Financial Instruments

All financial instruments are initially recognized at fair value, plus transaction costs, except in the case of financial assets and liabilities classified as fair value through profit or loss. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the instruments were acquired and the item's characteristics. The Credit Union uses settlement date accounting for regular way contracts when recording financial asset transactions. All financial instruments are classified as fair value through profit or loss, loans and receivables, held to maturity, available for sale or other financial liabilities.

Fair value through profit or loss

Financial assets and financial liabilities are classified as fair value through profit or loss (FVTPL) when the instrument is held for trading or is designated as FVTPL by management.
A financial asset or financial liability is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term, or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Credit Union manages together and has a recent actual pattern of short term profit taking, or
- It is a derivative that is not designated (or designated but not effective) as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in profit or loss.

The Credit Union has classified the following financial assets and liabilities as FVTPL:

- Cash and cash equivalents
- Central 1 bid deposit
- Concentra bid deposit
- SaskCentral demand deposit
- Provincial and corporate bonds
- Derivatives

Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near term. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment. Interest income, calculated using the effective interest rate method, is recognized in profit or loss.

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

- Loans
- Accrued interest on loans
- Accounts receivables

Held to maturity

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until the maturity date, and which are not designated as another category. Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with interest revenue recognized in profit or loss.

The Credit Union has classified the following financial asset as held to maturity:

- SaskCentral liquidity deposits

Available for sale

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified in any of the previous categories. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available for sale financial assets are subsequently measured at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Credit Union becomes entitled to the dividend. Fair value changes are recognized in other comprehensive income until the investment is sold or impaired. Once sold or impaired, the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

The Credit Union has classified the following financial assets as available for sale:

- SaskCentral debenture
- SaskCentral shares
- APEX Investment Limited Partnership

Other financial liabilities

Other financial liabilities are those liabilities which have not been classified as FVTPL. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, calculated using the effective interest rate method, is recognized in profit or loss.

The Credit Union has classified the following financial liabilities as other financial liabilities:

- Deposits
- Loans payable
- Accounts payables
- Membership shares

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity, commodity instrument or index. In the ordinary course of business, the Credit Union enters into derivative contracts for asset/liability management. The Credit Union enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into. It is subsequently measured at fair value with changes in fair value recognized in profit or loss, unless it is designated in a qualifying hedging relationship. Derivatives may include contracts which are designated as and effective as hedges, and/or contracts which reposition the Credit Union's overall interest rate risk, credit risk and foreign exchange risk profile. The Credit Union does not use hedge accounting for derivatives.

Embedded Derivatives

Derivatives embedded in other non-derivative financial instruments or other host contracts are separated from their host contracts and accounted for as separate derivatives when certain conditions are met. These conditions include: the economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms would meet the definition of a derivative and the combined instrument or contract is not measured at FVTPL. Embedded derivatives that are accounted for as separate derivatives are measured at fair value with changes in fair value recognized in profit or loss immediately. The Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require separate recognition.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments except those classified as at FVTPL.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

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

The Credit Union classifies fair value measurement recognized in the statement of financial position using a three tier fair value hierarchy, which reflects the significance of 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 (from Level 1) that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Valuation techniques that include significant unobservable inputs.

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

Financial Asset Impairment

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

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency by the borrower, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, prolonged decline in fair value of a security, or other observable data relating to a portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

For certain categories of financial assets, such as loans, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. In assessing collective impairment, the Credit Union considers historical experience on similar assets in similar economic conditions.

Impairment losses on financial assets carried at amortized cost is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, which is reduced through the use of allowance accounts. Impairment losses are recognized in profit or loss.

When available for sale financial assets are considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid securities with a maturity date within 90 days of the year end date. They are subject to insignificant risk of changes in fair value and are used to manage short term cash commitments.

Investments

Investments are initially measured at fair value. For investments not classified as FVTPL, incremental transaction costs are added to the initial measurement. Subsequent measurement is determined based on the classification of the instrument.

Loans Receivable

Loans are initially measured at fair value plus transaction costs and subsequently at amortized cost using the effective interest method, less any impairment. A loan is classified as impaired (doubtful) when there is no longer reasonable assurance that the principal and interest will be collected in full. The allowance is comprised of two components – individual allowances and collective allowances, calculated as follows:

(i) The Credit Union records specific individual allowances based on management's regular review and evaluation of individual loans. The estimated realizable amount represents management's best estimate of the present value of future cash flows expected to be received, discounted at the loan's effective contractual interest rate. As a practical expedient, impairment may be measured on the basis of the instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(ii) The Credit Union records collective allowances for loans with similar credit risk characteristics, that have not been individually assessed as impaired when objective evidence of impairment within the groups of loans exists, but the individually impaired loans cannot be identified. In assessing the need for collective allowances, management considers factors such as credit quality, portfolio size and economic factors. The Credit Union estimates the collective allowance for impairment using a formula based on its historical loss experience for similar groups of loans in similar economic circumstances and current economic conditions. As management identifies individually impaired loans, it assigns an individual allowance for impairment to that loan and adjusts the collective allowance accordingly.

Assets Held for Sale

Assets are considered held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification.

Property, Plant and Equipment

Property, plant and equipment are reported at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight line method over the estimated useful life of the related asset as follows, with the exception of land which is not depreciated:

Facilities	40 years
Furniture and equipment	10 years
Computer hardware	4-8 years

The estimated useful lives, residual values and depreciation methods are reviewed at each year end and adjusted if appropriate.

Gains and losses on the disposal or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in profit or loss in the year of disposal.

Membership Shares

Shares are classified as financial liabilities in accordance with their terms. Shares are redeemable at the option of the member, either on demand or upon withdrawal from membership.

Loan Interest Revenue

Loan and lease interest revenue is recognized on the accrual basis using the effective interest rate method for all loans not classified as impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for credit losses as an adjustment of the specific allowance.

Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees, are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

Investment Interest Revenue

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Swap Interest Revenue and Expenses

Swap interest revenue and expenses are calculated on an accrual basis on fair value and the result netted for reporting purposes.

Other Income

Other revenue is recognized in the fiscal period in which the related service is provided.

Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities measured at historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date the fair value was determined. Translation gains and losses are included in profit or loss, except for available for sale equity instruments which are recognized in other comprehensive income.

Income Taxes

Income tax expense is comprised of current and deferred taxes which are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for tax purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the period of change, except when they relate to items recognized directly in other comprehensive income. The Credit Union is taxed at an effective rate of 13.63% on taxable earnings eligible for that rate and at 27% on the excess balance.

Deferred taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or for different tax entities where the Credit Union intends to settle its current tax assets and liabilities on a net basis or simultaneously.

Future Accounting and Reporting Changes

The Canadian Accounting Standards Board (AcSB) has issued new and amended IFRS standards under Part I of the CICA Handbook which are not yet effective for the Credit Union. None of the new or amended standards have been implemented in these consolidated financial statements. The significant changes to the standards are as follows:

- IFRS 9 Financial Instruments: The recognition and measurement section standard has been revised to reduce the classification categories for financial assets from four to two. The new categories will be amortized cost and fair value. The areas of derecognition, impairment and hedge accounting are still under development. The changes to IFRS will not be required to be implemented until all aspects of the standard are finalized. The last announced mandatory effective adoption date is January 1, 2017.

The Credit Union has not determined the effect, if any, of the above standards on the financial statements.

4. CASH AND CASH EQUIVALENTS

	2013	2012
Cash and balances with the Credit Union	$3,361,184	$8,082,102
Total	$3,361,184	$8,082,102

5. INVESTMENTS

	2013	2012
Loans and receivables		
Accrued Interest	$760,516	$841,158
	$760,516	$841,158
Held for trading		
Central 1 Bid Deposit	$1,771,637	$2,561,542
SaskCentral Demand Deposit	0	6,800,000
Provincial and Corporate Bonds	29,206,810	18,850,118
	$30,978,447	$28,211,660
Available for sale		
SaskCentral Debenture	$3,940,000	$3,940,000
SaskCentral Shares	3,919,710	3,919,710
Other Investments	1,997,023	1,570,737
	$9,856,733	$9,430,447
Held to maturity		
SaskCentral Liquidity Deposits	$55,703,500	$48,778,500
	$55,703,500	$48,778,500
	$97,299,196	$87,261,765

At December 31, 2013, the market value of investments classified as held to maturity is $55,784,341 (2012 - $48,993,264).

Pursuant to Regulation 18(1) (a), Credit Union Central of Saskatchewan (SaskCentral) requires that the Credit Union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, CUDGC requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2013 the Credit Union met the requirement.

At December 31, 2013, $66,742,273 (2012 - $48,088,292) of investments are expected to be recovered more than 12 months after the reporting date.

6. LOANS

2013

	Current Loans	Impaired Loans	Allowances Specific	Allowances Collective	Net
Guaranteed *	$121,358,208	$0	$0	$0	$121,358,208
Conventional Mortgages:					
-Residential & Farm	243,131,243	955,246	0	0	244,086,489
Personal Loans	41,545,014	341,217	268,795	0	41,617,436
Non-personal Loans	98,564,842	1,701	1,797	0	98,564,746
Line of credit, overdrafts	184,995	8,244	8,505	0	184,734
Accrued Interest	818,309	7,762	0	0	826,071
Total loans	$505,602,611	$1,314,170	$279,097	$0	$506,637,684

2012

	Current Loans	Impaired Loans	Allowances Specific	Allowances Collective	Net
Guaranteed *	$113,769,821	$0	$0	$0	$113,769,821
Conventional Mortgages:					
-Residential & Farm	218,052,605	153,831	0	0	218,206,436
Personal Loans	38,017,494	294,936	239,110	0	38,073,320
Non-personal Loans	72,784,592	16,872	667,647	0	72,133,817
Line of credit, overdrafts	220,458	5,973	6,021	0	220,410
Accrued Interest	693,214	3,643	0	0	696,857
Total loans	$443,538,184	$475,255	$912,778	$0	$443,100,661

*Guaranteed loans include loans which are guaranteed or insured under programs administered by federal and provincial governments, their agents or private loan insurance companies.

At December 31, 2013, $229,151,461 (2012 - $189,941,606) of loans are expected to be recovered more than 12 months after the reporting date.

Allowance for impaired loans

	2013		2012	
	Individual	Collective	Individual	Collective
Balance, beginning of year	$912,778	$0	$705,179	$0
Impairment losses recognized	(392,023)	0	390,576	0
Amounts written-off	(241,658)	0	(182,977)	0
Balance, end of year	$279,097	$0	$912,778	$0

The aging of loans, including those past due but not impaired and those that were individually impaired, as at December 31, 2013 was:

	2013		2012	
	Performing	Impaired	Performing	Impaired
Current	$1,761,172	$224,497	$546,817	$132,255
31 – 60 days	2,929,155	21,512	385,480	29,340
61 – 90 days	100,981	219,299	732,637	65,594
91 – 120 days	18,655	1,190	0	34,172
121 + days	21,964	847,672	0	213,894
Total	$4,831,927	$1,314,170	$1,664,934	$475,255

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities and guarantees.

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Facilities	Computer hardware	Furniture and equipment	Total Cost
Balance at January 1, 2012	$2,479,018	$10,414,062	$2,288,583	$3,250,415	$18,432,078
Additions	0	90,924	1,034,132	77,111	1,202,167
Disposals	0	0	(141,022)	(15,246)	(156,268)
Balance at December 31, 2012	$2,479,018	$10,504,986	$3,181,693	$3,312,280	$19,477,977
Balance at January 1, 2013	$2,479,018	$10,504,986	$3,181,693	$3,312,280	$19,477,977
Additions	0	85,383	86,417	28,914	200,714
Disposals	0	0	(1,496)	(8,387)	(9,883)
Balance at December 31, 2013	$2,479,018	$10,590,369	$3,266,614	$3,332,808	$19,668,809
Depreciation and impairment losses					
Balance at January 1, 2012	$0	$2,308,177	$1,908,575	$2,709,083	$6,925,835
Depreciation expense	0	308,548	364,575	175,568	848,691
Disposals	0	0	(141,022)	(13,641)	(154,663)
Balance at December 31, 2012	$0	$2,616,725	$2,132,128	$2,871,010	$7,619,863
Balance at January 1, 2013	$0	$2,616,725	$2,132,128	$2,871,010	$7,619,863
Depreciation expense	0	292,389	370,009	164,004	826,402
Disposals	0	0	(1,496)	(8,387)	(9,883)
Balance at December 31, 2013	$0	$2,909,114	$2,500,641	$3,026,627	$8,436,382

Net book value					
Balance at December 31, 2012	$2,479,018	$7,888,261	$1,049,565	$441,270	$11,858,114
Balance at December 31, 2013	$2,479,018	$7,681,255	$765,973	$306,181	$11,232,427

8. OTHER ASSETS

	2013	2012
Items in transit	$21,170	$99,146
Foreclosed property	0	0
	$21,170	$99,146

At year end, the Credit Union held title to properties with a carrying value of $0 (2012 - $0) by taking possession of collateral held as security. Repossessed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtednesses. Repossessed property is classified as assets held for sale and included within other assets.

9. DEPOSITS

	2013	2012
Demand deposits	$172,273,253	$176,342,498
Term deposits	265,666,084	218,790,152
RRSP deposits	58,064,910	54,882,906
RRIF deposits	26,900,600	25,055,346
RESP deposits	4,605,401	4,421,738
TFSA deposits	27,354,975	21,268,762
	$554,865,223	$500,761,402

At December 31, 2013, $152,796,530 (2011 - $151,824,098) of deposits are other than demand and expected to mature in more than 12 months after the reporting date.

10. LOANS PAYABLE

The Credit Union has an authorized line of credit with SaskCentral in the amount of $8,000,000 Canadian and $100,000 US. The line of credit is secured by an assignment of book debts and funds on deposit with a interest rate structure based on the SaskCentral prime rate. At year end, the amount outstanding was $4,753,055 (2012 - $0) on the Canadian line of credit and $0 US (2012 - $0) on the US line of credit.

The Credit Union through a commercial paper funding agreement with SaskCentral can borrow up to $15,000,000. The loan bears interest at a rate equal to the RIL Commercial Paper Market Term Rate as established from time to time plus 37.5 basis points per annum. At the end of the year the amount outstanding was $14,981,800 (2012 - $0).

11. OTHER LIABILITIES

	2013	2012
Deferred income	$0	$0
Deferred income tax liability (asset)	(602,000)	(456,000)
Unclaimed balances	37,316	27,853
	($564,684)	($428,147)

12. MEMBERSHIP SHARES

Membership shares are as provided for by *The Credit Union Act, 1998*, and administered according to the terms of the Credit Union bylaws which sets out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

13. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

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 150% 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 total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

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. All items deducted from capital are excluded from total assets. The Credit Union may also exclude from total assets mortgages securitized through Canada Mortgage and Housing Corporate (CMHC) programs up to and including March 31, 2010 and all existing and future reinvestments related to Canada Mortgage Bonds (CMB) Insured Mortgage Purchase Program transactions completed up to and including March 31, 2010.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's Board policy for 2013:

	Regulatory Standards	Board Limits
Total eligible capital to risk-weighted assets	8%	8%
Tier 1 capital to total assets	5%	5%
Tier 2 capital to tier 1 capital	Less than 100%	Less than 100%

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

The following table summarizes key capital information:

Capital Summary	2013	2012
Eligible capital		
Total tier 1 capital	$41,039,583	$38,573,504
Total tier 2 capital	113,545	0
Total eligible capital	$41,153,128	$38,573,504
Risk-weighted assets	$302,648,993	$263,279,802
Total eligible capital to risk-weighted assets	13.60%	14.65%
Total tier 1 capital to risk-weighted assets	13.56%	
Common equity tier 1 capital to risk-weighted assets	13.56%	
Minimum leverage ratio	5.81%	
Tier 1 capital to total assets		7.07%
Tier 2 capital to tier 1 capital		0.00%

14. RELATED PARTY TRANSACTIONS

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

Loans receivable:

At December 31, 2013, certain members of the board of directors and key management personnel were indebted to the Credit Union for amounts totaling $2,233,455 (2012 - $1,512,929). These loans were granted under the same lending policies applicable to other members, and are included in loans receivable on the statement of financial position.

Deposit accounts:

Directors and key management personnel may hold deposit accounts. These accounts are maintained under the same terms and conditions applicable to other members, and are included in member deposits on the consolidated statement of financial position.

Remuneration:

Compensation provided to directors and key management personnel, consisting of salaries, honoraria and benefits, totaled $1,097,107 (2012 - $1,068,268).

15. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the classification of the Credit Union's financial instruments.

							2013
	Designated as FVTPL	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Amortized Cost	Total Carrying Amount
FINANCIAL ASSETS							
Cash and cash equivalents		$3,361,184					$3,361,184
Investments		30,978,447	$55,703,500	$760,516	$9,856,733		97,299,196
Loans				506,637,684			506,637,684
Accounts Receivable				1,014,604			1,014,604
Derivatives		643,255					643,255
	$0	$34,982,886	$55,703,500	$508,412,804	$9,856,733	$0	$608,955,923
FINANCIAL LIABILITIES							
Deposits						$554,865,223	$554,865,223
Loans Payable						20,676,514	20,676,514
Accounts Payable						4,147,188	4,147,188
Membership Shares						113,545	113,545
	$0	$0	$0	$0	$0	$579,802,470	$579,802,470

							2012
	Designated as FVTPL	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Amortized Cost	Total Carrying Amount
FINANCIAL ASSETS							
Cash and cash equivalents		$8,082,102					$8,082,102
Investments		28,211,660	$48,778,500	841,158	9,430,447		87,261,765
Loans				443,100,661			443,100,661
Accounts Receivable				851,327			851,327
Derivatives		659,092					659,092
	$0	$36,952,854	$48,778,500	$444,793,146	$9,430,447	$0	$539,954,947
FINANCIAL LIABILITIES							
Deposits						$500,761,402	$500,761,402
Loans Payable						7,232,425	7,232,425
Accounts Payable						5,038,761	5,038,761
Membership Shares						114,900	114,900
	$0	$0	$0	$0	$0	$513,147,488	$513,147,488

15. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	$3,361,184	$3,361,184	$8,082,102	$8,082,102
Investments	97,299,196	97,035,712	87,261,765	87,221,031
Loans	506,637,684	512,476,906	443,100,661	447,979,000
Accounts Receivable	1,014,604	1,014,604	851,327	851,327
Derivatives	643,255	643,255	659,092	659,092
	$608,955,923	$614,531,661	$539,954,947	$544,792,552
FINANCIAL LIABILITIES				
Deposits	$554,865,223	$557,379,580	$500,761,402	$502,320,000
Loans Payable	20,676,514	20,676,514	7,232,425	7,232,425
Accounts Payable	4,147,188	4,147,188	5,038,761	5,038,761
Membership Shares	113,545	113,545	114,900	114,900
	$579,802,470	$582,316,827	$513,147,488	$514,706,086

The following methods and assumptions were used to estimate fair values of financial instruments:

The fair values of short term financial instruments including cash, accounts receivable, accounts payable, accrued income and expenses are approximately equal to their book values due to their short term nature.

Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.

For variable interest rate loans that re-price frequently, fair values approximate book values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.

The fair values of deposits with unspecified maturity terms are approximately equal to their carrying values. Fair values for other deposits and loans payable with specified maturity terms is estimated using discounted cash flow calculations at market interest rates for similar groups of deposits.

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

The following table provides an analysis of financial instruments measured at fair value at the end of the reporting period, by the fair value hierarchy into which the fair value measurement is categorized:

	2013			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Investments	$30,978,447	$1,997,023	$0	$32,975,470
Derivative assets	643,255			643,255
FINANCIAL LIABILITIES				
Derivative liabilities	0	0	0	0

	2012			
	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS				
Investments	$28,211,660	$1,570,737	$0	$29,782,397
Derivative assets	659,092	0	0	659,092
FINANCIAL LIABILITIES				
Derivative liabilities	0	0	0	0

There were no transfers between Level 1 and Level 2 in the period.

The following were the net gains (losses) recognized on the various classes of financial instruments:

	2013	2012
Held for trading financial assets	($269,438)	($64,595)

16. FINANCIAL INSTRUMENT RISK MANAGEMENT

Credit risk

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

Credit risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards with which the Credit Union must comply. The Credit Union's Board has established lending policies and procedures which outline the minimum standards and criteria for granting credit to borrowers. Certain types of lending are subject to an annual review process to ensure that standards continue to be met. Accounts which are deemed to be of higher than average risk are monitored more frequently. Policy and procedures also specify the type of assets which may be taken as collateral and the techniques for valuation.

The Credit Union has established credit limits for individual borrowers to manage overall credit risk of the portfolio and establish parameters for credit diversification. The maximum aggregate credit per member is limited to 25% of capital and the maximum unsecured lending limit is $50,000. The established portfolio mix limits for 2013 are:

	Board Objectives	Actual
Consumer	81%	81%
Agriculture	0%	0%
Commercial	19%	19%

Except as otherwise noted below, the carrying amount of the financial assets recognized in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held.

In addition, in the normal course of business, the Credit Union has entered into various commitments to extend credit that are not reported on the statement of financial position, including guarantees and letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer, but the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The amounts reported below represent the maximum credit exposure for commitments to extend credit to the Credit Union. Many of these contracts expire without being drawn upon, thereby reducing the Credit Union's credit risk from the maximum commitment. As many commitments will expire or terminate without being funded, the amounts shown on the table below do not necessarily represent future cash requirements.

	2013	2012
Undrawn lines of credit	$89,493,116	$76,261,879
Letters of credit	603,100	477,500
Commitments to extend credit	29,049,188	38,069,156
Total	$119,145,404	$114,808,535

Liquidity risk

Liquidity risk is the risk of financial loss to the Credit Union in the event that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply. The Credit Union's primary liquidity risk policies and procedures include liquidity, capital management and asset/liability management (ALM) policies.

The Credit Union enters into transactions to purchase goods and services on credit and/or borrow funds for which repayment is required at various maturity dates, including processing the financial transactions of borrowers and depositors. Liquidity risk is measured by reviewing the Credit Union's future cash flows for the possibility of a negative net cash flow. The contractual maturities of financial liabilities can be found within the table under interest rate risk below.

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 risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply. The Credit Union’s primary market risk policies and procedures include the asset/liability management (ALM) policy.

The primary market risk that the Credit Union is exposed to is interest rate risk. Interest rate risk is the potential adverse impact on the earnings due to changes in interest rates. The Credit Union’s exposure to interest rate risk arises primarily from timing differences in the re-pricing of assets and liabilities, including financial assets and liabilities with fixed and floating rates. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off balance sheet instruments scheduled to mature or re-price on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that re-price in specific time periods.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter balancing positions. The Credit Union used interest rate swaps in the current year.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual re-pricing/maturity dates. Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, represent the weighted average effective yield.

2013

Assets	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-Interest sensitive	Total
Cash	$3,361,184	$0	$0	$0	$0	$0	$3,361,184
Investments	6,168,344	9,057,749	15,705,138	56,940,741	9,618,251	(191,027)	97,299,196
Loans	226,967,354	6,579,615	43,939,254	225,677,409	3,474,052	0	506,637,684
Other Assets	0	0	0	183,281	0	15,202,382	15,385,663
Total	$236,496,882	$15,637,364	$59,644,392	$282,801,431	$13,092,303	$15,011,355	$622,683,727
Liabilities							
Deposits	$115,309,055	$36,501,587	$179,387,640	$152,796,530	$30,000,000	$40,870,411	$554,865,223
Other Liabilities	67,818,504	0	0	0	0	0	67,818,504
Total	$183,127,559	$36,501,587	$179,387,640	$152,796,530	$30,000,000	$40,870,411	$622,683,727
On balance sheet gap	$53,369,323	($20,864,223)	($119,743,248)	$130,004,901	($16,907,697)	($25,859,056)	$0

2012

Assets	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-Interest sensitive	Total
On balance sheet gap	$62,381,508	($43,023,414)	($52,212,678)	$78,974,441	($22,956,830)	($23,163,027)	$0

The above tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

A 1% decline in interest rates with all other variables held constant would result in a decrease in the Credit Union's profit for the year ended December 31, 2013 of $762,173 (2012 - $1,278,025), primarily due to the Credit Union's exposure to interest rates on its floating rate assets. A 1% increase in interest rates with all other variables held constant would result in a increase in the Credit Union's profit for the year ended December 31, 2013 of $687,827 (2012 - $1,188,975).

The Credit Union uses simulation modeling to simulate the effect of a change in the market rate of interest.

The following table details the derivatives used for risk management purposes that were outstanding at the end of the reporting period.

		2013			2012		
	Currency	Notional	Fair Value	Currency	Notional	Fair Value	Currency
Derivatives not qualifying for hedge accounting							
Interest Rate Swaps	Canadian	$71,084,047	$643,255		$36,084,047	$659,092	
Forward Rate Agreements	Canadian	0	0		0	0	
			$643,255			$659,092	

17. COMMITMENTS

The Credit Union has entered into agreements expiring on various dates to the year of 2026. These agreements are for clearing services, data processing services, and sponsorship. Management believes that these obligations are part of ongoing operations and are not unduly significant to the financial results of the credit union.

18. INCOME TAXES

On March 21, 2013, the federal budget announced that the preferred rate additional deduction for credit unions will be phased out over five years. For the prorated portion of 2013 subsequent to budget date, the federal deduction was reduced to 80% of what the Credit Union would otherwise be entitled to under the old rules. The deduction is expected to then be decreased to 60% in 2014, 40% in 2015, 20% in 2016, and 0% in 2017 and subsequent years. In 2013, the provincial deduction is preserved; the future impact on the provincial deduction is unknown.

Income taxes

Income tax expense is comprised of:

	2013	2012
Current tax expense		
Current period	$1,330,417	$1,040,535
	1,330,417	1,040,535
Deferred tax expense		
Origination and reversal of temporary differences	220,092	(290,000)
Changes in tax rates and tax laws	(74,092)	0
Other differences	0	0
	146,000	(290,000)
Total income tax expense	$1,476,417	$750,535

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2013	2012
Income before provision for income taxes	$5,191,856	$4,395,157
Combined federal and provincial tax rate	13.63%	13.00%
Income tax expense at statutory rate	707,823	571,370
Adjusted for the effect of:		
Non-deductible expenses	1,467	1,796
Deferred tax expense due to change in income tax rate	(74,092)	0
Difference due to change in accounting policy	0	0
Other differences	841,219	177,369
	$1,476,417	$750,535

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

	2013	2012
Deferred income tax assets		
Other	$86,781	$108,016
Loans	3,676	9,014
Non-capital loss carryforward	630,957	419,565
	$721,414	$536,595
Deferred income tax liabilities		
Property and equipment	89,202	64,840
Other	30,212	15,755
	$119,414	$80,595
Net deferred income taxes	$602,000	$456,000

	2013	2012
Deferred tax assets		
-To be recovered within 12 months	$721,414	$536,595
Deferred income tax liabilities		
-To be recovered after more than 12 months	119,414	64,840
-To be recovered within 12 months	$0	$15,755

19. EMPLOYEE FUTURE BENEFITS

The Credit Union's employee future benefit program consists of a defined contribution pension plan. Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $398,169 (2012 - $394,830) were paid to defined contribution retirement plans during the year. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all the employees benefits relating to employee service in the current and prior periods.

20. SECURITIZATION OF MORTGAGE LOAN POOLS

In 2009, the Credit Union transferred an ownership interest in specific mortgage loan receivables, through the Canadian Mortgage Bond (CMB) program, in the amount of $16,072,085. The Credit Union has a retained interest in these receivables, which represents the portion of credit risk the Credit Union would be responsible for if realized. The Credit Union retains the responsibility for servicing the loans and remits collections of principal and interest to the program on a monthly basis.

The transfer of these receivables does not meet the requirements for derecognition under IFRS and therefore, continue to be included on the statement of financial position. The financing received in exchange for the mortgage loan receivables is recorded as a loans payable. The following table shows the mortgage loan receivables balances included in our loans as compared to the respective financing payable under the CMB program.

	2013	2012
Mortgage loans receivables	$5,608,303	$7,251,118
Financing payable	5,590,183	7,232,425

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation is the primary regulator for Saskatchewan credit unions. The Corporation is given its mandate through provincial legislation, *The Credit Union Act, 1998*, for the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. Since 1953, the Corporation has successfully met its obligations.

By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions. Credit unions operate within a comprehensive regulatory framework to ensure depositors' funds are fully guaranteed and completely secure.

The Corporation establishes standards of sound business practice that are aligned with federal and international regulatory approaches, and monitors credit unions to ensure they are operating according to those standards. By monitoring risk in credit unions, the Corporation can identify potential issues early and credit unions can take corrective action.

The Corporation invests in programs that support credit union decision-makers and their ability to actively manage risk and prevent loss. Saskatchewan credit unions have responded by continually enhancing governance practices and enterprise risk management processes, strengthening audit and compliance functions, and maintaining strong capital levels. This helps to ensure Saskatchewan credit unions can successfully meet the challenges of the rapidly changing financial services industry and increasing regulatory requirements.

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

OFFICERS AND BRANCH LOCATIONS

Officers

Celeste Labrecque – Executive Manager – Retail Banking & General Manager, TCU Wealth Management Inc.	Saskatoon
Greg Peacock – Executive Manager – Finance & Accounting	Saskatoon
Nadene Schmaltz – Executive Manager – Corporate Services	Saskatoon
Dale Smith – Executive Manager – Business Strategy & Innovation	Saskatoon
Morris Smysnuik – Chief Executive Officer	Saskatoon

Branch locations

Regina Quance Branch
2615 E Quance Street
Regina, SK S4V 3B7

Regina Rochdale Branch
4500 Rochdale Boulevard
Regina, SK S4X 4N9

Saskatoon Arlington Branch
2311 Arlington Avenue
Saskatoon, SK S7J 2H8

Saskatoon Ludlow Branch
307 Ludlow Street
Saskatoon, SK S7S 1N6

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Saskatoon 306-651-6500

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Saskatoon, SK S7K 4E3

Our Purpose

Helping you realize your financial potential.

Our Passion

Building a lifelong relationship with you by delivering progressive financial solutions in support of what is important to you.

Our Promise

As your trusted financial partner, we will provide you with a "value added" experience. Ultimately we consider ourselves successful when we help you achieve your financial goals and potential. Our tag line says it best –
"We'll help you get there".

TCU financial group
CREDIT UNION