financial group

2019

ANNUAL REPORT

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Vision, Mission & Values

Message from Board of Directors' Chair and Chief Executive Officer

The Board of Directors, Management and Staff are pleased to share some of TCU Financial Group Credit Union (TCU) highlights from 2019, along with information about the broader financial services sector through the information provided in this 2019 Annual Report.

Financial Strength

TCU financial results in 2019 exceeded our expectations and most of our budget estimates. Our 2019 budgeted numbers were based on Canada's and particularly Saskatchewan's economic uncertainty, continued weakness in the housing market and overall economy. Fortunately, TCU was able to benefit from investment decisions made in prior years to help soften the impact of a slower economy and margin tightening. Credit unions in Saskatchewan for the most part showed lower growth however had strong income and efficiency levels. Capital levels for Saskatchewan credit unions reached historically high levels in 2019.

Change

Change is inevitable within the financial industry. Be it regulatory rules and guidelines, or new forms of technology, TCU must be ready to accept and embrace change. A significant change at TCU in 2019 was the resignation of our Chief Executive Officer (CEO) George Greenwood. Although George was only at TCU for a short time, he played an integral role in shaping the TCU that we know today. We thank George for his commitment to the success of TCU during his tenure. With George's departure, to temporarily fill the void of the CEO position, the Board of Directors appointed Greg Peacock as Interim CEO. Greg is filling this role in addition to his current role of Chief Financial Officer (CFO). Current plans are to permanently fill the role of CEO in early 2020.

Delivering to our Members

Our primary focus at TCU is to help our members achieve their financial goals, but even more important, to offer an improved value proposition for our members.

In 2018, TCU sold the Arlington building as the useful footprint over the years in the building had shrunk to a quarter of the size of the building. In the sale, TCU was able to negotiate back a leased space which economically made more sense. This new 1,200 square-foot space started taking shape through renovations during the summer of 2019 and was fully open to members in early fall 2019. Although a smaller area, it provides members with the same services at less infrastructure cost to the credit union.

Our People

Our staff is the foundation on which TCU builds its success. No organization can achieve the kind of success that TCU has been able to accomplish without exceptional and dedicated people. We have made a commitment to ensure that TCU is a great place to work and that TCU provides an appropriate work/life balance for our staff. We want to thank the staff for their commitment, support, effort and contribution to TCU's success.

We are very fortunate to have an outstanding group of caring and considerate Directors. The Board provides leadership, support and personal commitment that is so vital to our success. The expectations and demands faced by your Board are increasing every year. Your Board is committed to continuous learning and development to stay on top of the changes taking place in our industry.

Positioning for the Future

In 2019, TCU's Board of Directors approved a new strategic direction where TCU will be a trusted, professional partner and hub for small and medium sized businesses and their employees. We will also ensure operational efficiency by making data and research based decisions that leverage diversity and mutually benefit TCU Financial Group and our members. Management is currently completing a business case to be presented to the Board which will outline our plan moving forward. TCU is also very cognizant of our existing members as they helped TCU develop into what it is today. We want to make it clear that our intent is to continue to serve those members with the same if not better member service going forward.

The key to our success is continual improvement and constant innovation of current and new technologies and processes. We have to understand though, that this comes at a significant cost.

Mobile technology continues to improve and expand, and we expect the number of face-to-face transactions to decline. As a result, we need to position ourselves to be able to respond when members ask for new technology to conduct business with us.

Open banking is coming to Canada and financial institutions, including TCU, have to be ready for it. Although common in countries such as the United Kingdom, the European Union and Australia, the term open banking is not widely understood in Canada yet but it refers to the opening of internal bank customer data and processes to other parties through digital channels. It can include the secure sharing of customer-authorized financial data with third parties or the distribution of partner-based products, such as those created by technology companies like Apple Inc., to credit union and bank customers. Open banking offers many possibilities to improve financial services and the member experience, ranging from more straightforward uses like account aggregation and facilitating client identification to a host of creative products and services to solve member pain points. The end goal is to provide more choice at a lower cost for Canadians.

As we enter 2020, TCU is consciously looking at ways to become more efficient. Our expenses are increasing due to increased regulatory burden and increased technology demands, but we continue to try and find ways to offset or share these costs and also find other sources of income as our industry continues to transform. The pace of change isn't slowing down and our focus is to bring excellence to the fundamentals, reach forward and continue growing profitably.

Thank you for your commitment and dedication to TCU.

We look forward to serving you in 2020 and beyond!

Cooperatively yours,

Earl Warwick
Chair – Board of Directors

Greg Peacock
Interim Chief Executive Officer
Chief Financial Officer

Earl Warwick - Chair
Board Member since 2003

Stephanie Mansfield - Vice Chair
Board Member since 2013

Brendan Bitz
Board Member since 2013

Nicole Cox
Board Member since 2019

Tony Linner
Board Member since 2006

Board of Directors

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.

Learn more about our directors by visiting tcufinancialgroup.com

Reagan Lowe
Board Member since 2018

Darcy McLean
Board Member since 2008

Graham Mickleborough
Board Member since 2014

Tracie Risling
Board Member since 2019

Steve Tunison
Board Member since 2013

Meeting Attendance

2019 Board & Board Committee Meeting Attendance								
		Meeting Attendance January 1 - December 31, 2019						
Board of Directors	Board Meeting	Executive Committee	Audit Committee	CEO Compensation & Performance Evaluation Committee	Conduct Review Committee	Governance & Human Resources Committee	Risk Committee	Other
Earl Warwick Chair	5 of 5	5 of 5	6 of 6	3 of 3		3 of 6		15 of 15
Stephanie Mansfield Vice Chair	5 of 5	5 of 5		3 of 3		3 of 6	5 of 5	11 of 15
Ginger Appel[1]	1 of 5		2 of 6					0 of 15
Brendan Bitz	5 of 5		3 of 6				1 of 5	15 of 15
Nicole Cox[2]	4 of 5		4 of 6					13 of 15
Derwyn Crozier-Smith[1]	1 of 5			1 of 3			1 of 5	1 of 15
Tony Linner	5 of 5		2 of 6	1 of 3		3 of 6	4 of 5	13 of 15
Reagan Lowe	5 of 5			2 of 3		6 of 6		9 of 15
Darcy McLean	4 of 5		5 of 6	3 of 3				12 of 15
Graham Mickleborough	5 of 5					5 of 6	3 of 5	14 of 15
Tracie Risling[2]	3 of 5					3 of 6		14 of 15
Steve Tunison	4 of 5			1 of 3			5 of 5	14 of 15

[1] term ended

[2] term started

Other includes:

- AGM
- Re-organization Meeting
- Board Training Session
- Special Meeting (Bylaw Revision & Interim CEO Appointment)
- Strategic Direction Meetings (7)
- Meetings with Peers (4)

Note: Our Committee structure changes after the re-organization meeting in April. Any variances seen in committee attendance are due to the changes.

Delegate Remuneration

2019 Board Honorariums, Per Diems, Travel/Other & Learning/Development					
Board of Directors	Honorarium	Per Diems	Travel/Other	Learning & Development	Total
Earl Warwick Chair	$6,000.00	$8,275.00	$297.98	$126.00	$14,698.98
Stephanie Mansfield Vice Chair	$1,200.00	$8,425.00	$2,621.01	$2,214.64	$14,460.65
Ginger Appel[1]	$400.00	$750.00			$1,150.00
Brendan Bitz	$1,200.00	$5,425.00	$278.20		$6,903.20
Nicole Cox[2]	$800.00	$5,275.00	$139.10	$555.00	$6,769.10
Derwyn Crozier-Smith[1]	$500.00	$925.00			$1,425.00
Tony Linner	$1,325.00	$8,100.00	$2,153.98	$1,417.54	$12,996.52
Reagan Lowe	$1,400.00	$5,250.00	$1,217.42	$1,034.00	$8,901.42
Darcy McLean	$1,500.00	$6,125.00	$10.00	$87.25	$7,722.25
Graham Mickleborough	$1,200.00	$7,275.00	$1,975.63	$62.25	$10,512.88
Tracie Risling[2]	$800.00	$5,500.00		$882.00	$7,182.00
Steve Tunison	$1,400.00	$6,000.00	$556.40	$1,117.00	$9,073.40
Total	$17,725.00	$67,325.00	$9,249.72	$7,495.68	$101,795.40

[1] term ended

[2] term started

Investing in Our Communities

TCU Financial Group is committed to providing support in the communities where we live and work. Our ideal community is one that is accessible and healthy for our members and for everyone. Our community investment program creates a special focus on initiatives that help children to grow emotionally, intellectually and healthily.

Our community investment goals are to:

1) Improve access to community services and resources

2) Improve access to early childhood learning and development

3) Help children do well in school and extracurricular activities

SCHOLARSHIPS

Our $10,000 annual scholarship fund provides financial assistance to students enrolled in a post-secondary education institution who demonstrate excellence in contributing to their community while balancing their education, extracurricular activities, work and family responsibilities. We applaud the achievements of the 2019 TCU Financial Group Scholarship recipients:

$2000
Bryce Nichol | Regina
Emily Spasoff | Regina
Harkirat Bhullar | Saskatoon
Avery Fahlman | Saskatoon

$500
Paige Hamann | Regina
Margaret Musoke | Regina
Abdu Etagiuri | Regina
Allison Kuzub | Saskatoon

RONALD MCDONALD HOUSE

The Adopt-a-Room program at Ronald McDonald House Charities Saskatchewan allows the community to help provide a home away from home for families of critically ill or injured children receiving medical treatment in Saskatoon. With a multi-year $30,000 investment, TCU Financial Group adopted one of the 34 rooms in the house which provides families with more than just a roof over their heads. Ronald McDonald House helps to provide support, home cooked meals and relief from their stressful situations which in turn allows families to focus on what matters most – the health of their children.

YWCA WALK A MILE IN HER SHOES

The YWCA Walk a Mile in Her Shoes walk engages the community to assist women and children in need. Saskatchewan has the highest provincial rate of intimate partner violence in Canada. On September 10, 2019, our staff donned their red high heels in Downtown Regina at City Square Plaza and pledged their support.

GUARDIAN CUP

TCU Financial Group has been a proud sponsor of the St. Joseph High School Guardian Cup for more than 10 years. The Guardian Cup is a volleyball tournament that brings together athletes and students from numerous schools around Saskatchewan. The volleyball tournament is top-caliber and competitive. However, the organizing of this amazing event is exemplary of cooperative values and demonstrates a huge collaborative effort between dedicated teachers, parents and students.

ACTS OF KINDNESS

Our Acts of Kindness program was created to foster healthier communities and to give back to individuals who may be facing unique challenges. Since its inception in 2018, we have dedicated over $125,000 towards the program. In 2019, our Acts of Kindness initiative helped twelve members who were nominated based on their challenging life circumstances, which had placed additional strain on their financial needs.

One beneficiary of the program was a 41-year member who had a tremendously difficult year: her husband suffered a stroke, her daughter's cancer that had been in remission returned and her other daughter had lost her job. Through Acts of Kindness, we were able to relieve some of the financial burden attributed to the additional medical and family needs during this difficult time.

Acts of Kindness

TCU PLACE

TCU Financial Group is pleased to be the naming partner of Saskatoon’s Arts and Convention Centre, TCU Place. Our partnership underlines our belief in the value of supporting the people who live and do business in our communities. TCU Place has hosted many international, national and local events including conferences, speakers and theatrical productions. It is home to many local community events, dance recitals and graduation ceremonies, bringing people together in the heart of Saskatoon’s civic and cultural life. TCU Financial Group’s support of the 2019 Small Business Christmas parties held at TCU Place awarded a $1,000 prize to Amanda K., one of the lucky small business party attendees.

MANAGEMENT DISCUSSION AND 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, 2019, compared with the prior year. This MD & A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the year ended December 31, 2019, 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 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 Practice, 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 traditional retail banking services and products such as consumer and business loans, consumer and business deposit account products, ATM, internet banking facilities and Wealth Management.
- TCU Holdings Inc. is a wholly-owned subsidiary of TCU, and holds and manages all the TCU buildings and land.

TCU is the 7th largest credit union in Saskatchewan with assets of $746,611,000 and 18,300 members. In addition, TCU has assets under administration of $3,080,000 in syndicated loans and $267,400,000 in Wealth Management.

Retail

TCU Financial Group serves its retail members through two branches and an advice centre in Saskatoon, two branches in Regina, MemberLine (TCU call centre) and online using internet banking and a mobile app.

The residential mortgage portfolio decreased 5.7% to $395,000,000 in 2019. TCU ended 2019 with total member deposits of $623,000,000 (Retail and Business Solutions).

Wealth

The TCU Wealth Management department provides personalized advice and research to help members plan for retirement, investments and more. Our experts work with members to build wealth management strategies designed to meet their unique financial goals.

In 2019, TCU Wealth Management assets under administration grew 14.4% to more than $267,400,000 and contributed more than $1,600,000 in revenue to TCU Financial Group. TCU's 1,800 Wealth members also held more than $135,000,000 in mortgages, loans and deposits with the credit union.

Business Solutions

TCU Financial Group Business Solutions creates value for members by offering a full suite of commercial banking solutions and expert advice. As businesses move through their life cycle – from initial concept, to start up, to early growth to becoming a maturing business, our Business Solutions Team is here to work with them every step of the way.

The focus of the Business Solutions Team in 2019 was on strengthening foundational elements, building the new team and preparing for growth. In 2019 the business portfolio grew 6.6% to $87,000,000. This compares to 0.51% growth in 2018.

Reducing credit risk on the business portfolio was a major focus in 2019. TCU worked to improve credit adjudication, increase credit due diligence, and enhance risk processes.

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. 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 the 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 2019, the Board of Directors held five regular meetings and fifteen other meetings. Of the fifteen other meetings, seven of them focused on the strategic direction for TCU. The Board also participated in one financial literacy session.

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

Audit 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. During 2019, the Audit Committee was comprised of four directors and met six times.

Risk Committee – The purpose of this committee is to ensure a strong enterprise risk management framework exists. This framework provides reasonable assurance that strategic, operational, financial and regulatory objectives are achieved. The committee oversees the identification, measurement and development of strategies to manage those risks. The committee also oversees the compliance with legal and regulatory requirements. During 2019, the Risk Committee was comprised of four directors and met five times.

Governance & Human Resources Committee – The purpose of this committee is to ensure an appropriate governance structure is in place, to oversee the election process of the Board of Directors, the Board evaluation and development process, along with human resources. This includes the compensation philosophy and culture of the organization. Additionally, this committee works closely with the executive management to formulate policies and practices to meet the needs of our members, staff and the corporate entity. During 2019, the Governance & Human Resources Committee was comprised of four directors and met six 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 with the credit union to ensure they are fair to the credit union and that best judgment is exercised in all matters or related party relationships as a result of real or perceived conflict of interest. This committee is comprised of the same members as the Audit Committee. During 2019, the Conduct Review Committee did not meet.

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 Chair and Vice Chair of the Board of Directors and the Chief Executive Officer. During 2019, 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 five members of the Board of Directors which are the Chair, Vice Chair, Chair of the Audit Committee, Chair of the Risk Committee and Chair of the Governance & Human Resources Committee. During 2019, this committee met three times.

Management Structure

In addition to the Board of Directors and associated committees, the management structure consists of the following:

Greg Peacock – Interim Chief Executive Officer and Chief Financial Officer

Kathy Styranko – Chief Risk Officer

Tammy Martins – Chief Business Transformation and Strategy Officer

Tim Owens – Chief Operating Officer

Executive Management – The executive management is responsible to oversee the operation of the credit union and its subsidiary as directed through the strategic plan and policies approved by the Board of Directors. Additionally, the 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 Risk Committee.

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 the executive management and other management personnel, reports to the Risk Committee. This committee meets, at minimum, quarterly.

Internal Credit Committee (ICC) – The ICC is a top level decision body which adjudicates credit opportunities that are deemed to have a potential material impact on TCU. The ICC protects TCU's interests through the employment of sound business practices, in pursuit of sustainable growth. The purpose of a strong credit management process is to protect the credit union.

Enterprise Risk Management (ERM) Committee – The ERM Committee is responsible to provide a platform for committee members to participate in a systematic, timely and structured approach to ensure the alignment of key strategies with TCU's risk appetite and risk tolerances. The purpose of a strong risk management process is to create, as well as protect, value for TCU.

Subsidiary Company – TCU Financial Group Credit Union has one wholly owned subsidiary company – TCU Holdings Inc.

Financial Performance Review

Economic Environment

The Canadian economy stalled in the last quarter of 2019 to its slowest rate of growth since 2016. Economists had high hopes that the economy would quickly rebound in 2020, however those expectations are quickly fading away. The global spread of COVID-19 has caused major disruption in the manufacturing and supply chains as demand decreases. Concerns about the outbreak have caused financial markets to plummet in the first quarter of 2020 and have put pressure on the Bank of Canada to cut interest rates to offset the economic impact from the virus outbreak. The Bank of Canada has not lowered interest rates for over a year but may be forced to if the epidemic shows real spillover effects on Canada's economy. If rates are lowered though, the move cannot be viewed as just due to COVID-19. In recent months the economic data has shown signs of softness in the Canadian economy across many sectors, and a cut will give these businesses more support. Coupled with the virus outbreak is the issue of the rail and pipeline disruptions that are occurring in Canada which will further stunt growth.

There is great concern that even if the outbreak is contained and minimized, the economy may take months and maybe years to recover as inventory rebuilds, supply chains have to reposition, and global tourism will take time to regain the confidence of travelers.

It is almost certain that Canada's economy will take an enormous hit from the COVID-19 outbreak. Oil prices are already dropping and exports of iron, copper and lumber are also at risk due to weaker demand.

Forecasts for 2020

Conference Board of Canada

The Conference Board of Canada released the Provincial Outlook Economic Forecast Summary which provides the economic outlook for the provinces, including gross domestic product (GDP), output by industry and labour market conditions.

"Over the near term, we expect growth in the Canadian economy to remain steady," says Matthew Stewart, Director, Economic Forecasting at The Conference Board of Canada. "However, one of the emerging risks to the economic outlook is COVID-19 (novel coronavirus) and the impact it will have on global economic growth. At this stage it is still difficult to estimate the magnitude of the outbreak, but there's little doubt that Canada's economy will be impacted."

Estimates of the impact from COVID-19 on trade prices and tourism are included in the report. The latest available data show that over one million Chinese tourists visit Canada annually, spending $1.8 billion. The Conference Board of Canada estimates that we will lose one-third of Chinese tourism spending this year, resulting in a $550-million hit to real GDP in the first half of the year. The largest dollar-value impact will be felt in British Columbia, while the largest proportional impact will occur in P.E.I. where tourism is an important contributor to the local economy. Trade prices for seafood products will also be impacted affecting the value of nominal exports in Atlantic Canada.

Key findings

- The Canadian economy is expected to expand by 1.8 per cent this year and 1.9 per cent in 2021 as energy investment recovers and solid disposable income growth supports household spending.
- The coronavirus is expected to lower tourism spending by around $550 million in the first half of this year.
- Steady economic growth at the national level is masking regional economic growth disparities this year. British Columbia and P.E.I. are set to post growth above 3 per cent in 2020, while Saskatchewan's economy is expected to grow by just half a percentage point.
- Provincial growth prospects are expected to converge next year, with only a couple of provinces forecast to grow at a rate significantly different from that for the Canadian economy as a whole.

Saskatchewan's economy ended 2019 on a sour note. Employment declined in the fourth quarter, retail sales fell over the second half of last year, and the province's potash sector was hit by one closure after another.

Provincial Outlook Summary: Winter 2020. The Conference Board of Canada, February 27, 2020

CMHC

Housing starts are expected to register a second consecutive annual decline in 2019 before stabilizing in 2020 and 2021 at levels closer to the 1985-2018 average by the end of 2021 and well below the 10-year high housing starts recorded in 2017. This will reflect a balance between off-setting economic and demographic developments. In particular, GDP growth is expected to soften in 2019 but to recover at or above its potential pace in 2020-2021. However, the support to new residential construction from the expected improvement in economic activity and incomes will be offset by the projected slowing in household formation over the forecast horizon. Mortgage rates are predicted to increase over this horizon, but gradually while remaining at low levels. Consequently, their expected contribution to our housing outlook is negligible.

Both single-detached and multi-unit housing starts are forecast to decline in 2019 before essentially stabilizing in 2020 and 2021. As a result, starts of both single-detached and multi-unit housing types will remain below the recent peaks observed in 2017 (for single-detached starts) and 2018 (for multi-unit starts).

Sales are forecast to strengthen in 2020 and 2021, offsetting declines in recent years. Existing home sales are forecast to stay near their 2018 level in 2019, below the historical peak observed in 2016. However, home sales will increase in 2020 and 2021, offsetting the declines observed since 2016 by the end of the forecast horizon. This reflects expectations of household disposable income growth.

CMHC Housing Market Outlook - Canada - Date Released - Fall 2019

Financial Performance Review

Each year, TCU develops a corporate plan through a comprehensive budget and planning process. The following table provides an overview of key financial measures compared to targets for 2019. Actual results for 2018 have also been included for comparison.

Financial Management	2019 Actual	2019 Plan	2018 Actual
Growth			
Assets	$746,611,274	$742,536,483	$739,382,055
Asset Growth	0.98%	0.43%	2.89%
Loans	$579,528,695	$620,476,712	$601,557,295
Loan Growth	(3.66%)	3.15%	2.69%
Deposits	$626,789,655	$582,836,760	$627,577,945
Deposit Growth	(0.13%)	(7.13%)	(3.30%)
Liquidity Management			
Loan to Asset Ratio	77.62%	83.56%	81.36%
Liquidity Coverage Ratio (LCR)	235.61%	>125.00%	216.99%
Capital Management			
Common Equity Tier 1 / Risk-weighted Assets	15.12%	13.79%	14.34%
Total Tier 1 Capital / Risk-weighted Assets	15.12%	13.79%	14.34%
Total Eligible Capital / Risk-weighted Assets	15.50%	14.20%	14.77%
Total Eligible Capital / Leveraged Assets	7.80%	7.57%	7.55%
Profitability			
Comprehensive Income	$3,551,585	$447,487	$4,563,057
Return on Assets (ROA)	0.48%	0.06%	0.62%
Efficiency Ratio	79.28%	78.00%	70.05%

Balance sheet assets at December 31, 2019, were at $746,611,000 as compared to $739,382,000 at the end of 2018 representing a 0.98% increase, as compared to 2.80% increase in 2018.

Total balance sheet member loans at December 31, 2019, were at $579,529,000 as compared to $601,557,000 at the end of 2018, representing 3.66% decrease as compared to 2.69% growth in 2018.

Syndicated Loans Under Administration (TCU member loans sold to other credit unions) at December 31, 2019, were at $3,080,000 as compared to $3,334,000 at end of 2018. The decrease in the balance is representative of the net of new loans added to this portfolio less the loan payments made against these loans.

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 67% of our loan portfolio. Our commercial loan and syndicated loan purchased portfolio accounts for 29% of our total loan portfolio.

Total balance sheet member deposits at December 31, 2019, were at $626,790,000 as compared to $627,578,000 at the end of 2018, representing a 0.13% decline as compared to 3.30% decline in 2018.

Most of TCU's member deposits are concentrated in the higher rate investment type accounts.

Liquidity

TCU's loan to asset ratio as at December 31, 2019, was 77.62%, which is lower than what it was at the end of 2018. Our ideal liquidity risk management policy range is between 79% to 81%. The maximum loan to asset ratio is 84%. TCU has many liquidity management strategies in place to mitigate potential Liquidity Risk. TCU's primary source of funds is member deposits. In addition to member deposits, TCU maintains external borrowing facilities from various sources. TCU has an authorized line of credit with SaskCentral in the amount of $8,000,000 (CDN) as well as an authorized line of credit with SaskCentral in the amount of $100,000 (USD). In addition, TCU also has a demand loan in place with SaskCentral in the amount of $12,000,000. TCU also has access to a demand loan with Concentra Bank with an authorized limit of $10,000,000.

In 2015 through an application process, TCU became an authorized NHA MBS (Mortgage Backed Securities) Issuer and a CMB (Canada Mortgage Bond) Seller. Having these facilities will help TCU mitigate any additional liquidity risk in future years. TCU did participate in the NHA MBS market through three issuances in 2019. As at December 31, 2019, TCU had a Secured Borrowing value of $54,903,000 within this facility.

TCU, along with all other Saskatchewan Credit Unions, is required to maintain 10% of their 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 2019 was just under $3,552,000, as compared to just over $4,563,000 in 2018. The net operating income in 2019 was just under $3,024,000 as compared to just under $4,076,000 in 2018. The large change year over year was partially influenced by the net gain on the sale of our Arlington building in July 2018. Financial statement reporting standards require us to report "comprehensive income" which includes unrealized gains/losses on cash flow hedges.

TCU's total annualized return on assets (ROA) for 2019 was 0.48% on comprehensive income, and 0.38% on net operating income, as compared to 0.62% on comprehensive income and 0.55% on net operating income in 2018.

Net interest margin is the total revenue received from loan and investment interest less the total interest expense paid on member deposits and provision for credit and investment losses. TCU's net interest margin was at 2.262% at December 31, 2019, which was lower than the net interest margin of 2.413% at the end of 2018.

We are projecting the net interest rate margin to be slightly lower at the end of 2020 at 2.22%. With the slowdown in the residential mortgage market coupled with new federal mortgage rules, TCU will be looking at increasing our exposure to commercial lending as well as increasing syndicated loans purchased from our partners to help have a positive impact on our margin.

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 2019 was at $4,106,000 as compared to $6,596,000 in 2018. The unrealized gains and losses on investments and derivatives as indicated above accounted for the some of the difference between 2019 and 2018. The sale of our Arlington building in 2018 also attributed to the major difference between the years.

Interest expense includes the interest paid to our member deposits, and interest paid on borrowed money. The total interest expense for 2019 was just under $9,804,000 as compared to just over $8,524,000 in 2018. The increase in cost was greatly attributed the interest cost associated with our participation in the NHA MBS market.

Provision for loan losses for 2019 was at $1,193,000 as compared to $2,342,000 in 2018. We did experience a decrease in delinquency in 2019 and, overall, TCU's delinquency and loan loss provisions are low and well below industry ratios for an organization with almost a $580,000,000 loan portfolio. The forecast for 2020 also projects similar delinquency levels due to the economic conditions that exist today in Saskatchewan and most of Canada.

Non-interest expenses include operating expenses such as personnel, occupancy, member security, general business and governance costs. Non-interest expenses for 2019 were at $17,017,000, as compared to $17,578,000 in 2018, or a decrease of 3.19%. One of our primary focuses is to grow assets without a corresponding increase in operating expenses. TCU's operating expense ratio continues to be in line when compared with other Saskatchewan credit unions.

TCU's largest cost relates to personnel costs which represent 56.30% of our total operating expenses.

Efficiency ratio is a calculation that determines the cost of raising $1.00 of revenue. In 2019, TCU's efficiency ratio was at 79.28%, as compared to 70.05% in 2018. In other words, it costs TCU $0.7928 to raise $1.00 of revenue in 2019. 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.

TCU's eligible capital ratio at the end of 2019 stood at 15.50%, as compared to 14.77% in 2018. The standard as set by our regulator is that a credit union must maintain a minimum of 10.50% of total eligible 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 11% to 13%. We are well above both the regulatory requirements and our own standards.

TCU's member equity position as at December 31, 2019, was at $60,930,000 as compared to $57,379,000 at the end of 2018.

Management of Risk

Overview

TCU Financial Group Credit Union (TCU) is committed to prudently employing a range of risk management strategies to mitigate the various risks that it is exposed to within the financial services industry. TCU utilizes an enterprise risk management (ERM) framework in order to enhance the management of these risks. Based on this framework, TCU defines risk exposure according to the following six categories:

- 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 has established an ERM Committee which is responsible for establishing the framework to identify and classify the risks, as well as establish effective policies and processes to manage the risks. The Board, either directly or through Board committees, reviews and approves key policies and reporting to ensure proper oversight to the risk management process.

The Board 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 Risk 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 Audit Committee is 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 the executive management and other management personnel. As necessary, additional management with specific subject matter expertise will be called upon to contribute. 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, capital, liquidity and credit stress testing. Reviews of risk management related policies and frameworks continue to mature to address more detailed stress testing and reporting expectations to support business decisions. Workshops and training continue to engage additional stakeholders to support risk identification and management at all levels of TCU.

TCU has also established an independent internal audit/quality assurance framework. While TCU has outsourced the internal audit function, oversight and quality assurance follow-up and reporting continue internally with dedicated resources. Reporting from this framework is delivered to management with a summary provided to the Audit Committee on a quarterly basis to assist in the oversight of TCU internal controls.

TCU is undertaking a process to review and align overarching policies and plans to ensure an integrated approach and holistic view of managing the entire business.

Credit Risk

Credit risk is the risk of loss associated with a borrower, obligor or counterparty (collectively referred to as "counterparty") failing to meet the agreed terms in their respective loan agreement(s). TCU has developed our loan policy, procedures and underwriting requirements to assess and manage credit risk, which is inherent in the financial industry. TCU is constantly monitoring industry standards, market and economic conditions, and regulations in order to refine and evolve our credit risk practices.

The responsibility for managing credit risk is shared following the three lines of defense governance model. Our Board delegates credit approval authorities to the CEO; who has delegated credit risk approval authorities to individuals within the credit department and business segments as necessary to enable daily business activities. Credit transactions in excess of these authorities must be approved by the Internal Credit Committee and are restricted to the Standards of Sound Business Practice as provided by our regulator.

Credit risk analysis includes constant review and assessment of our loan portfolio performance; including criteria such as repayment, security valuation and diversification. Loan delinquency has increased as a result of changes in economic conditions, but remains within TCU's Board approved risk appetite. We continue to actively manage our credit book and perform stress testing to form part of the ongoing risk and capital management processes. This helps determine the potential impact of an economic downturn that may result in defaults and a decrease in housing prices. Our results show that in an economic downturn, TCU's capital position would be sufficient to absorb residential mortgage and Home Equity Lines of Credit (HELOC) losses.

We seek to mitigate our credit risk through a variety of means, including:

- Credit structure – Consistent application of sound credit policies and procedures that set out the requirements for structuring loans. Underwriting requirements include the use of collateral, amortization, loan-to-value, reporting and covenants.
- Security – Requiring the counterparty to pledge collateral as security for the credit to mitigate potential loss in the event of default.
- Monitoring & proactive management – Regular reporting that assists management in identifying trends and/or red flags. TCU is better positioned to proactively address concerns and increase the probability the loan can be rehabilitated.

Loan portfolio concentrations are reported to the Board, with specific strategies having been identified to manage concentrations in a proactive manner. The largest percentage of our credit book is invested in residential mortgages, including HELOC. TCU has enhanced our underwriting and review practices to address the downturn in the Saskatchewan economy that has flattened and/or reduced home values in our market areas. A more focused approach to diversification continues to be refined and implemented, which will include increased participation in commercial lending through a combination of on-book and purchased loans (syndication) across various industries and provinces.

Residential Mortgage Loan Portfolio

TCU's residential mortgage loan portfolio is composed of uninsured, insured and HELOC mortgages. TCU has established policies and procedures, within the confines of regulations that set out maximum loan to value, amortization periods and review requirements, depending on the mortgage product. Insured mortgages are those that have obtained contractual coverage protecting TCU against potential loss as a result of borrower default. Default insurance can be provided by government backed entities or other approved private mortgage insurers. Currently TCU uses Canada Mortgage and Housing Corporation (CMHC) and Genworth to provide mortgage default insurance.

HELOC is a form of non-amortizing (revolving) credit that is secured by a residential property. Unlike a traditional residential mortgage, most HELOC's are not structured to fit a predetermined amortization, although regular, minimum periodic payments are required. TCU is limited to providing the non-amortizing HELOC component of a residential mortgage to a maximum authorized loan to value (LTV) ratio of less than or equal to 65%.

The following tables provide details to allow for evaluation of the soundness and condition of TCU's residential mortgage operations:

Residential Mortgage Loan Portfolio

		Mortgage Balance	Percentage
Insured Loans	$	128,487,647.20	32.92%
Uninsured Loans	$	127,090,418.85	32.56%
HELOC	$	134,720,622.81	34.52%
TOTAL LOANS	$	390,298,688.86	100.00%

Residential Mortgage Term Loan Portfolio by Amortization

Amortization Range		Mortgage Balance	% of Portfolio	Average
Less than 10 years	$	3,526,369.35	1.38%	$ 54,251.84
10 - 15 years	$	9,464,821.58	3.70%	$111,350.84
15 - 20 years	$	40,146,921.68	15.71%	$223,038.45
20 - 25 years	$	172,035,852.01	67.31%	$238,938.68
Greater than 25 years	$	30,404,101.43	11.90%	$223,559.57
TOTAL LOANS	$	255,578,066.05	100.00%	

Residential Mortgage LTV – Originated in 2019

	Average LTV Ratio
Uninsured Residential Mortgages (non-HELOC)	61.76%
HELOCS - Authorized Amount	61.43%

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 which are approved by the Board and provide direction in managing the associated risks. Loan syndication continues to be one strategy employed to mitigate liquidity pressures. Existing borrowing facilities with SaskCentral and Concentra Bank 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 continues. In addition to the ALCO committee, TCU has employed the services of an outside consultant to assist with our balance sheet management. Services provided by the consultant include scenario simulation, stress testing based on changes in interest rates, and scenario analysis for long term planning. There is an increased focus on stress testing and portfolio analysis to assist in developing proactive management strategies. 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. Work continues to enhance the type and depth of the reporting available to assist management.

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 we serve. TCU entered into the next 3 year planning cycle in 2019 to set the stage for 2020-2022. The previous plan focused on internal rebuilding and people development. The 2019 planning process introduced a potential shift in our overall strategy as a result of the changes in the economic conditions, increased competition and changing consumer expectations in general. The traditional book of business that has served TCU well for many years no longer provides the same level of income and a new focus is needed to prepare TCU for success in the future. Additional work in early 2020 will help refine the priorities of any new strategic initiatives and formulate operational plans for 2021 and 2022.

Management reports to the Board on the progress to plan for initiatives designed around our members, corporate culture, financial performance metrics and growth as well as operational business processes. The reporting process that identifies metrics to gauge performance in these strategic focus areas is referred to as the "Balanced Scorecard". Our strategic direction is set by the Board, and management is responsible to develop initiatives to support key areas of the plan. Annual planning meetings with executive management and the Board 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 of human resources, information systems, 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 and TCU's ability to respond to operational risk issues is paramount to our success. TCU has established policies, procedures, internal controls, and compliance activities with regular reviews of these controls. For example, TCU has adopted a Code of Conduct for employees and directors.

A key focus in 2020 will continue to be around data; understanding the data and increasing the use of data. Cybersecurity and reliance on third party suppliers are both growing in importance and are also areas of focus within our operational risk management priorities. Additionally, the increased need for enhanced technical tools comes with increased cost, and TCU expects to make several key technology investments in the next few years.

Among other initiatives, attracting and retaining highly skilled and competent staff remains a priority. We continue to build on the culture-related initiatives from 2019 as culture is paramount to strategic success.

Where needed, TCU engages third party experts to ensure a high level of knowledge and support for key initiatives. 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; 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. The regulatory framework continues to evolve to meet the needs of TCU and the expectations of the regulator. Enhancing this process will lead to a review of internal controls to ensure proper ownership and oversight. The internal audit/quality assurance framework has been realigned as part of the organizational restructure and will continue to provide an independent assessment of the compliance regime, as well as ongoing assessment of internal controls. Quarterly reporting is provided to senior management, the Risk Committee and the Audit Committee to enable Board oversight of the compliance and control processes.

Current Risk Assessment

Based on the risks identified in our strategic planning process, and assessed via the ERM process, TCU has identified the following priority risks within our four strategic focus areas:

People and Culture

Ensuring our people understand and are able to align individually with the desired culture is critical to TCU's success. Having the right people with the right skills, the right behaviors, and the right attitude will position them to execute on the new strategy. TCU continues to make significant investment in our people through education and training, as well as acquiring the needed expertise and leadership skills to complete the necessary organizational structure.

Operational Business Processes

Data analytics, both financial and member-related, are essential to future initiatives. Significant focus in this area in 2019 set the foundation for utilizing data going forward. Our technical infrastructure must be able to support these initiatives, as well as protect TCU against the increased risks associated with cyber security. TCU continues to look for effective and efficient processes to reduce operating costs, improve integrity, and ensure a consistent member experience. Foundational frameworks to aid in the identification and management of risk continue to be enhanced. TCU will have an additional focus on policy and framework governance in 2020.

Member Experience

Evolving our core business is our key strategic initiative and requires the support of all other areas. Ensuring we connect with our members is paramount to the delivery of a differentiated value. TCU has committed resources to member experience transformation, along with research and business analytics. Revisiting our sales culture to ensure it aligns with our strategic objectives will be key while adapting to our changing business landscape in order to transform quickly enough to capitalize on new opportunities.

Financial Strength and Sustainability

Managing all of our assets from a holistic perspective will help ensure they produce the best income possible and support the core business of providing for our members. Without close management, we run the risk that these new asset management plans do not produce the desired results. Continued focus on the diversification of our credit book will assist in mitigating our concentration risk and provide the potential for increased income. This diversification will help in managing the risk associated with local economic conditions.

TCU financial group

we'll help you get there

MANAGEMENT'S RESPONSIBILITY COMMUNICATION

To the Members,

TCU Financial Group

Management has responsibility for preparing the accompanying 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 judgements and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibilities for the integrity and fairness of the 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 financial statements to members lies with the Board of Directors. An Audit 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 financial statements for publication.

Independent auditors appointed by the members audit the financial statements and meet separately with both the Audit 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 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.

Chair of the Audit Committee

Interim Chief Executive Officer

VIRTUS GROUP
Chartered Professional Accountants & Business Advisors LLP

INDEPENDENT AUDITORS' REPORT

To the Members,
TCU Financial Group

Opinion
We have audited the consolidated financial statements of **TCU Financial Group** and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

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

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

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

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

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

continued .../

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INDEPENDENT AUDITORS' REPORT continued

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Virtus Group LLP

March 26, 2020
Regina, Saskatchewan

Chartered Professional Accountants

VIRTUS GROUP

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(with comparative figures for 2018)

ASSETS

	2019	2018
Cash and cash equivalents (Note 4)	$ 6,938,342	$ 10,664,151
Derivative financial instruments (Note 5)	176,489	(567,885)
Investments (Note 6)	143,402,258	111,118,023
Investment property (Note 7)	1,990,726	2,121,038
Loans receivable (Note 8)	579,528,695	601,557,295
Other assets (Note 9)	3,764,082	3,762,554
Property and equipment (Note 10)	10,810,682	10,726,879
	$ 746,611,274	$ 739,382,055

LIABILITIES

	2019	2018
Deposits (Note 11)	$ 626,789,655	$ 627,577,945
Secured borrowing (Note 13)	54,902,774	49,785,096
Other liabilities (Note 14)	3,888,927	4,537,791
Shares (Note 15)	99,815	102,705
	685,681,171	682,003,537

MEMBERS' EQUITY

	2019	2018
Retained earnings	60,892,500	57,868,754
Accumulated other comprehensive income	37,603	(490,236)
	60,930,103	57,378,518
	$ 746,611,274	$ 739,382,055

APPROVED BY THE BOARD:

Earl Warwick
_____________________________ Director

_____________________________ Director

"See Accompanying Notes"

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

	2019	2018
Retained Earnings		
Retained earnings - beginning of year	$ 57,868,754	$ 53,792,897
Net income	3,023,746	4,075,857
Retained earnings - end of year	$ 60,892,500	$ 57,868,754
Accumulated Other Comprehensive Income		
Accumulated other comprehensive income - beginning of year	$ (490,236)	$ (977,436)
Other comprehensive income (loss)	527,839	487,200
Accumulated other comprehensive income - end of year	$ 37,603	$ (490,236)
Total Equity	$ 60,930,103	$ 57,378,518

"See Accompanying Notes"

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

	2019	2018
Interest revenue		
Loan	$ 23,185,478	$ 22,299,249
Investment	3,977,098	4,632,572
	27,162,576	26,931,821
Interest expense		
Borrowed money	1,731,212	934,000
Member deposits	8,072,744	7,590,125
	9,803,956	8,524,125
Net interest	17,358,620	18,407,696
Provision for credit losses	1,193,159	2,341,991
Net interest after provision for credit losses	16,165,461	16,065,705
Other income	4,106,385	6,595,579
Operating expenses		
General business	5,056,024	5,118,680
Occupancy	1,522,941	1,579,282
Organizational	288,524	367,597
Personnel	9,580,785	9,924,411
Security	568,947	587,647
	17,017,221	17,577,617
Income before income taxes	3,254,625	5,083,667
Income taxes (Note 20)		
Current	520,179	1,062,010
Deferred (recovery)	(289,300)	(54,200)
Net income before other comprehensive income	3,023,746	4,075,857
Other comprehensive income (loss)(net of tax)		
Net unrealized gains (losses) on cash flow hedges	527,839	487,200
Other comprehensive income (loss)	527,839	487,200
Total comprehensive income	$ 3,551,585	$ 4,563,057

"See Accompanying Notes"

TCU FINANCIAL GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

	2019	2018
Cash provided by (used in) operating activities:		
Total comprehensive income	$ 3,551,585	$ 4,563,057
Items not involving cash:		
- Amortization on property, plant and equipment	1,020,021	1,087,762
- (Gain) loss on disposal of property, plant and equipment	(1,393)	(2,715,180)
- Provision for credit losses	1,193,159	2,341,991
Net change in other assets and other liabilities	(650,392)	(81,305)
	5,112,980	5,196,325
Cash provided by (used in) investing activities:		
Investments	(33,028,609)	1,983,337
Loans receivable	20,835,441	(18,082,455)
Proceeds from disposal of property and equipment	1,775	3,102,090
Purchase of property and equipment	(973,894)	(510,426)
	(13,165,287)	(13,507,454)
Cash provided by (used in) financing activities:		
Deposits	(788,290)	(21,386,038)
Loans payable	-	(12,983,684)
Secured borrowing	5,117,678	49,785,096
Shares	(2,890)	(2,520)
	4,326,498	15,412,854
Increase (decrease) in cash	(3,725,809)	7,101,725
Cash position - beginning of year	10,664,151	3,562,426
Cash position - end of year	$ 6,938,342	$ 10,664,151

"See Accompanying Notes"

1. Incorporation and governing legislation

TCU Financial Group 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 members through branches in Saskatoon, Regina and the surrounding area.

In accordance with The Credit Union Act, 1998, Credit Union Deposit Guarantee Corporation (CUDGC) regulates all credit unions in Saskatchewan. CUDGC establishes Standards of Sound Business Practices, provides regulatory guidance and guarantees the repayment of all deposits, including accrued interest. If a credit union is not in compliance with the standards or regulatory guidance, CUDGC has the authority to take necessary action, which may include reducing or restricting the credit union's authorities and limits, taking preventative actions, issuing a compliance order, placing the credit union under supervision or administration, or issuing an amalgamation order.

2. Basis of preparation and statement of compliance

The consolidated financial statements have been prepared in accordance with Part I of the CPA Canada 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 26, 2020.

The consolidated financial statements have been prepared on the historical cost basis, except for certain investments which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value, but are not fair value, such as value in use on impairment.

The Credit Union follows a fair value hierarchy to categorize the inputs used to measure fair value into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly: and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

3. Summary of significant accounting policies

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

Effective January 1, 2019, the Credit Union adopted IFRS 16 *Leases*, which replaces IAS 17 *Leases*. This new standard was applied retrospectively to comparative periods. There was no impact to the financial statements as a result of the adoption of IFRS 16.

Use of estimates and 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 2. 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

Specific allowances are applied 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 expected credit loss model requires the recognition of twelve months of expected credit losses for performing loans, and of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk requires experienced judgement and considers a number of different factors that vary by product and risk segment. Some of these factors are based on forecasts of future economic conditions. The recognized expected credit losses are determined using these estimates, which may be materially different from actual credit losses realized.

3. Summary of significant accounting policies continued

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 inter-company 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 Holdings Inc.	100 %

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 (where transaction costs are expensed). The classification of financial assets at initial recognition depends on the entity's business model for managing financial assets and the contractual cash flow characteristics of the instrument. 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, amortized cost or fair value through other comprehensive income.

The business model used by the Credit Union is a key consideration for the classification of financial assets. The two primary models are to hold financial assets to collect contractual cashflows, or to hold financial assets to collect contractual cashflows and sell financial assets. The Credit Union's business model is to hold financial assets to collect contractual cash flows.

Embedded derivatives are not separated from the host contract, with the contract treated as one instrument at initial recognition. The classification is determined based on an assessment of the contractual cashflow characteristics and the business model under which is it managed.

3. Summary of significant accounting policies continued

Fair value through profit or loss

Financial assets and liabilities are classified as fair value through profit or loss (FVTPL) when the instruments are:

- Held for trading purposes,
- Part of a managed portfolio with a pattern of short term profit taking,
- Non trading financial assets that do not consist solely of payments of principal and interest (SPPI), or
- Voluntarily designated as such.

Equity instruments are measured at FVTPL unless the asset is not held for trading purposes and an irrevocable election to classify as fair value through other comprehensive income is made.

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

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

Cash
SaskCentral shares
Concentra shares
Central 1 bid deposit
Central 1 demand deposit
Other investments
Provincial and corporate bonds
Derivatives

The Credit Union has not voluntarily designated any financial instruments as FVTPL.

Amortized cost

Financial assets classified as amortized cost are debt financial instruments with contractual cash flows that consist solely of payments of principal and interest (SPPI) and are managed on a hold to collect basis. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset, and a profit margin. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

All financial liabilities are classified as amortized cost unless it has been classified as fair value through profit or loss.

3. Summary of significant accounting policies continued

The Credit Union has classified the following financial instruments at amortized cost:

SaskCentral investments
Loans receivable
Accrued interest
Deposits
Secured borrowing
Other liabilities
Shares

Fair value through other comprehensive income

Financial assets are classified as fair value through other comprehensive income (FVOCI) when the financial assets:

- Are held within a business model that is to hold to collect contractual cashflows and sell financial assets,
- Have contractual terms that give risk, on specified dates, to cash flows that are SPPI, and
- Are not designated as held for trading.

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

Derivatives - effective portion used as a cash flow hedge

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 each derivative contract is entered into. They are subsequently measured at fair value with changes in fair value recognized in profit or loss, unless they are 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.

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.

3. Summary of significant accounting policies continued

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.

Financial asset impairment

The Credit Union assesses financial assets, other than those recorded at FVTPL, for indicators of impairment at each reporting period.

Loans receivable

The Credit Union uses the expected credit loss (ECL) impairment model to measure the loss allowance on loans receivable, in the following categories:

- Stage 1 – the expected losses for the next 12 months on performing financial assets,
- Stage 2 – the expected lifetime losses on performing financial assets that have experienced a significant increase in credit risk since origination, and
- Stage 3 – the expected lifetime losses on credit impaired financial assets.

Stage 1 assets consist of performing loans with credit risk that has not increased significantly since origination. Stage 2 assets consist of performing loans with credit risk that has increased significantly since origination. Stage 3 assets consist of high risk, non performing or doubtful loans, where it is not expected that the principal and interest will be collected in full. Stage 1 and Stage 2 performing loans are included in the analysis without consideration of collateral value. Stage 3 doubtful loans are included in the analysis at the balance outstanding less any collateral value and consideration of collection costs. Individual loan assets move between stages as credit risk increases or decreases.

In determining the expected credit losses, Management assesses each loan asset and assigns a risk rating of Stage 1 Remote/Low Risk, Stage 2 Moderate Risk or Stage 3 Higher Risk. Management also estimates the probability of default and expected loss ratio for each risk rating category, considering a number of factors, such as product type and terms, local, provincial and national economic factors, historical loss experience and delinquency trends. Certain factors are based on forecasts of future economic conditions, such as housing starts, unemployment and interest rates. Loan assets which were modified, but not derecognized, during the period are specifically assessed to determine if there has been a significant increase in credit risk by comparing the risk of default at the origination of the loan to the risk of default at the reporting date.

3. Summary of significant accounting policies continued

The probability of default and the expected loss ratio are applied to the loan assets classified in each stage to estimate the expected credit loss.

At each reporting period, the Credit Union performs the analysis to estimate the loan allowance. Changes in the loan allowance are recognized in the provision for credit losses on the statement of comprehensive income as they occur.

When a loan is impaired, any collateral has been realized, and there is no expectation of recovery, the loan is written off. Records about written off loans are maintained in case future recoveries are received. Loan allowances on loans written off in the period are reversed in the period the loan is written off. Recoveries on loans written off are recognized in revenue in the period the amount is received.

Investments and other financial assets

The Credit Union uses the expected credit loss impairment model to measure the loss impairment on investments and other financial assets. Management assesses each individual asset and determines whether there has been a significant increase in credit risk since origination and the probability of default. The factors considered include significant financial difficulty of the issuer or counterparty, disappearance of an active market for the security, prolonged decline in the fair value of a security, as well as local, provincial and national economic factors.

At each reporting period, the Credit Union analyzes individual investments and other financial assets to estimate the expected credit loss. Changes in the estimated credit loss are recognized in investment revenue for investments and other revenue for other financial assets on the statement of comprehensive income as they occur.

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 loan allowances. A loan is classified as impaired (doubtful) when there is no longer reasonable assurance that the principal and interest will be collected in full.

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.

3. Summary of significant accounting policies continued

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses. Property and equipment are amortized over their estimated useful lives using the following rates and methods, with the exception of land which is not amortized:

Assets held under finance leases	15 years	straight-line
Computer hardware	4 - 8 years	straight-line
Facilities	40 years	straight-line
Furniture and equipment	10 years	straight-line
Leasehold improvements	15 years	straight-line

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 and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in the statement of comprehensive income 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 on withdrawal from membership.

Impairment of tangible and intangible assets other than goodwill

At least annually, the Credit Union reviews its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of a group of assets (or cash generating unit) to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is defined as the higher of fair value less costs to sell and value in use. In assessing value in use, the Credit Union estimates future cash flows it expects to derive from the asset or group of assets along with the expectations about possible variations in the amount and timing of those cash flows. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or group of assets (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. The related impairment loss is recognized in the statement of comprehensive income.

3. Summary of significant accounting policies continued

Where an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of the recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or group of assets in prior years. A reversal of an impairment loss is recognized in the statement of comprehensive income as it occurs.

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 instruments classified as fair value through other comprehensive income, 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.

3. Summary of significant accounting policies continued

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 24.5% 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 CPA Canada Handbook which are not yet effective. None of the new or amended standards impact the Credit Union.

4. Cash and cash equivalents

	2019	2018
Cash balances	$ 6,938,342	$ 10,664,151

5. Derivatives

	2019				
	Notional Amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate derivatives					
Swap contracts	$23,400,000	$94,600,000	$118,000,000	$176,489	$ -

	2018				
	Notional Amounts			Fair values	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate derivatives					
Swap contracts	$23,400,000	$84,600,000	$108,000,000	$(567,885)	$ -

The above amounts include accrued interest.

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They do not represent credit or market risk exposure. Notional amounts are not exchanged.

The Credit Union has entered into a cash flow hedge to manage a portion of the interest rate risk that arises from the variable interest cash flows associated with its prime based loans. All swap contracts held are cash flow hedges. The net interest income and expense for the hedged and hedging items are recognized in interest income as it is realized. When the hedge results are effective, all gains and losses of the derivative are initially posted to other comprehensive income and are reclassified to income in the period in which the cash flows from the hedged risk are recorded. Any ineffectiveness is immediately recognized in profit or loss.

The following table summarizes the hedge ineffectiveness gains (losses) recognized in profit or loss.

	2019	2018
Cash flow hedges	$ -	$ -

6. Investments

	2019	2018
Fair value through profit or loss:		
SaskCentral shares	$ 7,240,059	$ 7,240,059
Concentra shares	2,000,000	2,000,000
Central 1 bid deposit	449,970	500,000
Central 1 demand deposit	1,000,000	1,000,000
Other investments	3,358,913	3,911,230
Provincial and corporate bonds	29,112,825	29,420,600
Accrued interest	966,991	1,422,634
	44,128,758	45,494,523
Amortized cost:		
SaskCentral liquidity deposits	62,773,500	62,623,500
SaskCentral demand deposit	36,500,000	3,000,000
	99,273,500	65,623,500
	$ 143,402,258	$ 111,118,023

At December 31, 2019, the market value of investments classified as amortized cost is $99,561,757 (2018 - $65,304,753).

At December 31, 2019, $97,378,043 (2018 - $75,657,558) of investments are expected to be recovered more than 12 months after the reporting date.

Pursuant to Regulation 18(1)(a), credit unions must maintain 10% of total liabilities, using a prescribed formula, in specified liquidity deposits in SaskCentral, in addition to liquidity required to meet their normal cash flow requirements. As of December 31, 2019, the Credit Union met the requirement.

7. Investment property

	Land	Facilities	Total
Cost			
Balance at January 1, 2018	$ 591,983	$2,059,356	$ 2,651,339
Additions	-	-	-
Transfer from property and equipment	-	-	-
Transfer to assets held for sale	-	-	-
Balance at December 31, 2018	$ 591,983	$2,059,356	$ 2,651,339
Balance at January 1, 2019	$ 591,983	$2,059,356	$ 2,651,339
Additions	-	-	-
Transfer from property and equipment	-	-	-
Transfer to assets held for sale	-	-	-
Income tax credit adjustment	-	(72,816)	(72,816)
Balance at December 31, 2019	$ 591,983	$1,986,540	$ 2,578,523
Depreciation and impairment losses			
Balance at January 1, 2018	$ -	$ 471,308	$ 471,308
Depreciation expense	-	58,993	58,993
Transfer from property and equipment	-	-	-
Transfer to assets held for sale	-	-	-
Balance at December 31, 2018	$ -	$ 530,301	$ 530,301
Balance at January 1, 2019	$ -	$ 530,301	$ 530,301
Depreciation expense	-	57,496	57,496
Transfer from property and equipment	-	-	-
Transfer to assets held for sale	-	-	-
Balance at December 31, 2019	$ -	$ 587,797	$ 587,797
Net book value			
Balance at December 31, 2018	$ 591,983	$1,529,055	$2,121,038
Balance at December 31, 2019	591,983	1,398,743	1,990,726

7. Investment property continued

	2019	2018
Income related to investment property:		
Rental income	$ 237,628	$ 234,257
Direct operating expenses	98,981	92,083
	$ 138,647	$ 142,174

	2019	2018
Future rental payments receivable:		
Not later than one year	$ 171,757	$ 171,757
Later than one year and not later than five years	717,531	705,186
Later than five years	465,446	649,548
	$ 1,354,734	$ 1,526,491

8. Loans receivable

			Allowances		2019
	Performing	Impaired	Individual	Collective	Net
Government guaranteed	$128,354,057	$ 1,302,152	$ -	$ (294)	$129,655,915
Conventional mortgages					
- Residential	262,793,899	3,241,626	(70,928)	(456,474)	265,508,123
Personal loans	13,044,166	712,802	(371,779)	(131,037)	13,254,152
Foreclosed property	470,169	-	-	-	470,169
Lines of credit and overdrafts	21,293,517	306,158	(214,306)	(196,214)	21,189,155
Non-personal loans	143,975,345	5,188,879	(930,581)	(611,772)	147,621,871
Accrued interest	1,339,242	490,068	-	-	1,829,310
	$571,270,395	$11,241,685	$(1,587,594)	$(1,395,791)	$579,528,695
Secured borrowing	$ (54,902,774)	-	-	-	$ (54,902,774)

8. Loans receivable continued

					2018
			Allowances		
	Performing	Impaired	Individual	Collective	Net
Government guaranteed	$139,621,518	$ 1,286,212	$ (456)	$ (20,456)	$140,886,818
Conventional mortgages					
- Residential	275,916,543	2,708,554	-	(458,444)	278,166,653
Personal loans	16,572,327	647,514	(382,554)	(25,388)	16,811,899
Foreclosed property	429,205	-	-	-	429,205
Lines of credit and overdrafts	23,370,384	-	-	(146,300)	23,224,084
Non-personal loans	138,153,684	3,731,746	(768,922)	(935,949)	140,180,559
Accrued interest	1,381,670	476,407	-	-	1,858,077
	$595,445,331	$8,850,433	$(1,151,932)	$(1,586,537)	$601,557,295
Secured borrowing	$ (49,785,096)	-	-	-	$ (49,785,096)

At December 31, 2019, $298,926,000 (2018 - $346,995,000) of loans are expected to be recovered more than 12 months after the reporting date.

The following table discloses the reconciliation of the allowance for expected credit losses on loans:

	2019	2018
Allowance for expected credit losses - January 1	$ 2,738,469	$ 1,917,817
Change in expected 12 month credit losses	(330,085)	599,134
Change in lifetime credit losses related to:		
Assets where credit risk has increased significantly	139,339	8,453
Assets that are credit impaired	435,662	213,065
Allowance for expected credit losses - December 31	$ 2,983,385	$ 2,738,469

The aging of loans, including those past due but not impaired, as at December 31, 2019 was:

	2019	2018
Current	$ 2,767,331	$ 3,470,612
31 - 60 days	1,971,159	3,610,978
61 - 90 days	36,104	1,926,767
91 - 120 days	2,138,300	45,469
120+ days	6,150,521	6,802,271
Total	$ 13,063,415	$ 15,856,097

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees. At December 31, 2019, total credit impaired loans were $11,241,685 (2018 - $8,850,433) and are secured by an estimated collateral value of $9,654,091 (2018 - $7,698,499). The allowance for expected credit losses on credit impaired loans is $1,587,594 (2018 - $1,151,932).

9. Other assets

	2019	2018
Accounts receivable	$ 69,537	$ 166,869
Deferred income tax assets	1,819,400	1,530,100
Prepaid expenses	1,875,145	2,065,585
	$ 3,764,082	$ 3,762,554

10. Property and equipment

	Land	Building	Furniture and equipment	Leased assets	Total
Cost					
Balance at January 1, 2018	$1,887,035	$10,748,609	$7,391,468	$2,538,103	$22,565,215
Additions	-	-	334,065	176,361	510,426
Disposals	(95,430)	(1,486,035)	(298,731)	-	(1,880,196)
Balance at December 31, 2018	$1,791,605	$9,262,574	$7,426,802	$2,714,464	$21,195,445
Balance at January 1, 2019	$1,791,605	$9,262,574	$7,426,802	$2,714,464	$21,195,445
Additions	-	346,298	762,688	2,708	1,111,694
Disposals	-	-	(119,413)	-	(119,413)
Other	(8,707)	(56,277)	-	-	(64,984)
Balance at December 31, 2019	$1,782,898	$9,552,595	$8,070,077	$2,717,172	$22,122,742
Depreciation and impairment losses					
Balance at January 1, 2018	$ -	$4,059,149	$6,338,112	$ 535,822	$10,933,083
Depreciation expense	-	374,821	453,638	200,310	1,028,769
Disposals	-	(1,214,327)	(278,959)	-	(1,493,286)
Balance at December 31, 2018	$ -	$3,219,643	$6,512,791	$ 736,132	$10,468,566
Balance at January 1, 2019	$ -	$3,219,643	$6,512,791	$ 736,132	$10,468,566
Depreciation expense	-	378,566	367,273	216,686	962,525
Disposals	-	-	(119,031)	-	(119,031)
Balance at December 31, 2019	$ -	$3,598,209	$6,761,033	$ 952,818	$11,312,060
Net book value					
Balance at December 31, 2018	$1,791,605	$6,042,931	$914,011	$1,978,332	$10,726,879
Balance at December 31, 2019	1,782,898	5,954,386	1,309,044	1,764,354	10,810,682

11. Deposits

	2019	2018
Chequing	$ 167,678,026	$ 152,671,047
Savings	59,937,094	58,901,901
Term deposits	260,442,407	281,144,140
Registered accounts	134,958,489	131,383,608
Accrued interest	3,773,639	3,477,249
	$ 626,789,655	$ 627,577,945

At December 31, 2019, $178,365,000 (2018 - $162,646,000) of deposits are expected to be settled more than 12 months after the reporting date.

12. 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 bears interest at 3.45% and 5.25% respectively and is secured by an assignment of book debts and funds on deposit with a tiered interest rate structure based on a ninety day T-Bill rate and bank prime. At the end of the year, the amount outstanding was $NIL (2018 - $NIL) on the Canadian line of credit and $NIL US (2018 - $NIL) on the US line of Credit.

The Credit Union through a commercial paper funding agreement with SaskCentral can borrow up to $12,000,000. 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 $NIL (2018 - $NIL).

The Credit Union has an authorized line of credit with Concentra Bank in the amount of $10,000,000. The line of credit bears interest at a rate equal to the 1 month CDOR rate as established from time to time plus 250 basis points per annum. At the end of the year, the amount outstanding was $NIL (2018 - $NIL).

13. Secured borrowing

The Credit Union has transferred an amortizing ownership interest in various qualifying residential mortgage receivables to various investors through the National Housing Act (NHA) Mortgage Backed Securities (MBS) Program. During 2019, $11,886,590 (2018 - $49,762,660) has been transferred. The Credit Union retains the responsibility for servicing the qualifying residential mortgage receivables. Under the program, the Credit Union has an obligation to forward principal and interest amounts as per each individual mortgage agreement loans to Canada Mortgage and Housing Corporation (CMHC) monthly, whether or not it receives payments from mortgagees. The Credit Union retains certain prepayment risk, timely payment guarantee risk and interest rate risk related to the transferred mortgages. Due to retention of these risks, transferred mortgages are not derecognized and the securitization proceeds are accounted for as secured borrowings. There are generally no expected credit losses on the securitized mortgage assets, as the mortgages are insured against default. Further, investors and CMHC have no recourse against other assets of the Credit Union in the event of failure of mortgages.

Mortgage loans are pledged against the MBS issuances. As a requirement of the MBS program, the Credit Union assigns and transfers to CMHC, all of its rights, title, and interest in existing mortgage pools. If the Credit Union fails to make timely payments under the MBS security, CMHC may enforce assignment to CMHC of the mortgages included in the mortgage pools backing the securities issued. If CMHC enforces the assignments, all authority and power of the Credit Union under the terms of the MBS guide, whether with respect to securities issued or mortgages pooled in the contract, shall pass to and be vested with CMHC.

The associated liability, secured by these loans, is carried at amortized cost and included in secured debt on the consolidated statement of financial position. The associated liability at December 31, 2019, is recorded net of unamortized transaction costs of $333,486 (2018 - $406,897).

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

	2019		2018	
	Loan Assets	Secured Debt	Loan Assets	Secured Debt
Less than 1 year	$ 11,198,434	$ 11,198,434	$ 2,256,934	$ 2,256,934
1 year end over	43,615,676	43,704,340	47,505,726	47,528,162
Total securitization	$ 54,814,110	$ 54,902,774	$ 49,762,660	$ 49,785,096

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

	2019	2018
Fair value of transferred assets	$ 54,814,110	$ 49,762,660
Less: fair value of secured debt	55,211,945	49,780,463
Net position	$ (397,835)	$ (17,803)

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14. Other liabilities

	2019	2018
Accounts payable	$ 1,829,649	$ 1,562,873
Lease payable	1,983,081	2,165,508
Income taxes payable	76,197	809,410
	$ 3,888,927	$ 4,537,791

15. Membership shares & equity accounts

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.

16. Capital management

Credit Union Deposit Guarantee Corporation (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 the 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. 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.

16. Capital management continued

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 2019:

	Regulatory Standards	Board Minimum
Total eligible capital to risk-weighted assets	10.5%	11-13%
Total tier 1 capital to risk-weighted assets	8.5%	11-13%
Common equity tier 1 capital to risk-weighted assets	7%	11-13%
Leverage ratio	5%	5.5%

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	2019	2018
Eligible capital:		
Common equity tier 1 capital	$ 59,348,703	$ 55,954,458
Additional tier 1 capital	-	-
Total tier 1 capital	59,348,703	55,954,458
Total tier 2 capital	1,495,606	1,689,241
Total eligible capital	$ 60,844,309	$ 57,643,699
Risk-weighted assets	$ 392,502,917	$ 390,332,046
Total eligible capital to risk-weighted assets	15.50%	14.77%
Total tier 1 capital to risk-weighted assets	15.12%	14.34%
Common equity tier 1 capital to risk-weighted assets	15.12%	14.34%
Leverage ratio	7.80%	7.55%

17. 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, 2019, certain members of the board of directors and key management personnel were indebted to the Credit Union for amounts totaling $4,518,289 (2018 - $4,444,217). 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 $1,025,028 (2018 - $1,194,068).

18. Classification and fair value of financial instruments

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

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	$ 6,938,342	$ 6,938,342	$ 10,664,151	$ 10,664,151
Investments	143,402,258	143,492,784	111,118,023	110,532,282
Loans	579,528,695	577,070,000	601,557,295	593,267,000
Derivative assets	176,489	176,489	(567,885)	(567,885)
Other assets	24,746	24,746	70,910	70,910
FINANCIAL LIABILITIES				
Deposits	626,789,655	627,466,000	627,577,945	625,546,000
Secured borrowing	54,902,774	55,211,945	49,785,096	49,780,463
Membership shares	99,815	99,815	102,705	102,705
Other liabilities	3,812,730	3,812,730	3,728,381	3,728,381

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

The fair values of short term financial instruments including cash, other assets, and other liabilities are approximately equal to their book values due to their short term nature.

18. Classification and fair value of financial instruments continued

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:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
SaskCentral shares	$ -	$ -	$ 7,240,059	$ 7,240,059
Concentra shares	-	-	2,000,000	2,000,000
Derivative assets	176,489	-	-	176,489
Central 1 bid deposits	-	449,970	-	449,970
Central 1 demand deposits	-	1,000,000	-	1,000,000
Other investments	-	-	3,358,913	3,358,913
Provincial and corporate bonds	29,112,825	-	-	29,112,825

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS				
SaskCentral shares	$ -	$ -	$ 7,240,059	$ 7,240,059
Concentra shares	-	-	2,000,000	2,000,000
Derivative assets	(567,885)	-	-	(567,885)
Central 1 bid deposits	-	500,000	-	500,000
Central 1 demand deposits	-	1,000,000	-	1,000,000
Other investments	-	-	3,911,230	3,911,230
Provincial and corporate bonds	29,420,600	-	-	29,420,600

19. 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, receivables and 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 for 2019 is:

	Board objectives	Actual
Consumer	71%	73%
Commercial	29%	27%

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. During the period, $NIL (2018 - $NIL) of loans were written off but still subject to enforcement activity. At December 31, 2019, the Credit Union held $NIL (2018 - $NIL) in assets pledged as security on loans.

The following table discloses the Credit Union's exposure to credit risk by risk rating grades:

	Loans	Investments
Stage 1 Remote / Low Risk	$ 558,857,720	$ 143,402,258
Stage 2 Moderate Risk	11,016,884	-
Stage 3 Higher Risk	9,654,091	-
Total	$ 579,528,695	$ 143,402,258

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.

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19. Financial instrument risk management continued

Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event that a customer can not 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. 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.

	2019	2018
Undrawn lines of credit	$ 101,270,402	$ 104,797,581
Letters of credit	404,000	461,580
Commitments to extend credit	27,377,476	25,929,104

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 policies for minimum liquidity holdings, monthly monitoring and access to additional short term financing.

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 policies for maximum mismatch levels, monthly monitoring and adjusting product mix to address match position.

19. Financial instrument risk management continued

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.

2019

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Total assets	$189,415,000	$ 23,228,000	$142,370,000	360,815,000	$ 3,992,000	$ 26,792,000	$746,611,000
LIABILITIES							
Total liabilities	185,209,000	55,640,000	149,230,000	178,365,000	-	178,167,000	746,611,000
On-balance sheet gap	$ 4,206,000	$ (32,412,000)	$ (6,860,000)	$182,450,000	$ 3,992,000	$(151,375,000)	$ -

2018

	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	$(8,866,000)	$(36,481,000)	$(62,784,000)	$234,298,000	$7,315,000	$(133,482,000)	$ -

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

A 1% increase in interest rates with all other variable held constant would result in an increase in the Credit Union’s profit for the year ended December 31, 2019 of $355,000 (2018 - decrease of $163,000). A 1% decrease in interest rates with all other variable held constant would result in a decrease in the Credit Union’s profit for the year ended December 31, 2019 of $470,000 (2018 - increase of $26,000).The Credit Union uses simulation modeling to simulate the effect of a change in the market rate of interest.

20. Income taxes

Income tax expense is comprised of:

	2019	2018
Current tax expense		
Current period	$ 520,179	$ 1,062,010
	520,179	1,062,010
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(133,168)	113,516
Changes in tax rates and tax laws	(156,132)	(167,716)
	(289,300)	(54,200)
Total income tax expense	$ 230,879	$ 1,007,810

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

	2019	2018
Income before provision for income taxes	$ 3,254,625	$ 5,083,667
Combined federal and provincial tax rate	24.50 %	22.00 %
Income tax expense at statutory rate	797,383	1,118,406
Adjusted for the effect of:		
Non-deductible expenses	4,245	2,052
Non-taxable income	(48,760)	(211,124)
Deferred tax expense due to change in income tax rate	(156,132)	(167,716)
Other	(365,857)	266,192
	$ 230,879	$ 1,007,810

Starting in 2017, the Saskatchewan preferred rate additional deduction for credit unions began phasing out. For 2017, the provincial deduction was reduced to 75% of what the Credit Union would otherwise be entitled to under the old rules, in 2018 the deduction was reduced to 50%, and in 2019 the deduction was reduced to 25%. The provincial deduction is expected to then be decreased to 0% in 2020 and subsequent years.

20. Income taxes continued

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

	2019	2018
Deferred income tax assets		
Loans	$ 422,300	$ 416,900
Non-capital loss carryforward	1,424,000	1,292,100
	$ 1,846,300	$ 1,709,000
Deferred income tax liabilities		
Property and equipment	$ 22,300	$ 161,600
Other	4,600	17,300
	26,900	178,900
Net deferred income taxes	$ 1,819,400	$ 1,530,100

	2019	2018
Deferred tax assets		
- To be recovered within 12 months	$ 1,846,300	$ 1,709,000
Deferred income tax liabilities		
- To be recovered after more than 12 months	$ 26,900	$ 178,900

21. Commitments

The Credit Union has entered into agreements expiring on various dates to the year of 2029. 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.

21. Commitments continued

Lease commitments

The buildings for the Stonebridge and Arlington branches were obtained under a finance lease arrangement. Additionally, in 2018 the Credit Union entered into a finance lease agreement with Cisco for equipment. The future minimum lease payments under the finance leases are as follows:

	2019		
	Total future mimimum lease payments	Future interest charges	Present value of finance lease commitments
Not later than one year	$ 204,504	$ 66,151	$ 270,655
Later than one year and not later than five years	739,289	197,898	937,187
Later than five years	1,039,376	91,903	1,131,279
	$ 1,983,169	$ 355,952	$ 2,339,121

	2018		
	Total future mimimum lease payments	Future interest charges	Present value of finance lease commitments
Not later than one year	$ 226,139	$ 70,967	$ 297,106
Later than one year and not later than five years	983,328	224,008	1,207,336
Later than five years	1,353,146	131,785	1,484,931
	$ 2,562,613	$ 426,760	$ 2,989,373

The net carrying amount of land and buildings held under finance lease as at December 31, 2019 was $1,726,945 (2018 - $1,910,994).

The net carrying amount of the equipment held under finance lease as at December 31, 2019 was $37,410 (2018 - $67,337).

22. 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. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Pension benefits of $455,427 (2018 - $493,594) were paid to defined contribution retirement plans during the year.

23. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

TCU FINANCIAL GROUP
SCHEDULE OF NON-INTEREST EXPENSES
(Unaudited - See Note Below)
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

SCHEDULE 1

	2019	2018
General business		
Audit and regulatory inspection	$ 973,672	$ 897,785
Business development	579,139	760,182
Cash shortage	4,949	3,182
Computer costs	1,368,475	1,345,910
Service charges, clearing fees	901,196	816,557
Telephone, postage, courier	159,942	162,885
Other general business	1,068,651	1,132,179
	$ 5,056,024	$ 5,118,680
Occupancy		
Amortization - building	$ 652,748	$ 634,124
Maintenance, taxes, insurance - building	709,366	740,790
Utilities	160,827	204,368
	$ 1,522,941	$ 1,579,282
Organizational		
Annual meeting	$ 2,008	$ 1,780
SaskCentral dues	130,097	138,824
Development - officials	16,162	15,966
Remuneration - officials	87,432	66,738
Other organizational	52,825	144,289
	$ 288,524	$ 367,597

TCU FINANCIAL GROUP
SCHEDULE OF NON-INTEREST EXPENSES
(Unaudited - See Note Below)
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

SCHEDULE 1 - Continued

	2019	2018
Personnel		
Benefits	$ 1,198,993	$ 1,189,136
Development	128,065	173,482
Salaries	8,081,179	8,336,816
Other personnel expenses	172,548	224,977
	$ 9,580,785	$ 9,924,411
Security		
Bonding insurance	$ 69,563	$ 70,107
Deposit guarantee assessment	499,281	516,237
Loan and savings insurance	103	1,303
	$ 568,947	$ 587,647

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral). Together, these entities are considered Provincially Regulated Financial Institutions or "PRFIs". The Corporation is mandated through provincial legislation, *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016* in performing its duties. Provincial legislation also assigns responsibility for oversight of the Corporation to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan.

The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By promoting responsible governance and prudent management of capital, liquidity and guaranteeing deposits, the Corporation contributes to confidence in Saskatchewan PRFIs.

For more information about the Corporation's regulatory and deposit protection responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult the Corporation's web site at www.cudgc.sk.ca.

Officers & Vice Presidents

Greg Peacock, Interim Chief Executive Officer & Chief Financial Officer

Greg has over 25 years of experience within the financial services industry, over 24 years of experience of which has been within the credit union system, all with TCU Financial Group. Throughout these years, Greg has been involved in many aspects of the Credit Union including Loans Officer, Accountant, Finance Manager and Branch Manager. Greg has been in his role of Chief Financial Officer since 2006 and also currently holds the position of Interim Chief Executive Officer since August 2019. He provides the strategic direction and leadership for the financial operations of TCU Financial Group and its subsidiary company. Greg graduated with a Bachelor of Commerce from the University of Saskatchewan. Greg volunteers his time as a Director for the Saskatoon Hilltop Football Club.

Kathy Styranko, Chief Risk Officer

With 40 + years in the financial services industry, Kathy's experience covers all facets of the business including leadership roles at various levels. Kathy joined TCU Financial Group in 2003 and moved into her current role in 2007. Kathy is responsible for providing strategic leadership to all areas of Governance & Compliance and Corporate Operational Support. In this role she has focused on enhancing the governance oversight, compliance, audit and risk management functions and developing strong operational support within the credit and central administration departments. Kathy is an empowering and inspirational leader who looks to bring out the best in others and remove obstacles in order to provide direction to her team and support to all business lines. A believer in lifelong learning, she completed the Masters Certificate in Risk Management and Business Performance at the Schulich Executive Education Center, York University in 2018/2019 as well as the Certified Credit Union Director (CCD) designation via Rotman School of Business, University of Toronto also in 2019.

Tammy Martins, Chief Business Transformation and Strategy Officer

Tammy comes to TCU Financial Group after having spent her career in leadership positions across a variety of industries including Financial Services, Manufacturing, Research Development and Demonstration (RD&D), and most recently, Healthcare. Tammy has a Bachelor of Business Administration degree from Athabasca University and earned her MBA in Executive Management from Royal Roads University. She also holds a Project Management Professional (PMP) designation. In her role at TCU Financial Group, Tammy is responsible for formalizing the company's strategic planning processes, leading the development of the strategy and implementing it across all functions and business units. She is also responsible for Facilities, Human Resources and Organizational Development as well as the Information Technology and Systems departments.

Tim Owens, Chief Operating Officer

Joining TCU Financial Group in August 2019, Tim brings 20 years of marketing, relationship management and leadership experience along with him. He spent the previous 13 years at Concentra, working to help credit unions across Canada create value for their members. Tim`s experience includes developing and executing future-focused strategies, leading purpose-driven stakeholder engagement and working to foster a winning corporate culture. A common theme throughout Tim`s career has been change management, taking existing strategies and processes and making improvements to achieve long-term benefits. Tim completed an MBA in International Management at the University of London`s Royal Holloway College and a Bachelor of Admin from the University of Regina. He lives in Regina with his wife and two daughters.

Officers & Vice Presidents

Dawn Bell, Vice President, Governance and Compliance

Dawn started working at TCU Financial Group in 1997 and returned in 2018, after spending over 15 years working in the trust industry. Dawn has both a Bachelor of Arts degree and a Bachelor of Laws degree from the University of Saskatchewan and is a non-practicing lawyer. Her professional experience includes people and operations management, regulatory compliance and risk management, as well as strategic planning. Dawn completed the CUES Governance Leadership Institute in 2019, attaining her Certified Credit Union Director (CCD) designation. As part of her role, Dawn is filling the positions of Chief Anti-Money Laundering Officer, Chief Privacy Officer, and Complaints Officer.

Ronél Eglington, Vice President, People and Culture

Ronél came to TCU Financial Group in 2008 after a successful career in South Africa. Ronél's honors degree in Organizational Psychology with a double major in marketing/public relations, has allowed her to have a broad understanding of the business world. Her retail focus made it easy to transition to the world of finance. During her career at TCU Financial Group, she has focused on aligning HR practices with TCU Financial Group's progressive strategic focus. In this regard, activities to refocus organizational culture linked to pro-active employee development initiatives have helped strengthen the organization.

Jill Norrish, Vice President, Member Experience

Jill has been in the Credit Union system for 30 years, working at two other credit unions before coming to TCU Financial Group in 1998. She has held various positions throughout her career and was promoted to the role of VP, Member Experience in 2018. Jill holds her Certified Financial Planner® designation and in recent years has focused her education on Leadership Development. Jill and the Member Experience Team take pride in truly getting to know their clients to deliver personalized and trustworthy advice.

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