BOW VALLEY CREDIT UNION LTD.

Financial Statements

For the Year Ended October 31, 2019

MANAGEMENT'S RESPONSIBILITY

To the Members of Bow Valley Credit Union Ltd. (the "Credit Union")

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

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

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board of Directors are responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board of Directors fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

RSM Alberta LLP, an independent firm of Chartered Professional Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

Brett Oland	Byron Bidulka, CPA, CGA
Chief Executive Officer	Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Members of Bow Valley Credit Union Ltd.

Opinion

We have audited the financial statements of Bow Valley Credit Union Ltd. (the "Credit Union"), which comprise the statement of financial position as at October 31, 2019, and the statements of income (loss) and comprehensive income (loss), changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

RSM Alberta LLP

Edmonton, Alberta
January 31, 2020

Chartered Professional Accountants

BOW VALLEY CREDIT UNION LTD.
Statement of Financial Position
October 31, 2019

	2019	2018
Assets		
Cash and cash equivalents	**$ 10,001,561**	$ 11,535,553
Income taxes receivable	**552,259**	---
Investments (Note 4)	**35,388,957**	31,964,387
Other assets (Note 7)	**919,428**	189,022
Loans to members (Note 6)	**309,533,057**	296,693,768
Derivative financial assets (Note 5)	**42,363**	130,848
Deferred income tax asset (Note 14)	**---**	6,722
Property and equipment (Note 8)	**7,276,569**	8,026,333
Intangible assets (Note 8)	**30,121**	44,267
	$ 363,744,315	$ 348,590,900
Liabilities		
Member deposits (Note 9)	**$ 337,354,151**	$ 322,076,583
Accounts payable and accrued liabilities (Note 10)	**627,880**	736,390
Income taxes payable	**---**	200,340
Derivative financial liabilities (Note 5)	**42,363**	130,848
Deferred income tax liability (Note 14)	**190,820**	---
	338,215,214	323,144,161
Members' equity		
Allocation distributable (Note 12)	**529,891**	395,938
Share capital (Note 13)	**7,393,149**	7,437,549
Retained earnings	**17,606,061**	17,613,252
	25,529,101	25,446,739
	$ 363,744,315	$ 348,590,900

Contingencies and commitments (Note 18)

Approved on behalf of the Board

S. Murphy Doug H. Cameron

Sheila Murphy, Board Chair Doug Cameron, Director

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Income (Loss) and Comprehensive Income (Loss)
For the Year Ended October 31, 2019

	2019	2018
Financial income		
Interest on member loans	**$ 11,489,761**	$ 10,513,096
Interest and dividends on investments	**608,913**	726,124
	12,098,674	11,239,220
Financial expenses		
Interest on member deposits	**4,226,551**	3,002,843
Interest on borrowings	**75,431**	2,077
	4,301,982	3,004,920
Financial margin before profit share	**7,796,692**	8,234,300
Profit share (Note 12)	**(433,877)**	(320,225)
Financial margin	**7,362,815**	7,914,075
Charge for credit impairment (Note 6)	**(479,411)**	(551,420)
Net financial margin after charge for credit impairment	**6,883,404**	7,362,655
Other income (expenses)		
Sub-lease	**249,330**	186,411
Loss on disposal of property	**(74,849)**	(249)
Service charges and other	**1,505,440**	1,497,730
	1,679,921	1,683,892
Income before operating expenses	**8,563,325**	9,046,547
Operating expenses (Schedule 1)	**8,340,113**	7,518,471
Income before income taxes	**223,212**	1,528,076
Income tax expense (recovery)		
Current income taxes expense	**40,564**	592,139
Deferred income taxes expense (recovery)	**197,543**	(101,518)
	238,107	490,621
Net income (loss) and comprehensive income (loss)	**$ (14,895)**	$ 1,037,455

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Changes in Members' Equity
For the Year Ended October 31, 2019

	Share Capital	Allocation Distributable	Retained Earnings	Total Equity
Balance at November 1, 2017	$ 7,707,209	$ 344,183	$ 16,690,387	$ 24,741,779
Total net income for the year	---	---	1,037,455	1,037,455
Share capital issued and redeemed for cash, net (Note 13)	(613,876)	---	---	(613,876)
Investment shares issued to settle allocation distributable (Note 13)	344,216	(344,183)	---	33
Dividends on investment shares, net of tax recovery of $42,383 (Note 12)	---	156,973	(114,590)	42,383
Patronage distribution declared (Note 12)	---	238,965	---	238,965
Balance at October 31, 2018	$ 7,437,549	$ 395,938	$ 17,613,252	$ 25,446,739
Balance at November 1, 2018	**$ 7,437,549**	**$ 395,938**	**$ 17,613,252**	**$ 25,446,739**
Adjustment for initial application of IFRS 9 (Note 3)	**---**	**---**	**124,987**	**124,987**
Restated balance at November 1, 2018	**7,437,549**	**395,938**	**17,738,239**	**25,571,726**
Total net loss for the year	**---**	**---**	**(14,895)**	**(14,895)**
Share capital issued and redeemed for cash, net (Note 13)	**(440,338)**	**---**	**---**	**(440,338)**
Investment shares issued to settle allocation distributable (Note 13)	**395,938**	**(395,938)**	**---**	**---**
Dividends on investment shares, net of tax recovery of $42,639 (Note 12)	**---**	**159,922**	**(117,283)**	**42,639**
Patronage distribution declared (Note 12)	**---**	**369,969**	**---**	**369,969**
Balance at October 31, 2019	**$ 7,393,149**	**$ 592,891**	**$ 17,606,061**	**$ 25,529,101**

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Cash Flows
For the Year Ended October 31, 2019

	2019	2018
Cash flows (used in) from operating activities:		
Net income (loss)	**$ (14,895)**	$ 1,037,455
Adjustments for non-cash items:		
Net interest income	**(7,362,815)**	(7,914,075)
Provisions for credit impairment (Note 6)	**479,411**	551,420
Provision for investments	**3,463**	---
Provisions (recovery) for deferred income taxes	**197,543**	(101,518)
Depreciation (Note 8)	**417,479**	441,979
Loss on disposition of property	**74,849**	249
Overpaid patronage dividends	**---**	33
	(6,204,965)	(5,984,457)
Changes in other assets	**(730,406)**	115,958
Changes in accounts payable and accrued liabilities	**(108,510)**	(108,384)
Changes in income taxes payable	**(752,599)**	235,100
	(1,591,515)	242,674
Changes in member activities (net):		
Changes in member loans	**(13,077,906)**	(12,741,814)
Changes in member deposits	**14,582,639**	18,086,514
	1,504,733	5,344,700
Cash flows related to interest:		
Interest received on member loans	**11,373,952**	10,405,591
Interest received on investments	**664,235**	673,595
Interest paid on member deposits	**(3,531,622)**	(2,638,814)
Interest paid on external borrowings	**(75,431)**	(2,077)
	8,431,134	8,438,295
	2,139,387	8,041,212
Cash flows (used in) from financing activities:		
Issuance of common and investment shares (Note 13)	**18,931**	24,987
Redemption of common and investment shares (Note 13)	**(459,269)**	(638,863)
Tax recovery on investment share dividends	**42,639**	42,383
Distribution of profit share (Note 12)	**(63,908)**	(81,260)
	(461,607)	(652,753)
Cash flows (used in) from investing activities:		
Purchase of investments	**(3,483,355)**	(2,353,665)
Additions to intangible assets (Note 8)	**---**	(35,794)
Proceeds on disposal of property	**414,840**	---
Additions to property and equipment (Note 8)	**(143,257)**	(1,359,874)
	(3,211,772)	(3,749,333)
Increase (decrease) in cash and cash equivalents	**(1,533,992)**	3,639,126
Cash and cash equivalents, beginning of year	**11,535,553**	7,896,427
Cash and cash equivalents, end of year	**$ 10,001,561**	$ 11,535,553

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Schedule 1: Operating Expenses
For the Year Ended October 31, 2019

	2019	2018
Personnel	**$ 4,335,461**	$ 3,878,244
Security		
Bonding	**46,253**	44,532
Deposit guarantee	**289,627**	284,181
Security equipment	**20,683**	30,737
	356,563	359,450
Organizational		
Central dues	**81,491**	74,551
Directors' expenses	**5,745**	3,540
Directors' fees and committee remuneration	**32,250**	21,375
Other	**49,109**	79,653
	168,595	179,119
Occupancy		
Depreciation (Note 8)	**219,158**	208,440
Insurance	**24,598**	20,204
Property taxes	**139,761**	132,101
Rent	**432,627**	320,482
Repairs and maintenance	**159,514**	172,082
Utilities	**93,394**	88,349
	1,069,052	941,658
General business		
Advertising	**217,912**	328,451
Depreciation (Note 8)	**198,321**	233,539
Cash and service charges	**285,573**	141,703
Computer	**880,758**	805,931
Courier and postage	**57,214**	62,580
Office	**91,964**	87,875
Other	**317,945**	295,046
Professional fees	**317,802**	161,624
Telephone	**42,953**	43,251
	2,410,442	2,160,000
	$ 8,340,113	$ 7,518,471

See accompanying notes to the financial statements

1. Nature of operations

Bow Valley Credit Union Ltd. (the "Credit Union") was formed pursuant to the *Credit Union Act* (the "Act") of the Province of Alberta. The Credit Union operates in the loans and deposit taking industry regulated under the Act and operates six branches serving members in Banff, Calgary, Canmore, Cochrane, Airdrie and their surrounding communities. The Credit Union is headquartered at 212 5th Avenue West, Cochrane, Alberta, T4C 2G4.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Act provides that the Province of Alberta will ensure that the Corporation carries out this obligation.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") being standards and interpretations as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors of the Credit Union on January 31, 2020.

Basis of measurement

These financial statements were prepared under the historical cost convention, except for derivatives and investments in equity instruments classified as fair value through profit and loss, which are measured at fair value.

Functional currency

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

Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates. Estimates and judgements are continually evaluated and are made based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

2. **Basis of preparation** (Continued)

Use of estimates and judgements (Continued)

Fair value of financial instruments:

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques that include the use of mathematical models. Those techniques are significantly affected by observable market data and the assumptions used, including discount rates, prepayment rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in Note 16.

Allowance for expected credit losses:

Allowances for expected credit losses ("ECL") are applied to financial assets measured at amortized cost or fair value through other comprehensive income ("FVTOCI"), other than equities. The measurement of ECL requires the use of complex models and significant assumptions about future economic conditions and credit behavior.

A number of critical accounting estimates and judgments are also required in applying the accounting requirements for measuring ECL (refer to Note 15), such as:

- Determining the criteria for a significant increase in credit risk ("SICR");
- Establishing groups of similar financial assets for purposes of measuring ECL;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number, design and relative weightings of forward-looking scenarios to be incorporated into the measurement of ECL.

Income taxes:

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Credit Union reviews the adequacy of these provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Deferred income taxes:

Deferred income tax assets are recognized in respect of unused tax losses or deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred income tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

3. **Significant accounting policies and changes in accounting policies**

The Credit Union follows accounting policies appropriate to its activities and governing legislation, as set out below. These policies have been consistently applied to all the periods presented, with the exception of IFRS 9 *Financial Instruments* ("IFRS 9") and IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as noted below.

Financial Instruments

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

Transition and Initial Application of IFRS 9:

As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in the opening retained earnings of the current period. Consequently, for note disclosures, the amendments to IFRS 7 *Financial Instrument Disclosures* ("IFRS 7") have also only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior period. Where financial statement line items have been re-named as a result of the new classification and measurement requirements of IFRS 9, prior period balances are disclosed under the re-named financial statement line items at their previous IAS 39 carrying values.

The adoption of IFRS 9 has resulted in changes to the Credit Union's accounting policies for recognition, classification and measurement of financial instruments, and the impairment of financial assets. IFRS 9 also amends other standards dealing with financial instruments, such as IFRS 7.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Credit Union's financial assets and liabilities as at November 1, 2018.

	IAS 39		IFRS 9	
Financial Instrument	**Measurement category**	**Carrying Amount**	**Measurement Category**	**Carrying Amount**
Financial Assets				
Cash and cash equivalents	Amortized cost (loans and receivables)	$11,535,553	Amortized cost	$11,535,553
Investments in debt instruments	FVTOCI (available-for-sale)	28,649,387	Amortized cost	28,649,387
Investments in equity instruments	FVTOCI (available-for-sale)	3,315,000	FVTPL	3,315,000
Loans to members	Amortized cost (loans and receivables)	296,693,768	Amortized cost	296,829,152
Derivative financial financial assets	FVTPL	130,848	FVTPL	130,848
Financial Liabilities				
Member deposits	Amortized cost (other financial liabilities)	322,076,583	Amortized cost	322,076,583
Accounts payable and accrued liabilities	Amortized cost (other financial liabilities)	736,390	Amortized cost	736,390
Derivative financial financial liabilities	FVTPL	130,848	FVTPL	130,848

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on November 1, 2018:

Measurement category	IAS 39 Carrying Amount October 31, 2018	Reclassification	Remeasurement	IFRS 9 Carrying Amount November 1, 2018
Assets				
Cash and cash equivalents	$ 11,535,553	$ ---	$ ---	$ 11,535,553
Investments in debt instruments				
Opening balance under IAS 39	28,649,387			
Subtraction: to FVOCI under IAS 39		(28,649,387)		
Addition: to amortized under IFRS 9		28,649,387		
Remeasurement: ECL allowance			(2,808)	
Closing balance under IFRS 9				28,646,579
Receivables	56,027	---	---	56,027
Investments in equity instruments				
Opening balance under IAS 39	3,315,000			
Subtraction: to FVOCI under IAS 39		(3,315,000)		
Addition: to FVTPL under IFRS 9		3,315,000		
Closing balance under IFRS 9				3,315,000
Loans to members				
Opening balance under IAS 39	296,693,768			
Remeasurement: ECL allowance			135,384	
Closing balance under IFRS 9				296,829,152
Liabilities				
Derivative financial assets	130,848	---	---	130,848
Members deposits	322,076,583	---	---	322,076,583
Accounts payable and accrued liabilities	736,390	---	---	736,390
Off balance sheet ECL allowance	---	---	7,589	7,589
Derivative financial liabilities	130,848	---	---	130,848

The Credit Union holds investments in equity instruments which were classified as available for sale under IAS 39 and measured at FVTOCI. There have not been any changes to the fair value of these assets since they were purchased. The available for sale classification was retired after the adoption of IFRS 9 and the Credit Union has not irrevocably chosen to designate these assets as FVTOCI upon adoption of the new standard; therefore equity investments in the amount of $3,315,000 are reclassified as FVTPL beginning November 1, 2018. There was no change to the carrying value of the assets with this reclassification nor did the reclassification have an impact on the amount recognized in profit or loss or OCI for the year.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

New accounting policy under IFRS 9 for financial instruments effective November 1, 2018 is as follows:

Financial assets

Classification and Measurement:

Financial assets are initially recognized at fair value, and are classified and subsequently measured at (i) amortized cost, (ii) fair value through profit or loss ("FVTPL"), or (iii) FVTOCI. At initial recognition, the Credit Union measures financial assets at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial assets subsequently measured at FVTPL for which transaction costs are immediately recorded in profit or loss.

The classification and measurement of financial assets is based on the type of financial asset, the business model to which it belongs, and its contractual cash flow characteristics.

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

For the purposes of assessing whether contractual cash flows are solely payments of principal and interest ("SPPI"), principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(a) Debt instruments measured at amortized cost

Where a debt instrument is managed in a business model where returns are generated through the collection of contractual cash flows which represent SPPI, it is measured at amortized cost. Debt instruments carried at amortized cost are recorded at fair value at initial recognition less provisions for ECL. Interest income is recognized using the effective interest rate method and is recorded in total interest income. Impairment losses are recognized in profit or loss at each balance sheet date in accordance with the three-stage impairment model. Upon derecognition of financial assets carried at amortized cost, any difference between disposal proceeds and the carrying value is recognized immediately in profit or loss. The Credit Union has classified its cash and cash equivalents, investments in debt instruments and loans to Members as amortized cost.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(b) Debt instruments measured at FVTPL

Where a debt instrument is managed in a business model that is held for trading or its cash flows do not represent SPPI, it is carried at FVTPL. Debt instruments carried at FVTPL are recorded at fair value at initial recognition with all subsequent remeasurements being recognized in profit or loss. At the reporting date, the Credit Union had not classified any debt instruments as FVTPL.

(c) Debt instruments measured at FVTOCI

Where a debt instrument is managed in a business model where returns are generated both through the collection of contractual cash flows and through selling, and its contractual cash flows represent SPPI, it is classified as FVTOCI. Debt instruments carried at FVTOCI are recorded at fair value at initial recognition. Subsequent re-measurements in fair value are recorded in other comprehensive income ("OCI"), except for those movements pertaining to interest accruals or the remeasurement of ECL, which are recognized in profit or loss. Impairment losses are recognized in profit or loss in accordance with the three-stage impairment model. Interest income is recognized using the effective interest rate method. Upon de-recognition of debt instruments carried at FVTOCI, cumulative fair value movements recognized in OCI are recycled to profit or loss. At the reporting date, the Credit Union had not classified any debt instruments as FVTOCI.

(d) Equity instruments

Equity instruments are instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets and be equity from the issuer perspective. Equity instruments are classified as FVTPL unless they are not held for trading purposes and an irrevocable election is made at inception to designate the asset as FVTOCI. The Credit Union has not elected to designate any investments in equity instruments as FVTOCI. Equity instruments classified as FVTPL are recorded at fair value at initial recognition with subsequent remeasurements in fair value recognized in profit or loss.

Impairment of financial assets:

At each reporting date, the Credit Union measures the loss allowance for a financial asset at an amount equal to its lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition and it was not originated as credit impaired, the Credit Union measures the loss allowance for the financial asset at an amount equal to its 12-month ECL. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Credit Union's measurement of ECL incorporates an assessment of the following parameters:

- Probability of default ("PD")
- Exposure at default ("EAD")
- Loss given default ("LGD")

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)*:*

The Credit Union's measurement of ECL also reflects:

- An unbiased and probability-weighted amount determined by evaluating a range of outcomes
- The time value of money
- Information about past events, current conditions and forward-looking information

A three-stage framework is used for the establishment of ECL based on changes in a financial asset's credit quality since initial recognition. The measurement of ECL and recognition of interest revenue is dependent on the stage to which the financial asset belongs.

Stage 1 includes all financial assets that, at the reporting date, have not had a significant increase in credit risk ("SICR") since initial recognition and were not originated as credit impaired. Loss allowances at an amount equal to 12-month ECL are recognized on all financial assets in stage 1 with interest income recognized using the effective interest rate on the financial asset's gross carrying amount.

Stage 2 includes all financial assets that, at the reporting date, have had a SICR since initial recognition, but are not credit impaired. Loss allowances at an amount equal to lifetime ECL are recognized on all financial assets in stage 2 with interest income recognized using the effective interest rate on the financial asset's gross carrying amount.

Stage 3 includes all financial assets for which a default event has occurred. In determining whether a default event has occurred, the Credit Union considers evidence such as delinquency, bankruptcy, breach of covenants, or other evidence as determined by management.

Stage 3 loss allowances are assessed on an individual financial asset and are measured as the amount that is required to reduce the carrying value of the impaired asset to its estimated realizable amount, which is generally the fair value of the security underlying the asset, net of expected costs of realization. Expected costs of realization are determined by discounting at the financial asset's original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

Write-off:

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

Modification of financial assets:

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy. Original financial asset is derecognised and a new financial asset is recognised at fair value.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Modification of financial assets (Continued)*:*

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

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

Reclassification of financial assets:

The credit Union reclassifies debt instruments only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Derecognition of financial assets:

Financial assets are derecognized when contractual rights to the cash flows from the asset have expired, or when substantially all of the risks and rewards of ownership are transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of ownership, it assesses whether it has retained control over the transferred asset.

Financial liabilities

Classification and Measurement:

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

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Subsequent to initial recognition, financial liabilities are measured at amortized cost or FVTPL.

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

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

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (continued)

Financial liabilities (Continued)

Classification and Measurement (Continued)*:*

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Embedded derivatives:

Certain derivatives embedded in other financial liabilities, such as the embedded option in an index linked term deposit product, are treated as separate derivative financial instruments when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at FVTPL. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

Derecognition of financial liabilities:

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

The Credit Union's previous accounting policy under IAS 39 for financial instruments prior to November 1, 2018 is as follows:

Recognition and Measurement:

Financial assets and financial liabilities, including derivatives, are recognized on the statement of financial position when the Credit Union becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. The Credit Union recognizes financial instruments at the trade date. All financial instruments are initially measured at fair value. Subsequent measurement is dependent upon the financial instrument's classification. Transaction costs relating to financial instruments designated as fair value through profit or loss ("FVTPL") are expensed as incurred. Transaction costs for other financial instruments are capitalized on initial recognition.

Financial Instruments at Fair Value through Profit or Loss:

This category comprises two sub-categories: financial assets held for trading and financial assets designated by the Credit Union as FVTPL upon initial recognition.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

Financial liabilities (Continued)

Financial Instruments at Fair Value through Profit or Loss (Continued)*:*

The Credit Union may designate any financial asset or liability as FVTPL where the following conditions are met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- The financial instruments are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis.

The Credit Union has classified its derivatives as FVTPL. Financial instruments included in this category are recognized initially at fair value with transaction costs recognized in net income. Gains and losses arising from changes in fair value are included in the statement of income and comprehensive income as part of other income. Interest income and expense on financial assets held for trading are included in net interest income.

Available-for-sale:

The Credit Union has classified investments as available-for-sale financial assets. These assets are initially recognized at their fair value. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total investment income is allocated to net income by the effective interest method, using an effective interest rate which discounts estimated future cash receipts to the net carrying amount of the financial asset, over the asset's expected life, or other appropriate period.

Available-for-sale financial assets are subsequently measured at their fair value, except for investments in equity instruments that do not have a quoted market price in an active market are measured at cost, without any deduction or transaction costs incurred on sale or other disposals. Gains and losses arising from changes in fair value, except for impairment losses and foreign exchange translation adjustments, are recognized in other comprehensive income, until the financial asset is sold or otherwise derecognized. Upon derecognition the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to net income.

Loans and receivables:

The Credit Union has classified the following financial assets as loans and receivables: cash, loans to members, receivables and deposits. These assets are initially recognized at fair value, and are subsequently measured at their amortized cost, using the effective interest rate method. Under this method, estimated future cash receipts are discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

Financial liabilities (Continued)

Other financial liabilities:

The Credit Union has classified the following financial liabilities as other financial liabilities: member deposits, borrowings and accounts payable and accrued liabilities. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Fees incurred on an exchange of financial liabilities or a modification of the terms of financial liabilities that is accounted for as an extinguishment are included as part of the gain or loss on extinguishment, while any related other costs incurred are recognized in current earnings. All fees and costs incurred on the exchange or modification of a financial liability not accounted for as an extinguishment are included in the carrying amount of the modified financial liability and amortized over its remaining expected life. Any related other costs incurred are recognized in current year earnings.

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Financial asset impairment:

The Credit Union assesses impairment of all its financial assets, except those classified as FVTPL. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment which, is not considered temporary, is included in current year earnings.

The Credit Union considers evidence of impairment for loans receivable at both a specific asset and collective level. All individually significant loans are assessed for specific impairment. All individually significant loans found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans that are not individually significant are collectively assessed for impairment by grouping together loans with similar risk characteristics.

In assessing collective impairment, the Credit Union uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Derecognition of financial instruments:

Financial assets are derecognized when the Credit Union no longer has contractual rights to the cash flows from the asset, or when substantially all of the risks and rewards of ownership are transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of ownership, it assesses whether it has retained control over the transferred assets.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Financial instruments (Continued)

Financial liabilities (Continued)

Derivative financial instruments:

All derivative financial instruments are recognized on the statement of financial position at fair value, including those embedded in financial or other contracts that are not closely related to the host contract. Changes in the fair values of derivative financial instruments are immediately recognized in income, unless designated as cash flow hedges.

Revenue from Contracts with Customers

On November 1, 2018, The Credit Union adopted IFRS 15 which replaced the revenue recognition guidance from IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The new standard provides a single, principle-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. The Credit Union applied the changes in the accounting policies resulting from IFRS 15 retrospectively with the cumulative effect of initially applying IFRS 15 recognized as an adjustment to the opening balance of retained earnings at November 1, 2018. The comparative information contained within these financial statements has not been restated and continues to be reported under previous revenue standards. The application of the standard has resulted in a change in the Credit Union's accounting policy for revenue recognition.

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

Interest income

Interest income is calculated on financial assets and liabilities held at amortized cost and is recognized in net income for the period using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount. The calculation of the effective interest rate includes all transaction costs and fees paid or received that are directly attributable to the acquisition or issue of a financial asset or liability. Interest is recorded on an accrual basis.

Interest income is recognized on loans to members. Interest income on impaired loans continues to be recognized at the rate of interest used to discount future cash flows to present values for the purpose of measuring the impairment loss. Mortgage prepayment fees are included in interest income when charged.

Investment interest income is recognized on the accrual basis using the effective interest method. Dividends are recognized when the Credit Union's right to receive the payment is established.

Service charges and other income

Service charges and other income not directly attributable to the acquisition of financial instruments is recognized when the related service performance obligation is satisfied, either over time or at a point in time. Revenue is recognized by determining the transaction price of distinct goods or services and allocating the price to the satisfaction of each performance obligation (i.e. the delivery of each distinct good or service). The result is to recognize revenue in a manner that depicts the amount of consideration due to the transfer of each good or service.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Service charges and other income (Continued)

Service charges and other income that is directly attributable to acquiring or issuing a financial asset or financial liability not classified as FVTPL, is added to or deducted from the initial carrying value. Service charges and other income is then included in the calculation of the effective interest rate and amortized through profit or loss over the term of the financial asset or financial liability. For financial instruments carried at fair value through profit or loss, transaction costs are immediately recognized in profit or loss on initial recognition.

Cash and cash equivalents

Cash and cash equivalents consists of highly liquid financial assets with maturities of three months or less from the original date of acquisition. The balance is comprised of cash on hand, cheques and other items in transit and the current account with Credit Union Central of Alberta Limited ("Central").

Foreclosed properties

Properties that have been re-possessed following foreclosure on loans that are in default are measured at the lower of their previous carrying amount and fair value less costs to sell. Foreclosed properties are not depreciated.

Derivative financial instruments

Derivative financial instruments are contracts, such as options with futures, where the value of the contract is derived from the price of an underlying variable. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices to ensure the rate of return of its member's equity linked deposits. The fair value of this derivative is reported as the derivative financial asset. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Included in member deposits and accrued interest are certain equity linked deposit contracts. The deposit obligation varies according to the performance of certain equity indices and includes an embedded derivative that must be accounted for separately from the host contract. The fair value of the embedded derivative is reported as the derivative financial liability.

Property and equipment

Property and equipment are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of each item of property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	10 - 40 years
Computer equipment	3 - 10 years
Furniture and equipment	3 - 10 years
Leasehold improvements	Term of lease

Gains and losses on the disposal of property and equipment are recorded in earnings in the year of disposal.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Intangible assets

Computer software that is not an integral part of other property and equipment is accounted for as intangible assets. Computer software is stated at cost less accumulated amortization. Amortization of computer software is calculated by applying the straight-line method at rates based on estimated useful lives between 3 and 10 years.

Impairment of Non-Financial Assets

An impairment loss is recognized if the carrying amount of a cash-generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Impairment losses are recognized in the statement of income and comprehensive income.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Leases

The Credit Union as a Lessee

Arrangements containing leases in which the Credit Union does not record the leased asset on its statement of financial position because the risks and rewards inherent in the ownership of the asset are not transferred to the lessee are classified as operating leases. Payments made under operating leases are recognized as occupancy expense on a straight-line basis over the term of the lease. Lease incentives received are recognized on a straight-line basis over the term of the lease.

The Credit Union as a Lessor

Arrangements containing leases in which the Credit Union retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals received under operating leases are recognized in other income on a straight line-basis over the term of the lease. Lease incentives provided are recognized on a straight-line basis over the term of the lease.

Patronage Allocation to Members

Patronage allocations to members are recognized in the statement of income and comprehensive income when circumstances indicate the Credit Union has a constructive obligation where it has little or no discretion to deny payment, and where it can make a reasonable estimate of the amount required to settle the obligation.

Share Capital

Common and investment shares are redeemable at the discretion of the Board of Directors and accordingly are presented as a component of issued capital within equity.

3. **Significant accounting policies and changes in accounting policies** (Continued)

Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the present value of the expected amount required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

Employee Benefits

The Credit Union provides certain pension and other benefits to employees as follows: short-term employee benefits, such as salaries, incentive pay programs, vacation, medical benefits, allowances, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services. The benefits are expensed as part of personnel expenses in the statement of income and comprehensive income.

Termination Benefits

Termination benefits are recognized when the Credit Union is committed to terminating the employment of a current employee according to a formal plan without possibility of withdrawal.

Post Employment Benefits - Defined Contribution Registered Retirement Savings Plan

The Credit Union offers employees a defined contribution registered retirement savings plan where contributions are made by both the Credit Union and the employee. Contributions are based on a percentage of salary and no further contributions are required once the employee retires or leaves the Credit Union. Obligations for contributions to defined contribution plans are recognized in personnel expense in the statement of income and comprehensive income when they are due.

Income taxes

Income tax expense comprises current and deferred taxes. Current taxes and deferred taxes are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity.

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

3. **Significant accounting policies and changes in accounting policies** (Continued)

Income taxes (Continued)

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

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Transaction gains and losses are included in current income.

Future changes in accounting policies

The following standards have been issued but are not yet effective:

IFRS 16 “Leases” was issued by the IASB in January 2016. The new standard replaces IAS 17 “Leases” and requires lessees to recognize all leases on the balance sheet. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements. Earlier application is permitted for companies that also apply IFRS 15 “Revenue from Contracts with Customers”. These amendments are effective for the Credit Union’s fiscal year beginning November 1, 2019. The Credit Union is currently assessing the impact of this standard on its financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. These amendments are effective for the Credit Union’s fiscal year beginning November 1, 2019. The Credit Union is currently assessing the impact of this standard on its financial statements.

4. **Investments**

	October 31, 2019	October 31, 2018
Measured at fair value through profit or loss:		
Shares in Central	**$ 3,500,000**	$ 3,315,000
Measured at amortized cost:		
Term deposits with Central	**31,881,500**	28,583,145
Accrued interest	**10,920**	66,242
Allowance for credit losses	**(3,463)**	---
	31,888,957	28,649,387
	$ 35,388,957	$ 31,964,387
Current	**$ 35,388,957**	$ 31,964,387
Non-current	**$ ---**	$ ---

The Credit Union is required by the Act to hold shares in Central, which are also a condition of membership in Central. These shares do not confer direct voting privileges. Credit Unions have the right to vote on certain issues at Central's annual general meeting ("AGM").

All term deposits mature within one year. As required by the Act, the Credit Union maintains statutory term deposits in Central to liquidity level.

5. **Derivative financial instruments**

The Credit Union has $768,635 (2018 - $1,725,799) of equity index-linked term performance products outstanding to its Members. These deposits have maturities of up to five years and pay interest to the depositors, at the end of the term, based on the performance of various market indices. The Credit Union has purchased index-linked options agreements with Central to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from Central payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

	2019	**2018**
Mature within 1 year	**$ ---**	$ 957,614
Mature in 1 to 5 years	**768,635**	768,185
Notional amounts	**$ 768,635**	$ 1,725,799
Fair value	**$ 42,363**	$ 130,848

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions. They do not represent credit or market risk exposure.

6. Loans to members

	2019	2018
Gross amount	**$ 217,893,369**	$ 206,058,205
Accrued interest	**463,849**	387,691
Allowance for credit losses	**(59,989)**	(284,554)
Residential mortgages	**218,297,229**	206,161,342
Gross amount	**19,319,437**	22,291,322
Accrued interest	**75,712**	66,877
Allowance for credit losses	**(353,310)**	(455,075)
Personal	**19,041,839**	21,903,124
Gross amount	**72,453,915**	68,964,518
Accrued interest	**257,218**	226,401
Allowance for credit losses	**(517,144)**	(561,617)
Commercial	**72,193,989**	68,629,302
Net loans to members	**$ 309,533,057**	$ 296,693,768

As at October 31, 2019, the Credit Union has an allowance for credit losses of $930,443. An allowance for off balance sheet credit losses of $9,322 is included in accounts payable.

Movement in Loss Allowance

The following table shows the continuity of the IFRS 9 expected credit loss allowance for all portfolios:

	12-Month ECL (Stage 1)	Lifetime ECL- Non-Credit Impaired (Stage 2)	Lifetime ECL- Credit Impaired (Stage 3)	Total
Balance as at November 1, 2018	$ 678,297	$ 103,292	$ 384,273	$ 1,165,862
Transfer to (from):				
Stage 1	(13,875)	11,458	2,417	---
Stage 2	---	(2,603)	2,603	---
Stage 3	---	---	---	---
Net loan impairment charges	(118,197)	31,721	565,887	479,411
Write-offs	---	---	(714,830)	(714,830)
Balance as at October 31, 2019	**$ 546,225**	**$ 143,868**	**$ 240,350**	**$ 930,443**

6. **Loans to members** (Continued)

Loan allowance details

Details of the changes in the allowance for loan impairment are as follows:

	October 31, 2019	October 31, 2018
Balance, beginning of year	**$ 1,301,246**	$ 1,060,411
Change on initial application of IFRS 9	**(135,384)**	---
	1,165,862	1,060,411
Accounts written off, net of recoveries	**(714,830)**	(310,585)
Charge for loan impairment	**479,411**	551,420
Balance, end of year	**$ 930,443**	$ 1,301,246

During the year, recoveries amounted to $11,208 (2018 - $16,584). Included in accounts written off, net of recoveries is the change in the allowance for impaired accrued interest.

Maturity of loans

Loans to members, excluding accrued interest, mature as follows:

	October 31, 2019	October 31, 2018
Under 1 year	**$ 150,255,057**	$ 143,728,560
1 to 2 years	**41,684,975**	44,837,667
2 to 3 years	**36,429,052**	39,011,362
3 to 4 years	**37,593,423**	34,347,551
Over 4 years	**43,704,214**	35,388,904
	$ 309,666,721	$ 297,314,044

6. **Loans to members** (Continued)

The Credit Union has documented policies and procedures in place for the valuation of financial and non-financial collateral.

The amount and types of collateral required depend on the Credit Union's assessment of the Members' credit quality and repayment capacity. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, business assets such as trade receivables, inventory and property and equipment.

7. **Other assets**

	October 31, 2019	October 31, 2018
Prepaid expenses	**$ 315,572**	$ 132,995
Receivables	**30,609**	56,027
Foreclosed property held for sale	**573,247**	---
	$ 919,428	$ 189,022
Current	**$ 919,428**	$ 189,022

8. **Property, equipment and intangible assets**

	Cost						
	Balance at November 1, 2017	Additions	Disposals	Balance at October 31, 2018	Additions	Disposals	**Balance at October 31, 2019**
Property and equipment							
Land	$ 1,448,104	$ ---	$ ---	$ 1,448,104	$ ---	$ ---	**$ 1,448,104**
Buildings	8,286,598	494,899	---	8,781,497	23,192	494,897	**8,309,792**
Leasehold improvements	233,816	520,561	---	754,377	---	---	**754,377**
Computer equipment	735,223	242,423	1,313	976,333	108,031	---	**1,084,364**
Furniture and equipment	1,517,223	101,991	2,326	1,616,888	12,034	54,550	**1,574,372**
	12,220,964	1,359,874	3,639	13,577,199	143,257	549,447	**13,171,009**
Intangible assets							
Computer software	990,784	35,794	---	1,026,578	---	---	**1,026,578**
	$13,211,748	$ 1,395,668	$ 3,639	$14,603,777	$ 143,257	$ 549,447	**$14,197,587**

8. **Property, equipment and intangible assets** (Continued)

	Accumulated Depreciation						
	Balance at November 1, 2017	Depreciation	Disposals	Balance at October 31, 2018	Depreciation	Disposals	**Balance at October 31, 2019**
Property and equipment							
Land	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	**$ ---**
Buildings	3,130,504	208,440	---	3,338,944	219,158	11,341	**3,546,761**
Leasehold improvements	166,299	34,623	---	200,922	49,805	---	**250,727**
Computer equipment	555,076	66,549	1,066	620,559	90,682	---	**711,241**
Furniture and equipment	1,330,224	62,541	2,324	1,390,441	43,689	48,419	**1,385,711**
	5,182,103	372,153	3,390	5,550,866	403,334	59,760	**5,894,440**
Intangible assets							
Computer software	912,485	69,826	---	982,311	14,145		**996,457**
	$ 6,094,588	$ 441,979	$ 3,390	$ 6,533,177	$ 417,479	$ 59,760	**$ 6,890,897**

	Net Book Value	
	Balance at October 31, 2019	Balance at October 31, 2018
Property and equipment		
Land	**$ 1,448,104**	$ 1,448,104
Buildings	**4,763,031**	5,442,553
Leasehold improvements	**503,650**	553,455
Computer equipment	**343,123**	355,774
Furniture and equipment	**188,661**	226,447
	$ 7,276,569	$ 8,026,333
Intangible assets		
Computer software	**$ 30,121**	$ 44,267

9. Member deposits

	October 31, 2019	October 31, 2018
Demand	**$ 152,024,364**	$ 170,698,136
Term	**119,156,407**	89,295,616
Registered deposits (RRSPs, RRIFs, RESPs and TFSAs)	**64,331,767**	60,936,146
	335,512,538	320,929,898
Accrued interest	**1,841,613**	1,146,685
	$ 337,354,151	$ 322,076,583

Concentra Financial acts as the trustee of the Registered Retirement Savings Plan (RRSP), the Registered Education Savings Plan (RESP), the Tax-Free Savings Account (TFSA) and the Registered Retirement Income Fund (RRIF) offered to members. Under the agreement with Concentra Financial, the contributions to the plan, and the interest earned on them, are deposited in the Credit Union's bank account. When members terminate these plans, the funds are repaid to them.

Maturity of deposits

Member deposit accounts, not including the related accrued interest, mature as follows:

	October 31, 2019	October 31, 2018
Under 1 year	**$ 210,668,020**	$ 196,953,146
1 to 2 years	**26,153,427**	24,767,857
2 to 3 years	**20,237,148**	9,576,402
3 to 4 years	**1,856,404**	5,878,274
Over 4 years	**76,597,539**	83,754,219
	$ 335,512,538	$ 320,929,898

10. Accounts payable and accrued liabilities

	2019	2018
Accounts payable and accrued liabilities	**$ 618,329**	$ 731,666
Deferred revenue	**9,551**	4,724
	$ 627,880	$ 736,390
Current	**$ 627,880**	$ 736,390
Non-current	**$ ---**	$ ---

11. Borrowings

The Credit Union has an authorized line of credit from Central of $10 million (2018 - $10 million), due on demand and bearing interest at prime minus 0.5%. At October 31, 2019, the balance of the line of credit was $nil (2018 - $nil).

The Credit Union has access to term loans having a combined maximum available credit of $16 million (2018 - $16 million). Interest on these facilities for terms less than one year are based on Central's Prime Rate plus or minus the applicable discount or margin of Central in effect from time to time, or at the option of the Credit Union for terms of more than 30 days a fixed rate equal to Central's money market deposit rate or the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin. At October 31, 2019, the balance of the revolving term loan was $nil (2018 - $nil).

The line of credit and revolving term loans are secured by a registered security agreement covering all present and future accounts, investments and deposits held with Central.

12. Allocation distributable

On February 12, 2019, the Board of Directors declared a profit share allocation for the current year of $433,877 (2018 - $320,225) paid by issuance of shares valued of $369,969 (2018 - $238,965) and deposits to members accounts of $63,908 (2018 - $81,260). The profit share is equal to 8% of interest paid to members on term deposits and 5% of interest received on residential mortgages during the year end of October 31, 2019.

In addition, the Board of Directors declared dividends of $159,922 (2018 - $156,973) on all investment shares outstanding as of October 31, 2019. Dividends declared on Series A, Series B, Series C, Series D, Series E and Series F investment shares were $15,998, $29,377, $27,650, $34,600, $27,493 and $24,804, respectively (2018 - Series A - $15,094, Series B - $28,893, Series C - $25,463, Series D - $34,955, Series E - $27,704, and Series F - $24,864). The dividends were calculated at an effective annual rate of 4.01% on Series A, 4.01% on Series B, 4.01% on Series C, 4.01% on Series D, 3.51% on Series E, and 3.01% on Series F investment shares (2018 - Series A - 3.80%, Series B - 3.80%, Series C - 3.80%, Series D - 3.80%, Series E - 3.30%, and Series F - 2.80%). The dividends are to be paid by issuance of Series A, B, C, D, E and F investment shares in December 2019.

13. **Share capital**

The common shares have the following characteristics:

a) issuable in unlimited number;

b) a par value of $1 but issuable as fractional shares;

c) transferable only in restricted circumstances;

d) non-assessable;

e) redeemable at par value at the discretion of the Credit Union, subject to the restrictions contained in the Credit Union Act.

A membership in the Credit Union requires the purchase of a minimum of 25 shares (5 shares for minors and members 65 years of age or over).

The Series A, B, C, D, E and F investment shares have the following characteristics:

a) no par value, and not issuable as fractional shares except in the form of a dividend;

b) no voting rights;

c) callable at the discretion of the Credit Union upon 5 years written notice;

d) transferable under limited circumstances;

e) dividends are non-cumulative and rank ahead of profit share allocation on common shares. They are also subject to the Credit Union's dividend policy which can be changed at the discretion of the Board of Directors;

f) minimum purchase amount is 1,000 shares and the maximum amount is 50,000 shares per member; and

g) redeemable at $1.00 at the discretion of the Credit Union, subject to the restrictions contained in the Credit Union Act.

The Corporation does not guarantee common shares nor investment shares which represent "at-risk" capital.

13. **Share capital** (Continued)

	Issued and Outstanding as at November 1, 2017	Shares Issued for Cash	Shares Issued for Share Dividends	Shares Redeemed	Issued and Outstanding as at October 31, 2018
Common Shares	2,909,753	24,987	219,350	(189,432)	2,964,658
Investment Shares					
Series A	413,304	---	12,015	(28,098)	397,221
Series B	796,070	---	23,090	(60,949)	758,211
Series C	698,875	---	20,267	(49,055)	670,087
Series D	998,762	---	28,964	(107,854)	919,872
Series E	922,199	---	22,133	(104,811)	839,521
Series F	968,246	---	18,397	(98,664)	887,979
	4,797,456	---	124,866	(449,431)	4,472,891
	7,707,209	**24,987**	**344,216**	**(638,863)**	**7,437,549**

	Issued and Outstanding as at November 1, 2018	Shares Issued for Cash	Shares Issued for Share Dividends	Shares Redeemed	Issued and Outstanding as at October 31, 2019
Common Shares	2,964,658	18,931	238,965	(120,651)	3,101,903
Investment Shares					
Series A	397,221	---	15,094	(13,156)	399,159
Series B	758,211	---	28,893	(54,709)	732,395
Series C	670,087	---	25,463	(8,668)	686,882
Series D	919,872	---	34,955	(89,335)	865,492
Series E	839,521	---	27,704	(83,952)	783,273
Series F	887,979	---	24,864	(88,798)	824,045
	4,472,891	---	156,973	(338,618)	4,291,246
	7,437,549	**18,931**	**395,938**	**(459,269)**	**7,393,149**

14. Deferred income tax liability

Components of deferred income tax asset (liability)

Deferred income tax asset (liability) is comprised of temporary deductible (taxable) differences between tax bases and carrying values in the following accounts:

	October 31, 2019	October 31, 2018
Property, equipment and intangible assets	**$ (211,098)**	$ (257,986)
Allowance for credit losses	**20,278**	264,708
Total	**$ (190,820)**	$ 6,722

Income tax rate reconciliation

The income tax rate differs from the amount that would be expected for the following reasons:

	October 31, 2019	October 31, 2018
Income taxes at statutory rate of 26.7% (2018 – 27.0%)	**$ 59,598**	$ 412,580
Income tax expense adjusted for the effect of:		
Change in temporary differences	**197,543**	130,250
Non-deductible and other items	**(19,034)**	(52,209)
Income tax expense	**$ 238,107**	$ 490,621

15. Nature and extent of risk arising from financial instruments

The Credit Union, as part of its operations, carries a number of financial instruments. It is management's opinion that the Credit Union is exposed to the following risks as a result of holding financial instruments:

- Credit risk;
- Liquidity risk;
- Foreign currency risk;
- Interest rate risk; and
- Market risk

The following is a description of these risks and how the Credit Union manages the exposure to them.

Credit risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally as a result of the Credit Union's lending activities with members.

15. **Nature and extent of risk arising from financial instruments** (Continued)

Credit risk (Continued)

Risk measurement

The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

Credit quality performance

Refer to Note 6 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

Objectives, policies and processes

The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and
- Credit risk monitoring and review.

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

Expected credit loss measurement

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type. Otherwise, expected credit losses are measured on an individual basis.

The key judgments and assumptions adopted by the Credit Union in addressing the requirements of IFRS 9 are discussed below.

15. **Nature and extent of risk arising from financial instruments** (Continued)

Credit risk (Continued)

Significant increase in credit risk (SICR):

The Credit Union assesses a range of both qualitative and quantitative factors when determining if there has been a SICR since initial recognition. A SICR is deemed to have occurred if any of the criteria have been met:

- The loan is 30 days past due
- External credit metrics, including rating agency and credit bureau scores, have deteriorated by an amount considered by management to be significant
- Internal credit metrics, including Member risk ratings and early warning system scores, have deteriorated by an amount considered by management to be significant

Definition of default and credit-impaired assets:

The Credit Union's definition of default is consistent across credit management and accounting policies, with a financial instrument considered to be credit impaired when it meets one of the following criteria:

- The loan is 90 days past due
- The Member has filed for bankruptcy or consumer proposal in the current month or the bankruptcy is expected to result in the member not meeting the contractual terms of the loan
- The borrower has failed to meet the terms under which a loan has been granted and legal action has commenced
- Based on other objective evidence, the Member's internal risk rating has been set to 'Impaired' and Credit Recovery has taken over responsibility for the file

Measuring ECL – Explanation of inputs, assumptions and estimation techniques:

Allowances for ECL are measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. ECL are the discounted product of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD").

The PD represents the likelihood of a member defaulting on its financial obligation, either over the next 12 months or the remaining lifetime. The PD of the portfolio is based on the historical loan losses experienced by credit unions in the province.

EAD is an estimate of the loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, any prepayments or liquidations, expected drawdowns on committed facilities or any other term or condition in favor of the obligor that may alter the cash flow characteristics of the loan. The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

The LGD represents the Credit Union's expectation of the extent of a loss on a defaulted exposure. In reality, LGD will vary by the type of counterparty, type and seniority of claim and availability of other credit support. For ECL modelling purposes, the Credit Union has grouped products with similar risk characteristics pertaining to collateral. The LGD is expressed as a percentage of EAD.

15. **Nature and extent of risk arising from financial instruments** (Continued)

Credit risk (Continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued):

For residential mortgages and real estate secured lines of credit, estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date;
- The type of property - single family, multi-family or condo; and
- The average regional property value.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral;
- Collateral might be shared among many different loans

Forward-looking information:

The model takes into consideration forward-looking information as follows:

- Residential mortgage and real estate secured lines of credit LGD - Collateral value adjustments based on local and regional economic factors.
- Retail and non-retail PD - Relationships with macro drivers derived from bank industry data series and Statistics Canada information.

Maximum exposure to credit risk

The following table contain an analysis of the credit risk exposure of loans to Members. The gross carrying amount of the loans below also represent the Credit Union's maximum exposure to credit risk on these loans.

	12-Month ECL (Stage 1)	Lifetime ECL- Non-Credit Impaired (Stage 2)	Lifetime ECL- Credit Impaired (Stage 3)	Total
Residential mortgages	$ 18,068,077	$ 865,681	$ 18,125	$ 18,951,883
Personal	211,909,434	4,491,172	1,492,763	217,893,369
Commercial	70,336,346	860,503	1,624,620	72,821,469
Gross carrying amount	300,313,857	6,217,356	3,135,508	309,666,721
Loan allowance	(546,225)	(143,868)	(240,350)	(930,443)
Carrying amount	**$ 299,767,632**	**$ 6,073,488**	**$ 2,895,158**	**$ 308,736,278**

15. **Nature and extent of risk arising from financial instruments** (Continued)

Liquidity risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgements pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

Objectives, policies and processes

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors. Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain required levels of liquidity while meeting its obligations.

As at October 31, 2019, the Credit Union is in compliance with its liquidity requirements as required by the Act.

Foreign currency risk

The following items are denominated in US Dollars (translated to Canadian currency at the year end rate):

	October 31, 2019	October 31, 2018
Cash	**$ 767,596**	$ 1,981,146
Investments and accrued interest	**$ 3,256,500**	$ 2,408,145
Member deposits and accrued interest	**$ 3,945,193**	$ 4,246,757

As at October 31, 2019, had the U.S. dollar strengthened or weakened by 1% against the Canadian dollar, with all other variables remaining constant, the impact on foreign exchange gain (loss) would be negligible. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

15. **Nature and extent of risk arising from financial instruments** (Continued)

Interest rate risk

The Credit Union's primary source of income is its financial margin, which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits and on loans payable. The objective of managing the financial margin is to manage repricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates. The differential represents the net mismatch between loans and investments and members' savings and deposits by maturity dates.

Interest rate re-price

(In thousands)

	Floating Rate	Within One Year	One to Five Years	Non-Rate Sensitive	October 31, 2019 Total
Assets					
Cash	$ 6,906	$ ---	$ ---	$ 3,096	**$ 10,002**
(effective yield %)	*0.25*	---	---	---	***0.17***
Investments	---	31,889	---	3,500	**35,389**
(effective yield %)	---	*1.58*	---	---	***1.42***
Member loans	77,049	68,667	163,817	---	**309,533**
(effective yield %)	*4.73*	*3.43*	*3.52*	---	***3.80***
Derivative financial assets	---	---	---	42	**42**
Other	---	---	---	919	**919**
Income taxes receivable	---	---	---	552	**552**
Property and equipment	---	---	---	7,277	**7,277**
Intangible assets	---	---	---	30	**30**
Subtotal	83,955	100,556	163,817	15,416	**363,744**
Liabilities and Equity					
Member deposits	130,307	47,930	120,916	38,201	**337,354**
(effective yield %)	*1.31*	*2.05*	*2.18*	---	***1.58***
Derivative financial liability	---	---	---	42	**42**
Deferred income tax liability	---	---	---	191	**191**
Accounts payable and other	---	---	---	628	**628**
Equity	---	---	---	25,529	**25,529**
Subtotal	130,307	47,930	120,916	64,591	**363,744**
2019 Net gap	$ (46,352)	$ 52,626	$ 42,901	$ (49,175)	**$ ---**
Percentage of assets	(12.74)	14.47	11.79	(13.52)	**---**

15. **Nature and extent of risk arising from financial instruments** (Continued)

Interest rate risk (Continued)

Interest rate re-price

(In thousands)

	Floating Rate	Within One Year	One to Five Years	Non-Rate Sensitive	October 31, 2018 Total
Assets					
Cash	$ 4,499	$ ---	$ ---	$ 7,037	$ 11,536
(effective yield %)	*0.15*	---	---	---	*0.06*
Investments	---	28,649	---	3,315	31,964
(effective yield %)	---	*3.00*	---	---	*2.69*
Member loans	81,996	59,478	155,220	---	296,694
(effective yield %)	*4.88*	*3.63*	*3.76*	---	*4.04*
Derivative financial assets	---	---	---	131	131
Other	---	---	---	189	189
Deferred income tax asset	---	---	---	7	7
Property and equipment	---	---	---	8,026	8,026
Intangible assets	---	---	---	44	44
Subtotal	86,495	88,127	155,220	18,749	348,591
Liabilities and Equity					
Member deposits	149,451	90,098	45,054	37,474	322,077
(effective yield %)	*1.21*	*1.76*	*1.93*	---	*1.32*
Derivative financial liability	---	---	---	131	131
Income taxes payable	---	---	---	200	200
Accounts payable and other	---	---	---	736	736
Equity	---	---	---	25,447	25,447
Subtotal	149,451	90,098	45,054	63,988	348,591
2018 Net gap	$ (62,956)	$ (1,971)	$ 110,166	$ (45,239)	$ ---
Percentage of assets	(18.06)	(0.57)	31.61	(12.98)	---

Market risk

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

Risk Measurement

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

15. **Nature and extent of risk arising from financial instruments** (Continued)

Market risk (Continued)

Objectives, policies and processes

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

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

The following table provides the potential before tax impact on an immediate and sustained 1% increase or decrease in interest rates on net interest income. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and risk management initiatives.

Before tax impact of		October 31, 2019
1% increase of rates	$	336,000
1% decrease of rates	$	(408,000)

Interest rate risk arises from a mismatch between deposit rate and maturities and the yields and maturities of the loans they fund.

16. **Fair value of financial instruments**

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

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

Fair value is the consideration that would be agreed to in an arm's length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

16. **Fair value of financial instruments** (Continued)

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

a) the book value for cash, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature;

b) estimated fair value of investments are based on quoted market prices when available or quoted market prices of similar investments;

c) for variable interest rate loans that are frequently re-priced, book values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flows calculations with market interest rates for similar groups of loans and maturity dates; and

d) fair value of variable rate and demand deposits approximate their book value. Fair values of other deposits are estimated using discounted cash flow calculations at market rates for similar deposits.

The fair value of the financial instruments and their related carrying values have been summarized and included in the table below:

	October 31, 2019		October 31, 2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets at FVTPL:				
Investments in equity instruments	**$ 3,500,000**	**$ 3,500,000**	$ 3,315,000	$ 3,315,000
Derivative financial assets	**42,363**	**42,363**	130,848	130,848
Financial assets at amortized cost:				
Cash	**10,001,561**	**10,001,561**	11,535,553	11,535,553
Investments in debt instruments	**31,888,957**	**31,888,957**	28,649,387	28,649,387
Loans to members	**309,533,057**	**308,565,254**	296,693,768	293,914,450
Receivables	**30,609**	**30,609**	56,027	56,027
Financial liabilities at FVTPL:				
Derivative financial liabilities	**42,363**	**42,363**	130,848	130,848
Financial liabilities at amortized cost:				
Member deposits	**337,354,151**	**341,036,550**	322,076,583	321,770,921
Accounts payable and accrued liabilities	**627,880**	**627,880**	736,390	736,390

16. **Fair value of financial instruments** (Continued)

The following table presents the level within the fair value hierarchy for each financial asset and liability measured at fair value.

October 31, 2019 (IFRS 9)

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Investments in equity instruments	**$ ---**	**$ 3,500,000**	**$ ---**	**$ 3,500,000**
Derivative financial assets	**---**	**42,363**	**---**	**42,363**
Financial liabilities:				
Derivative financial liabilities	**$ ---**	**$ 42,363**	**$ ---**	**$ 42,363**

October 31, 2018 (IAS 39)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	$11,535,553	$ ---	$ ---	$ 11,535,553
Investments	---	31,964,387	---	31,964,387
Derivative financial assets	---	130,848	---	130,848
Financial liabilities:				
Derivative financial liabilities	$ ---	$ 130,848	$ ---	$ 130,848

During the year the Credit Union has not transferred any financial instruments from levels 1 and 2 to level 3 of the fair value hierarchy.

17. **Capital management**

The Credit Union's objectives when managing capital are:

- To ensure the long-term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses; and
- To comply at all times with the capital requirements set out in the Act.

17. **Capital management** (Continued)

The Credit Union measures the adequacy of capital using two methods:

- Total capital as a percent of total assets; and
- Total capital as a percent of risk weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk weighting using definitions and formulas set out in the Act. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

The Credit Union's management ensures compliance with capital adequacy through the following:

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Credit Union Deposit Guarantee Corporation on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

The Credit Union is required under legislative requirements to hold capital equal to or exceeding the greater of:

- 4% of total assets; and
- 8% of risk weighted assets

The Credit Union is also required to maintain a Supervisory Capital Buffer equal to 2.5% of its risk weighted assets for the 2018 fiscal year. The Credit Union also sets an internal capital buffer that, at a minimum, is 2.0% of its risk weighted assets.

The Credit Union has a stated policy that it will maintain at all times capital equal to no less than the minimum requirements as set out by the Act.

The Credit Union was in compliance with the regulatory requirements as indicated by the Act as follows:

	October 31, 2019	October 31, 2018
Capital as a % of total assets	**7.26%**	7.61%
Capital as a % of risk weighted assets	**13.82%**	14.38%

18. **Contingencies and commitments**

Financial instruments that potentially subject the Credit Union to concentrations of credit risk consist of guarantees, standby letters of credit and commitments to extend credit.

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

Guarantees and standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts 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 and 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.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatches, 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 did not use interest rate swaps in the current year.

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

a) Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

b) Documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and

c) Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans including lines of credit, credit limits, guarantees or letters of credit.

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

18. **Contingencies and commitments** (Continued)

As at October 31, 2019, the Credit Union had the following outstanding financial instruments subject to credit risk:

	October 31, 2019	October 31, 2018
Guarantees and standby letters of credit	**$ 395,407**	$ 482,807
Commitments to extend credit – original term to maturity of greater than one year	**8,079,264**	8,788,508
Commitments to extend credit – original term to maturity of one year or less	**42,874,860**	42,401,181
	$ 51,349,531	$ 51,672,496

Contingent liabilities

During the normal course of business, the Credit Union enters into legal proceedings primarily relating to the recovery of delinquent loans. As a result, counterclaims or proceedings have been or may be instituted against the Credit Union.

The Credit Union is defending three statements of claims. The outcome and an estimated loss in relation to those claims, if any, is not determinable. As such, no amounts related to the claims are recorded in the financial statements.

Commitments

The Credit Union has entered into leases for its premises; the estimated future minimum lease payments for premises are as follows:

2019	$ 403,549
2020	$ 298,785
2021	$ 152,116
2022	$ 152,116
2023	$ 158,526
Thereafter	$ 1,480,202

19. Related party transactions

Directors, management and staff

The Credit Union, in accordance with its policy, grants credit to its management, staff and directors. Management and staff rates are slightly below member rates, which range from 2.48% to 7.50% (2018 - 2.49% to 7.45%) per annum. Directors pay regular member rates. Directors, management and staff had $7,028,519 (2018 - $8,744,170) in loans outstanding at October 31, 2019. All loans were in good standing at October 31, 2019 and October 31, 2018.

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, with the exception of staff members who are eligible for chequing accounts with reduced service charges, savings accounts earning interest at the Bow Valley Prime Rate less 0.50%, and an employee variable RRSP program earning interest at the prime rate. These accounts are included in member deposits and accrued on the balance sheet.

Remuneration

Key management personnel consisting of those persons with authority and responsibility for planning, directing and controlling the activities of the Credit Union received compensation in the form of salaries and benefits during the year of $743,410 (2018 - $767,827). Remuneration paid to the Board of Directors during the year was $32,250 (2018 - $21,375), ranging from $600 to $5,325, with an average of $2,932 per director. Reimbursement for director expenses totalled $11,786 (2018 - $29,110).

Credit Union Central of Alberta Limited (Central)

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

The Credit Union Deposit Guarantee Corporation

The Corporation is a deposit insurance corporation, which protects the savings and deposits of all credit union members in every credit union within Alberta.

20. Segmented information

The Credit Union operates principally in personal and commercial banking in Alberta. Operating branches are similar in terms of products and services provided, and methods used to distribute products.