BOW VALLEY CREDIT UNION LTD.
Financial Statements
October 31, 2017

MANAGEMENT'S RESPONSIBILITY

To the Members of Bow Valley Credit Union Ltd.

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.

Collins Barrow Edmonton 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.

Larry Bohn
Chief Executive Officer

Byron Bidulka, CPA, CGA
Vice President, Finance

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INDEPENDENT AUDITORS' REPORT

To the Members of Bow Valley Credit Union Ltd.

We have audited the accompanying financial statements of Bow Valley Credit Union Ltd., which comprise the statement of financial position as at October 31, 2017 and the statements of income and comprehensive income, changes in members' equity and cash flows for the year ended October 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bow Valley Credit Union Ltd. as at October 31, 2017 and its financial performance and its cash flows for the year ended October 31, 2017 in accordance with International Financial Reporting Standards.

Collins Barrow Edmonton LLP

Chartered Professional Accountants

Edmonton, Alberta
December 12, 2017

BOW VALLEY CREDIT UNION LTD.
Statement of Financial Position
October 31, 2017

	2017	2016
Assets		
Cash and cash equivalents	$ 7,896,427	$ 17,897,629
Income taxes receivable	34,760	---
Investments (Note 4)	29,558,193	37,229,562
Other assets (Note 6)	304,980	234,400
Loans to members (Note 5)	284,395,869	267,804,478
Derivative financial assets	184,126	189,227
Property and equipment (Note 7)	7,038,861	7,727,823
Intangible assets (Note 7)	78,299	164,884
	$ 329,491,515	$ 331,248,003
Liabilities		
Member deposits (Note 8)	$ 303,626,040	$ 303,676,242
Accounts payable and accrued liabilities (Note 9)	844,774	3,698,400
Income taxes payable	---	70,573
Derivative financial liabilities (Note 8)	184,126	189,227
Deferred income tax liability (Note 13)	94,796	36,912
	304,749,736	307,671,354
Members' Equity		
Allocation distributable (Note 11)	344,183	388,710
Share capital (Note 12)	7,707,209	7,832,972
Retained earnings	16,690,387	15,354,967
	24,741,779	23,576,649
	$ 329,491,515	$ 331,248,003

Contingencies and Commitments (Note 17)

Approved on behalf of the Board

S. Murphy

Brett Oland, Board Chair

Sheila Murphy, Vice Chair

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Income and Comprehensive Income
For the Year Ended October 31, 2017

	2017	2016
Financial Income		
Interest on member loans	$ 9,643,705	$ 9,520,935
Investment	440,158	364,118
	10,083,863	9,885,053
Financial Expenses		
Interest on member deposits	2,193,638	2,152,626
Interest on borrowings	7,745	12,677
	2,201,383	2,165,303
Financial margin before profit share	7,882,480	7,719,750
Profit share (Note 11)	288,066	277,542
Financial margin	7,594,414	7,442,208
Charge for loan impairment (Note 5)	399,115	267,469
Net interest income after charge for loan impairment	7,195,299	7,174,739
Other income (expenses)		
Sub-lease	184,004	218,615
Gain on disposal of property	328,111	---
Service charges and other	1,418,438	1,496,251
	1,930,553	1,714,866
Income before operating expenses	9,125,852	8,889,605
Operating expenses (Schedule 1)	7,257,587	7,480,653
Income before income taxes	1,868,265	1,408,952
Income tax expense (recovery)		
Current income taxes expense	383,833	423,345
Deferred income taxes expense (recovery)	57,884	(83,182)
	441,717	340,163
Net income and comprehensive income	$ 1,426,548	$ 1,068,789

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Changes in Members' Equity
For the Year Ended October 31, 2017

	Share Capital	Allocation Distributable	Retained Earnings	Total Equity
Balance at November 1, 2015	$ 7,989,885	$ 458,198	$ 14,394,540	$ 22,842,623
Total net income for the year	---	---	1,068,789	1,068,789
Share capital issued and redeemed for cash, net (Note 12)	(608,066)	---	---	(608,066)
Investment shares issued to settle allocation distributable (Note 12)	451,153	(458,198)	---	(7,045)
Dividends on investment shares, net of tax recovery of $38,470 (Note 11)	---	146,832	(108,362)	38,470
Patronage distribution declared (Note 11)	---	241,878	---	241,878
Balance at October 31, 2016	$ 7,832,972	$ 388,710	$ 15,354,967	$ 23,576,649
Balance at November 1, 2016	**$ 7,832,972**	**$ 388,710**	**$ 15,354,967**	**$ 23,576,649**
Total net income for the year	**---**	**---**	**1,426,548**	**1,426,548**
Share capital issued and redeemed for cash, net (Note 12)	**(505,787)**	**---**	**---**	**(505,787)**
Investment shares issued to settle allocation distributable (Note 12)	**380,024**	**(388,710)**	**---**	**(8,686)**
Dividends on investment shares, net of tax recovery of $33,705 (Note 11)	**---**	**124,833**	**(91,128)**	**33,705**
Patronage distribution declared (Note 11)	**---**	**219,350**	**---**	**219,350**
Balance at October 31, 2017	**$ 7,707,209**	**$ 344,183**	**$ 16,690,387**	**$ 24,741,779**

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Cash Flows
For the Year Ended October 31, 2017

	2017	2016
Cash flows (used in) from operating activities:		
Net income	**$ 1,426,548**	$ 1,068,789
Adjustments for non-cash items:		
Net interest income	**(7,594,414)**	(7,442,208)
Provisions for impaired loans (Note 5)	**399,115**	267,469
(Recovery) provisions for deferred income taxes	**57,884**	(83,182)
Depreciation (Note 7)	**446,299**	523,058
Gain on disposition of property	**(328,111)**	---
Unpaid patronage dividends	**(8,686)**	(7,045)
	(5,601,365)	(5,673,119)
Changes in other assets	**(70,580)**	(167,182)
Changes in accounts payable and accrued liabilities	**(2,853,626)**	3,061,289
Changes in income taxes payable	**(105,333)**	39,589
	(3,029,539)	2,933,696
Changes in member activities (net):		
Changes in member loans	**(16,919,351)**	(3,710,894)
Changes in member deposits	**(55,676)**	14,353,133
	(16,975,027)	10,642,239
Cash flows related to interest:		
Interest received on member loans	**9,572,550**	9,519,810
Interest received on investments	**443,906**	364,594
Interest paid on member deposits	**(2,188,164)**	(2,134,712)
Interest paid on external borrowings	**(7,745)**	(12,677)
	7,820,547	7,737,015
	(17,785,384)	15,639,831
Cash flows (used in) from financing activities:		
Issuance of common and investment shares (Note 12)	**16,880**	17,364
Redemption of common and investment shares (Note 12)	**(522,667)**	(625,430)
Tax recovery on investment share dividends	**33,705**	38,470
Distribution of profit share	**(68,716)**	(35,666)
	(540,798)	(605,262)
Cash flows (used in) from investing activities:		
Proceeds from sale of investments	**7,762,621**	663,606
Purchase of investments	**(95,000)**	(7,494,240)
Additions to intangible assets (Note 7)	---	(25,102)
Proceeds on disposal of property	**993,348**	---
Additions to property and equipment (Note 7)	**(335,989)**	(149,808)
	8,324,980	(7,005,544)
Increase (decrease) in cash	**(10,001,202)**	8,029,025
Cash and cash equivalents, beginning of year	**17,897,629**	9,868,604
Cash and cash equivalents, end of year	**$ 7,896,427**	$ 17,897,629

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Schedule 1: Operating Expenses
For the Year Ended October 31, 2017

	2017	2016
Personnel	**$ 3,872,978**	$ 3,853,782
Security		
Bonding	**43,713**	36,966
Deposit guarantee	**270,719**	467,630
Security equipment	**17,770**	20,350
	332,202	524,946
Organizational		
Central dues	**86,469**	82,773
Directors' expenses	**4,555**	5,550
Directors' fees and committee remuneration	**20,250**	18,675
Other	**46,726**	29,306
	158,000	136,304
Occupancy		
Depreciation (Note 7)	**211,380**	228,009
Insurance	**19,894**	19,573
Property taxes	**124,834**	120,407
Rent	**270,044**	281,628
Repairs and maintenance	**161,187**	159,686
Utilities	**77,259**	66,543
	864,598	875,846
General business		
Advertising	**154,895**	140,863
Depreciation (Note 7)	**234,919**	295,049
Cash and service charges	**134,267**	164,739
Computer	**836,771**	835,871
Courier and postage	**82,997**	94,261
Office	**80,808**	90,948
Other	**284,187**	259,753
Professional fees	**181,587**	167,229
Telephone	**39,378**	41,062
	2,029,809	2,089,775
	$ 7,257,587	$ 7,480,653

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* of the Province of Alberta 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 *Credit Union 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 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors of the Credit Union on December 12, 2017.

Basis of measurement

These financial statements were prepared under the historical cost convention, except for derivatives and other financial instruments classified as fair value through profit or 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 14.

Impairment losses on member loans:

The Credit Union reviews its loan portfolio to assess impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the statement of income and comprehensive income, the Credit Union makes judgements as to whether there is any objective evidence indicating an impairment followed by a measureable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified in that portfolio. The assessment takes into account historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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**

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, unless otherwise stated.

Financial instruments

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.

The Credit Union may designate any financial asset or liability as held for trading 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 net interest 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 the following financial assets as available-for-sale: cash and investments. These assets are initially recognized at their fair value. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost.

3. **Significant accounting policies** (Continued)

Financial instruments (Continued)

Available-for-sale: (Continued)

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, 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.

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.

Loans and receivables:

The Credit Union has classified the following financial assets as loans and receivables: loans to members, investment in mortgage pool, other investments, receivables and deposits. These assets are initially recognized at 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 income, calculated using the effective interest rate method, is recognized in net income.

Loans and receivables 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** (Continued)

Financial instruments (Continued)

Other financial liabilities:

The Credit Union has classified the following financial liabilities as other financial liabilities: member deposits, loan payable 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.

Derivative financial instruments:

All derivative financial instruments are recognized in other assets or other liabilities 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.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except those designated as FVTPL, is recognized within financial income or financial expense in the statement of income and comprehensive income as they accrue using the effective interest rate method.

Once a financial asset has been determined to be impaired or written down as a result of an impairment loss, uncollected interest continues to be accrued. A loan is classified as impaired when there is reasonable doubt as to the ultimate collection of some portion of principal or interest.

3. **Significant accounting policies** (Continued)

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 is provided and the income contractually due. 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").

Loans to members and accrued interest

Loans to members are recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

When interest or principal payments are past due by 60 days or more, the loan is classified as impaired unless there is no reasonable doubt as to the collectibility of all interest and principal. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

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.

3. **Significant accounting policies** (Continued)

Provision for loan impairment

The Credit Union maintains a provision for loan impairment, which, in management's opinion, is considered adequate to provide for credit-related losses.

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 receivables 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.

Property and equipment

Property and equipment are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, as follows:

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

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

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.

Foreclosed assets

Foreclosed assets held for sale are recorded at the lower of carrying amount or fair value less cost to sell. Fair value is based on appraised market values. Any difference between the book value of the loan prior to foreclosure and the amount of initial measurement of the foreclosed assets is recognized by a charge or credit to income.

3. **Significant accounting policies** (Continued)

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.

Unauthorized overdrafts

At the end of each fiscal year, the Credit Union writes off all unauthorized overdrafts outstanding for at least 90 days.

Leases

The Credit Union as a Lessee

Arrangements containing leases in which the Credit Union does not record the leased asset on its balance sheet 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.

3. **Significant 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.

3. **Significant accounting policies** (Continued)

Income taxes (Continued)

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.

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 9 Financial Instruments was issued by the IASB in November 2009 and amended in October 2010, November 2013 and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. It is intended to replace IAS 39 "Financial Instruments – Recognition and Measurement". The project has been divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting.

3. **Future changes in accounting policies** (Continued)

The current classification and measurement methodology of IFRS 9 provides that financial assets are measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remains generally unchanged; however, revisions have been made in the accounting for changes in fair value of a financial liability attributable to changes in the credit risk of that liability. Gains or losses caused by changes in an entity's own credit risk on such liabilities are no longer recognized in profit or loss but instead are reflected in other comprehensive income.

Revisions issued in July 2014 replace the existing incurred loss model used for measuring the allowance for credit losses with an expected loss model. The model has three stages: (1) on initial recognition, 12- month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Revisions to hedge accounting were issued in November 2013 as part of the overall IFRS 9 project. The amendment introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. These amendments are effective for the Credit Union's fiscal year beginning November 1, 2018. The Credit Union is currently assessing the impact of this standard on its financial statements.

IFRS 15 Revenue from Contracts with Customers was issued by the IASB in May 2014 and will replace the previous revenue standard, IAS 18 "Revenue" and the related interpretations on revenue recognition. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. These amendments are effective for the Credit Union's fiscal year beginning November 1, 2018. The Credit Union is currently assessing the impact of this standard on its financial statements

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.

4. Investments

	October 31, 2017	October 31, 2016
Shares in Central	**$ 3,315,000**	$ 3,220,000
Term deposits with Central	**25,979,480**	31,894,030
	29,294,480	35,114,030
Mortgage pool	---	1,848,071
Other	**250,000**	250,000
Accrued interest	**13,713**	17,461
	$ 29,558,193	$ 37,229,562
Current	**$ 29,308,193**	$ 36,979,562
Non-current	**$ 250,000**	$ 250,000

In July 2017, the Credit Union disposed of its 17.52% (unit share percentage) participation in a residential mortgage pool with Concentra Financial Services Association ("Concentra Financial"). The Credit Union received its unit share percentage of the Concentra Financial return on the pool, less any fees or charges on a monthly basis.

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 *Credit Union Act*, the Credit Union maintains statutory term deposits in Central to liquidity level.

5. Loans to members

Principal and allowance by loan type

	Gross Amount	Specific Allowance	Collective Allowance	Total Allowance	**October 31, 2017 Net Carrying Value**
Consumer	$ 24,888,650	$ 297,629	$ 87,179	$ 384,808	**$ 24,503,842**
Residential mortgages	191,342,349	---	265,388	265,388	**191,076,961**
Commercial	68,651,816	160,000	250,215	410,215	**68,241,601**
	284,882,815	457,629	602,782	1,060,411	**283,822,404**
Accrued loan interest	573,465	---	---	---	**573,465**
	$ 285,456,280	$ 457,629	$ 602,782	$ 1,060,411	**$ 284,395,869**

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

Principal and allowance by loan type

	Gross Amount	Specific Allowance	Collective Allowance	Total Allowance	**October 31, 2016 Net Carrying Value**
Consumer	$ 24,720,425	$ ---	$ 148,254	$ 148,254	**$ 24,572,171**
Residential mortgages	183,480,106	---	257,525	257,525	**183,222,581**
Commercial	59,957,655	160,000	290,238	450,238	**59,507,417**
	268,158,186	160,000	696,017	856,017	**267,302,169**
Accrued loan interest	502,309	---	---	---	**502,309**
	$ 268,660,495	$ 160,000	$ 696,017	$ 856,017	**$ 267,804,478**

Loans specifically impaired

A loan is considered impaired when a counterparty has not made a payment by the contractual date and an individual allowance for credit has been established. The following table represents the carrying value of loans that are individually impaired:

	October 31, 2017	October 31, 2016
Balance of impaired loans before specific allowances		
Residential mortgages	**$ ---**	$ ---
Consumer	**5,514,666**	---
Commercial	**1,608,711**	1,596,898
	7,123,377	1,596,898
Charge for loan impairment	**(457,629)**	(160,000)
Net carrying value	**$ 6,665,748**	$ 1,436,898

Included in the table above is a loan sub-syndication, to which the Credit Union participation amount was $1,608,711, was greater than 90 days past due. A new agreement has been agreed to by the Lender and the Borrower that is to bring the account current.

On March 2013, the Credit Union entered into an agreement with Crelogix Acceptance Corporation ("Crelogix") to purchase tranches of consumer loans from Crelogix. The administration of these loans was to be maintained by the Credit Union.

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

Loans specifically impaired (Continued)

On July 6, 2017, Crelogix entered into receivership. Since then, Management has resigned and all operations have ceased. Minimal staff have been kept on to assist the Receiver to manage the administration of loan payment. As at October 31, 2017, a total of $5,513,828 was owed to the Credit Union from Crelogix. The Credit Union has assessed the value of the loans they purchased and has established a provision equal to the principal amount of loans that are delinquent.

Loans past due but not impaired

A loan is considered past due when a payment had not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (*i*) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (*ii*) fully secured and collection efforts are reasonably expected to result in repayment.

Loans past due but not impaired, as at October 31, 2017

	Consumer	Residential	Commercial	**Total**
Past due up to 29 days	$ 73,502	$ 2,068,367	$ ---	**$ 2,141,869**
Past due 30 – 59 days	1,141	---	---	**1,141**
Past due 60 – 89 days	30,684	86,979	---	**117,663**
Past due over 90 days	---	---	---	**---**
	$ 105,327	$ 2,155,346	$ ---	**$ 2,260,673**

Loans past due but not impaired, as at October 31, 2016

	Consumer	Residential	Commercial	Total
Past due up to 29 days	$ 22,950	$ 740,792	$ ---	$ 763,742
Past due 30 – 59 days	93,941	140,494	---	234,435
Past due 60 – 89 days	---	---	---	---
Past due over 90 days	119,709	599,196	---	718,905
	$ 236,600	$ 1,480,482	$ ---	$ 1,717,082

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

Loan allowance details

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

	October 31, 2017	October 31, 2016
Balance, beginning of year	**$ 856,017**	$ 686,253
Less: accounts written off, net of recoveries	**(194,721)**	(97,705)
	661,296	588,548
Charge for loan impairment	**399,115**	267,469
Balance, end of year	**$ 1,060,411**	$ 856,017

During the year, recoveries amounted to $8,637 (2016 - $4,141). 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, 2017	October 31, 2016
Under 1 year	**$ 136,557,891**	$ 131,080,451
1 to 2 years	**41,862,923**	33,262,198
2 to 3 years	**40,130,819**	37,870,398
3 to 4 years	**31,296,192**	35,965,201
Over 4 years	**35,034,990**	29,979,938
	$ 284,882,815	$ 268,158,186

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

The Credit Union has documented policies and procedures in place for the valuation of financial and non-financial collateral. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loans.

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.

6. **Other assets**

	October 31, 2017	October 31, 2016
Prepaid expenses	$ **70,313**	$ 188,492
Receivables and deposits	**234,667**	45,908
	$ **304,980**	$ 234,400
Current	$ **304,980**	$ 234,400
Non-current	$ **---**	$ ---

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

	Cost						
	Balance at November 1, 2015	Additions	Disposals	Balance at October 31, 2016	Additions	Disposals	**Balance at October 31, 2017**
Property and equipment							
Land	$ 1,403,104	$ 126,000	$ ---	$ 1,529,104	$ ---	$ 81,000	$ **1,448,104**
Buildings	8,853,527	---	---	8,853,527	268,976	835,905	**8,286,598**
Leasehold improvements	233,816	---	---	233,816	---	---	**233,816**
Computer equipment	712,064	22,267	---	734,331	892	---	**735,223**
Furniture and equipment	1,449,561	1,541	---	1,451,102	66,121	---	**1,517,223**
	12,652,072	149,808	---	12,801,880	335,989	916,905	**12,220,964**
Intangible assets							
Computer software	965,682	25,102	---	990,784	---	---	**990,784**
	$13,617,754	$ 174,910	$ ---	$13,792,664	$ 335,989	$ 916,905	**$13,211,748**

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

	Accumulated Depreciation						
	Balance at November 1, 2015	Depreciation	Disposals	Balance at October 31, 2016	Depreciation	Disposals	**Balance at October 31, 2017**
Property and equipment							
Land	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	**$ ---**
Buildings	2,942,782	228,009	---	3,170,791	211,381	251,668	**3,130,504**
Leasehold improvements	118,745	23,777	---	142,522	23,777	---	**166,299**
Computer equipment	420,071	78,129	---	498,200	56,876	---	**555,076**
Furniture and equipment	1,173,951	88,593	---	1,262,544	67,680	---	**1,330,224**
	4,655,549	418,508	---	5,074,057	359,714	251,668	**5,182,103**
Intangible assets							
Computer software	721,350	104,550	---	825,900	86,585	---	**912,485**
	$ 5,376,899	$ 523,058	$ ---	$ 5,899,957	$ 446,299	$ 251,668	**$ 6,094,588**

	Net Book Value	
	Balance at October 31, 2016	**Balance at October 31, 2017**
Property and equipment		
Land	$ 1,529,104	**$ 1,448,104**
Buildings	5,682,736	**5,156,094**
Leasehold improvements	91,294	**67,517**
Computer equipment	236,131	**180,147**
Furniture and equipment	188,558	**186,999**
	$ 7,727,823	**$ 7,038,861**
Intangible assets		
Computer software	$ 164,884	**$ 78,299**

8. Member deposits

	October 31, 2017	October 31, 2016
Demand	**$ 157,147,235**	$ 167,135,357
Term	**87,002,548**	77,787,872
Registered deposits (RRSPs, RRIFs, RESPs and TFSAs)	**58,693,601**	57,975,831
	302,843,384	302,899,060
Accrued interest	**782,656**	777,182
	$ 303,626,040	$ 303,676,242

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. 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, 2017	October 31, 2016
Under 1 year	**$ 174,584,729**	$ 177,691,652
1 to 2 years	**23,799,939**	22,885,648
2 to 3 years	**13,256,491**	10,204,275
3 to 4 years	**3,851,062**	3,110,666
Over 4 years	**87,535,289**	89,196,046
	303,027,510	303,088,287
Fair value of embedded derivative	**184,126**	189,227
	$ 302,843,384	$ 302,899,060

9. Accounts payable and accrued liabilities

		2017		2016
Accounts payable and accrued liabilities	$	747,823	$	3,481,691
Other liabilities		96,951		216,709
	$	844,774	$	3,698,400
Current	$	747,823	$	3,481,691
Non-current	$	96,951	$	216,709

10. Loans payable

The Credit Union has an authorized line of credit from Central of $ 10 million (2016 - $9 million), due on demand and bearing interest at prime minus 0.5%. At October 31, 2017, the balance of the line of credit was $nil (2016 - $nil).

The Credit Union has access to term loans having a combined maximum available credit of $16 million (2016 - $6 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, 2017, the balance of the revolving term loan was $nil (2016 - $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.

11. Allocation distributable

The Board of Directors declared a profit share allocation for the current year of $288,066 (2016 – $277,542) paid by issuance of shares valued of $219,350 (2016 - $241,878) and deposits to members accounts of $68,716 (2016 -$35,664). 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, 2017.

In addition, the Board of Directors declared dividends of $124,833 (2016 - $146,832) on all investment shares outstanding as of October 31, 2017. Dividends declared on Series A, Series B, Series C, Series D, Series E and Series F investment shares were $11,986, $23,086, $20,267; $28,964, $22,133 and $18,397, respectively (2016 - Series A - $12,368, Series B - $22,616, Series C - $21,877, Series D - $31,156, Series E - $22,650, and Series F - $36,165). The dividends were calculated at an effective annual rate of 2.90% on Series A, 2.90% on Series B, 2.90% on Series C, 2.90% on Series D, 2.40% on Series E, and 1.90% on Series F investment shares (2016 - Series A – 2.90%, Series B – 2.90%, Series C – 2.90%, Series D – 2.90%, Series E – 2.40%, and Series F – 3.50%). The dividends are to be paid by issuance of Series A, B, C, D, E and F investment shares in December 2017.

12. 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.

12. **Share capital** (Continued)

	Issued and Outstanding as at November 1, 2015	Shares Issued for Cash	Shares Issued for Share Dividends	Shares Redeemed	Issued and Outstanding as at October 31, 2016
Common Shares	2,713,179	17,364	283,451	(193,149)	2,820,845
Investment Shares					
Series A	530,339	---	15,751	(119,609)	426,481
Series B	771,694	---	23,138	(14,965)	779,867
Series C	804,868	---	23,905	(74,394)	754,379
Series D	1,138,688	---	33,819	(98,175)	1,074,332
Series E	1,022,286	---	35,780	(114,281)	943,785
Series F	1,008,831	---	35,309	(10,857)	1,033,283
	5,276,706	---	167,702	(432,281)	5,012,127
	7,989,885	**17,364**	**451,153**	**(625,430)**	**7,832,972**

	Issued and Outstanding as at November 1, 2016	Shares Issued for Cash	Shares Issued for Share Dividends	Shares Redeemed	Issued and Outstanding as at October 31, 2017
Common Shares	2,820,845	16,880	233,192	(161,164)	2,909,753
Investment Shares					
Series A	426,481	---	12,368	(25,545)	413,304
Series B	779,867	---	22,616	(6,413)	796,070
Series C	754,379	---	21,877	(77,381)	698,875
Series D	1,074,332	---	31,155	(106,725)	998,762
Series E	943,785	---	22,651	(44,237)	922,199
Series F	1,033,283	---	36,165	(101,202)	968,246
	5,012,127	---	146,832	(361,503)	4,797,456
	7,832,972	**16,880**	**380,024**	**(522,667)**	**7,707,209**

13. 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, 2017	October 31, 2016
Property, equipment and intangible assets	**$ (269,901)**	$ (229,156)
Allowance for credit losses	**175,105**	192,244
Total	**$ (94,796)**	$ (36,912)

Income tax rate reconciliation

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

	October 31, 2017	October 31, 2016
Statutory rate	**38.00%**	38.00%
Income tax rate adjusted for the effect of:		
Credit Union and General Tax deduction	**(6.73)%**	(14.03)%
Dividends deductible for tax purposes	**(2.60)%**	(2.73)%
Non-deductible expenses and other	**(5.22)%**	2.90%
Effective income tax rate	**23.45%**	24.14%

14. 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.

14. **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 5 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.

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.

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

Liquidity risk (Continued)

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, 2017, 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, 2017	October 31, 2016
Cash	**$ 1,505,103**	$ 1,113,911
Investments and accrued interest	**$ 1,404,480**	$ 1,194,030
Member deposits and accrued interest	**$ 2,776,010**	$ 2,228,807

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.

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

Interest rate re-price

(In thousands)

	Floating Rate	Within One Year	One to Five Years	Non-Rate Sensitive	**October 31, 2017 Total**
Assets					
Cash	$ 4,570	$ ---	$ ---	$ 3,326	$ **7,896**
(effective yield %)	*0.10*	---	---	---	***0.06***
Investments	---	25,979	---	3,579	**29,558**
(effective yield %)	---	*1.23*	---	---	***1.08***
Member loans	85,724	47,648	151,511	(487)	**284,396**
(effective yield %)	*4.10*	*3.46*	*3.48*	---	***3.67***
Derivative financial assets	---	---	---	184	**184**
Income taxes receivable	---	---	---	35	**35**
Other	---	---	---	305	**305**
Property and equipment	---	---	---	7,039	**7,039**
Intangible assets	---	---	---	78	**78**
Subtotal	90,294	73,627	151,511	14,059	**329,491**
Liabilities and Equity					
Member deposits	137,568	80,815	47,731	37,512	**303,626**
(effective yield %)	*0.80*	*1.31*	*1.42*	---	***0.94***
Derivative financial liability	---	---	---	184	**184**
Deferred income tax liability	---	---	---	95	**95**
Accounts payable and other	---	---	---	845	**845**
Equity	---	---	---	24,741	**24,741**
Subtotal	137,568	80,815	47,731	63,377	**329,491**
2017 Net gap	$ (47,274)	$ (7,188)	$ 103,780	$ (49,318)	$ ---
Percentage of assets	(14.35)	(2.18)	31.50	(14.97)	---

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

Interest rate re-price

(In thousands)

	Floating Rate	Within One Year	One to Five Years	Non-Rate Sensitive	October 31, 2016 Total
Assets					
Cash	$ 13,671	$ ---	$ ---	$ 4,227	$ 17,898
(effective yield %)	*0.10*	---	---	---	*0.08*
Investments	---	31,912	1,848	3,470	37,230
(effective yield %)	---	*0.65*	*3.05*	---	*0.71*
Member loans	84,610	43,508	140,022	(336)	267,804
(effective yield %)	*3.58*	*3.49*	*3.41*	---	*3.48*
Derivative financial assets	---	---	---	189	189
Other	---	---	---	234	234
Property and equipment	---	---	---	7,728	7,728
Intangible assets	---	---	---	165	165
Subtotal	98,281	75,420	141,870	15,677	331,248
Liabilities and Equity					
Member deposits	151,679	79,615	41,177	31,205	303,676
(effective yield %)	*0.35*	*1.29*	*1.38*	---	*0.7*
Derivative financial liability	---	---	---	189	189
Income taxes payable	---	---	---	37	37
Deferred income tax liability	---	---	---	71	71
Accounts payable and other	---	---	---	3,698	3,698
Equity	---	---	---	23,577	23,577
Subtotal	151,679	79,615	41,177	58,777	331,248
2016 Net gap	$ (53,398)	$ (4,195)	$ 100,693	$ (43,100)	$ ---
Percentage of assets	(16.12)	(1.27)	30.40	(13.01)	---

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.

14. **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, 2017	
1% increase of rates	$	534,000
1% decrease of rates	$	(671,000)

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

15. **Fair value of financial instruments**

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.

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

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

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, 2017		October 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Fair-value-through-profit-or-loss				
Derivative financial assets	$ 184,126	$ 184,126	$ 189,227	$ 189,227
Available-for-sale				
Cash	7,896,427	7,896,427	17,897,629	17,897,629
Investments	29,308,193	29,308,193	35,131,491	35,379,568
Loans and receivable				
Other investments	250,000	250,000	250,000	250,000
Mortgage pool	---	---	1,848,071	1,876,956
Loans to members	284,395,869	282,491,944	267,804,478	269,017,040
Receivables and deposits	234,667	234,667	45,908	45,908
Financial liabilities				
Fair-value-through-profit-or-loss				
Derivative financial liabilities	184,126	184,126	189,227	189,227
Other financial liabilities				
Member deposits	303,626,040	303,372,051	303,676,242	303,703,724
Accounts payable and accrued liabilities	844,774	844,774	3,698,400	3,698,400

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

The following tables presents at October 31, 2017 and October 31, 2016, the level within the fair value hierarchy for each financial asset and liability measured at fair value.

October 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	$ 7,896,427	$ ---	$ ---	$ 7,896,427
Investments	$ ---	$ 29,558,193	$ ---	$ 29,558,193
Derivative financial assets	$ ---	$ 184,126	$ ---	$ 184,126
Financial liabilities:				
Derivative financial liabilities	$ ---	$ 184,126	$ ---	$ 184,126

October 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	$17,897,629	$ ---	$ ---	$ 17,897,629
Investments	$ ---	$ 35,629,568	$ ---	$ 35,629,568
Derivative financial assets	$ ---	$ 189,227	$ ---	$ 189,227
Financial liabilities:				
Derivative financial liabilities	$ ---	$ 189,227	$ ---	$ 189,227

Financial assets:

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.

16. **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.

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 the Act 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 Regulatory Capital Buffer equal to 2.5% of its risk weighted assets for the 2017 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, 2017	October 31, 2016
Capital as a % of total assets	**7.71%**	7.29%
Capital as a % of risk weighted assets	**14.19%**	14.14%

17. 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.

As at October 31, 2017, the Credit Union had the following outstanding financial instruments subject to credit risk:

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

	October 31, 2017	October 31, 2016
Guarantees and standby letters of credit	**$ 387,200**	$ 1,171,671
Commitments to extend credit – original term to maturity of greater than one year	**5,966,269**	6,986,574
Commitments to extend credit – original term to maturity of one year or less	**39,163,066**	38,778,826
	$ 45,516,535	$ 46,937,071

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 has been named as defendant on a statement of claim of $3.8 million relating to unpaid construction costs on a project the Credit Union has financed. Also named in the lawsuit is a member of the Credit Union which the Credit Union has a loan outstanding of $7.09 million at October 31, 2017 to finance the related construction. The Credit Union has filed a Statement of Defence, and believes the claim is wholly without merit and is not expected by management to have a material effect on the financial position of the Credit Union or on its results of operations.

Commitments

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

2017	$ 257,338
2018	$ 251,433
2019	$ 251,433
2020	$ 146,669

18. **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 2.68% to 6.70% (2016 – 2.70% to 6.20%) per annum. Directors pay regular member rates. Directors, management and staff had $9,806,973 (2016 - $8,878,421) in loans outstanding at October 31, 2017. All loans were in good standing at October 31, 2017 and October 31, 2016.

18. **Related party transactions** (Continued)

Directors, management and staff (Continued)

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 $639,199 (2016 - $685,279). Remuneration paid to the Board of Directors during the year was $20,250 (2016 - $18,675), ranging from $675 to $2,550, with an average of $2,025 per director. Reimbursement for director expenses totalled $7,202 (2016 - $6,075).

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.

19. **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.