BOW VALLEY CREDIT UNION LTD.
Financial Statements
For the Year Ended October 31, 2018

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
Interim President & Chief Executive Officer

Byron Bidulka, CPA, CGA
Vice President, Finance

RSM Alberta LLP

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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, 2018, and the statements of income and comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements for the year ended October 31, 2017, were audited by another firm of chartered professional accountants who expressed an unmodified opinion dated December 12, 2017.

RSM Alberta LLP

Edmonton, Alberta
January 30, 2019

Chartered Professional Accountants

BOW VALLEY CREDIT UNION LTD.
Statement of Financial Position
October 31, 2018

	2018	2017
Assets		
Cash and cash equivalents	**$ 11,535,553**	$ 7,896,427
Income taxes receivable	**---**	34,760
Investments (Note 4)	**31,964,387**	29,558,193
Other assets (Note 6)	**189,022**	304,980
Loans to members (Note 5)	**296,693,768**	284,395,869
Derivative financial assets	**130,848**	184,126
Deferred income tax asset (Note 13)	**6,722**	---
Property and equipment (Note 7)	**8,026,333**	7,038,861
Intangible assets (Note 7)	**44,267**	78,299
	$ 348,590,900	$ 329,491,515
Liabilities		
Member deposits (Note 8)	**$ 322,076,583**	$ 303,626,040
Accounts payable and accrued liabilities (Note 9)	**736,390**	844,774
Income taxes payable	**200,340**	---
Derivative financial liabilities	**130,848**	184,126
Deferred income tax liability (Note 13)	**---**	94,796
	323,144,161	304,749,736
Members' equity		
Allocation distributable	**395,938**	344,183
Share capital (Note 12)	**7,437,549**	7,707,209
Retained earnings	**17,613,252**	16,690,387
	25,446,739	24,741,779
	$ 348,590,900	$ 329,491,515

Contingencies and commitments (Note 17)

Approved on behalf of the Board

S. Murphy

Paul Brophy

Sheila Murphy, Board Chair

Paul Brophy, Audit & Finance 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, 2018

	2018	2017
Financial income		
Interest on member loans	**$ 10,513,096**	$ 9,643,705
Interest and dividends on investments	**726,124**	440,158
	11,239,220	10,083,863
Financial expenses		
Interest on member deposits	**3,002,843**	2,193,638
Interest on borrowings	**2,077**	7,745
	3,004,920	2,201,383
Financial margin before profit share	**8,234,300**	7,882,480
Profit share (Note 11)	**320,225**	288,066
Financial margin	**7,914,075**	7,594,414
Charge for loan impairment (Note 5)	**551,420**	399,115
Net financial margin after charge for loan impairment	**7,362,655**	7,195,299
Other income (expenses)		
Sub-lease	**186,411**	184,004
(Loss) gain on disposal of property	**(249)**	328,111
Service charges and other	**1,497,730**	1,418,438
	1,683,892	1,930,553
Income before operating expenses	**9,046,547**	9,125,852
Operating expenses (Schedule 1)	**7,518,471**	7,257,587
Income before income taxes	**1,528,076**	1,868,265
Income tax expense (recovery)		
Current income taxes expense	**592,139**	383,833
Deferred income taxes expense (recovery)	**(101,518)**	57,884
	490,621	441,717
Net income and comprehensive income	**$ 1,037,455**	$ 1,426,548

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Changes in Members' Equity
For the Year Ended October 31, 2018

	Share Capital	Allocation Distributable	Retained Earnings	Total Equity
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
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 12)	**(613,876)**	**---**	**---**	**(613,876)**
Investment shares issued to settle allocation distributable (Note 12)	**344,216**	**(344,183)**	**---**	**33**
Dividends on investment shares, net of tax recovery of $42,383 (Note 11)	**---**	**156,973**	**(114,590)**	**42,383**
Patronage distribution declared (Note 11)	**---**	**238,965**	**---**	**238,965**
Balance at October 31, 2018	**$ 7,437,549**	**$ 395,938**	**$ 17,613,252**	**$ 25,446,739**

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Statement of Cash Flows
For the Year Ended October 31, 2018

	2018	2017
Cash flows (used in) from operating activities:		
Net income	**$ 1,037,455**	$ 1,426,548
Adjustments for non-cash items:		
Net interest income	**(7,914,075)**	(7,594,414)
Provisions for impaired loans (Note 5)	**551,420**	399,115
(Recovery) provisions for deferred income taxes	**(101,518)**	57,884
Depreciation (Note 7)	**441,979**	446,299
Loss (gain) on disposition of property	**249**	(328,111)
Overpaid (unpaid) patronage dividends	**33**	(8,686)
	(5,984,457)	(5,601,365)
Changes in other assets	**115,958**	(70,580)
Changes in accounts payable and accrued liabilities	**(108,384)**	(2,853,626)
Changes in income taxes payable	**235,100**	(105,333)
	242,674	(3,029,539)
Changes in member activities (net):		
Changes in member loans	**(12,741,814)**	(16,919,351)
Changes in member deposits	**18,086,514**	(55,676)
	5,344,700	(16,975,027)
Cash flows related to interest:		
Interest received on member loans	**10,405,591**	9,572,550
Interest received on investments	**673,595**	443,906
Interest paid on member deposits	**(2,638,814)**	(2,188,164)
Interest paid on external borrowings	**(2,077)**	(7,745)
	8,438,295	7,820,547
	8,041,212	(17,785,384)
Cash flows (used in) from financing activities:		
Issuance of common and investment shares (Note 12)	**24,987**	16,880
Redemption of common and investment shares (Note 12)	**(638,863)**	(522,667)
Tax recovery on investment share dividends	**42,383**	33,705
Distribution of profit share (Note 11)	**(81,260)**	(68,716)
	(652,753)	(540,798)
Cash flows (used in) from investing activities:		
Proceeds from sale of investments	**---**	7,762,621
Purchase of investments	**(2,353,665)**	(95,000)
Additions to intangible assets (Note 7)	**(35,794)**	---
Proceeds on disposal of property	**---**	993,348
Additions to property and equipment (Note 7)	**(1,359,874)**	(335,989)
	(3,749,333)	8,324,980
Increase (decrease) in cash	**3,639,126**	(10,001,202)
Cash and cash equivalents, beginning of year	**7,896,427**	17,897,629
Cash and cash equivalents, end of year	**$ 11,535,553**	$ 7,896,427

See accompanying notes to the financial statements

BOW VALLEY CREDIT UNION LTD.
Schedule 1: Operating Expenses
For the Year Ended October 31, 2018

	2018	2017
Personnel	**$ 3,878,244**	$ 3,872,978
Security		
Bonding	**44,532**	43,713
Deposit guarantee	**284,181**	270,719
Security equipment	**30,737**	17,770
	359,450	332,202
Organizational		
Central dues	**74,551**	86,469
Directors' expenses	**3,540**	4,555
Directors' fees and committee remuneration	**21,375**	20,250
Other	**79,653**	46,726
	179,119	158,000
Occupancy		
Depreciation (Note 7)	**208,440**	211,380
Insurance	**20,204**	19,894
Property taxes	**132,101**	124,834
Rent	**320,482**	270,044
Repairs and maintenance	**172,082**	161,187
Utilities	**88,349**	77,259
	941,658	864,598
General business		
Advertising	**328,451**	154,895
Depreciation (Note 7)	**233,539**	234,919
Cash and service charges	**141,703**	134,267
Computer	**805,931**	836,771
Courier and postage	**62,580**	82,997
Office	**87,875**	80,808
Other	**295,046**	284,187
Professional fees	**161,624**	181,587
Telephone	**43,251**	39,378
	2,160,000	2,029,809
	$ 7,518,471	$ 7,257,587

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 8, 2019.

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 15.

Impairment losses on member loans:

The Credit Union reviews its loan portfolio to assess impairment at each statement of financial position 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.

The allowance for impaired loans and credit losses are disclosed in Note 5.

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 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.

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, 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, investments – other (see Note 4), 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.

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.

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

Financial instruments (Continued)

Other financial liabilities: (Continued)

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.

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.

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

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 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 carried 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.

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

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.

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.

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.

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.

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.

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

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.

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.

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** (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 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.

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.

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

Future changes in accounting policies (Continued)

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 expects an increase in the credit impairment loan loss provision and continues to assess the full impact of IFRS 9.

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 continues to assess the impact of IFRS 15 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, 2018	October 31, 2017
Shares in Central	$ 3,315,000	$ 3,315,000
Term deposits with Central	28,583,145	25,979,480
	31,898,145	29,294,480
Other	---	250,000
Accrued interest	66,242	13,713
	$ 31,964,387	$ 29,558,193
Current	$ 31,964,387	$ 29,308,193
Non-current	$ ---	$ 250,000

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.

During the year, the Credit Union purchased the remaining 50% interest in the $250,000 property held in 2017. The property has been reclassified to property and equipment.

5. Loans to members

Principal and allowance by loan type, as at October 31, 2018

	Gross Amount	Specific Allowance	Collective Allowance	Total Allowance	October 31, 2018 Net Carrying Value
Consumer	$ 22,291,322	$ 46,493	$ 408,582	$ 455,075	$ 21,836,247
Residential mortgages	206,058,204	---	284,554	284,554	205,773,650
Commercial	68,964,518	310,000	251,617	561,617	68,402,901
	297,314,044	356,493	944,753	1,301,246	296,012,798
Accrued loan interest	680,970	---	---	---	680,970
	$ 297,995,014	$ 356,493	$ 944,753	$ 1,301,246	$ 296,693,768

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

Principal and allowance by loan type, as at October 31, 2017

	Gross Amount	Specific Allowance	Collective Allowance	Total Allowance	**October 31, 2017 Net Carrying Value**
Consumer	$ 24,888,650	$ 854	$ 383,954	$ 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	160,854	899,557	1,060,411	**283,822,404**
Accrued loan interest	573,465	---	---	---	**573,465**
	$ 285,456,280	$ 160,854	$ 899,557	$ 1,060,411	**$ 284,395,869**

Loans specifically impaired

The following table represents the carrying value of loans that are specifically impaired:

	October 31, 2018	October 31, 2017
Balance of impaired loans before specific allowances		
Residential mortgages	**$ 632,456**	$ ---
Consumer	**45,093**	838
Commercial	**2,373,916**	1,608,711
	3,051,465	1,609,549
Charge for loan impairment	**(356,493)**	(160,854)
Net carrying value	**$ 2,694,972**	$ 1,448,695

Included in the table above is a loan sub-syndication for an apartment complex, to which the Credit Union participation amount was $1,562,580 (2017 - $1,608,711), that a forbearance agreement was entered into to sell the complex within one year. The syndicate is selling the apartment units separately to limit its exposure.

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

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, 2018

	Consumer	Residential	Commercial	**Total**
Past due up to 29 days	$ 44,656	$ 629,641	$ 212,632	**$ 886,929**
Past due 30 – 59 days	20,000	776,007	245,682	**1,041,689**
Past due 60 – 89 days	---	351,365	---	**351,365**
Past due over 90 days	49,511	---	---	**49,511**
	$ 114,167	$ 1,757,013	$ 458,314	**$ 2,329,494**

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

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

Loan allowance details

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

	October 31, 2018	October 31, 2017
Balance, beginning of year	**$ 1,060,411**	$ 856,017
Less: accounts written off, net of recoveries	**(310,585)**	(194,721)
	749,826	661,296
Charge for loan impairment	**551,420**	399,115
Balance, end of year	**$ 1,301,246**	$ 1,060,411

During the year, recoveries amounted to $16,584 (2017 - $8,637). 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, 2018	October 31, 2017
Under 1 year	**$ 143,728,560**	$ 136,557,891
1 to 2 years	**44,837,667**	41,862,923
2 to 3 years	**39,011,362**	40,130,819
3 to 4 years	**34,347,551**	31,296,192
Over 4 years	**35,388,904**	35,034,990
	$ 297,314,044	$ 284,882,815

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, 2018	October 31, 2017
Prepaid expenses	**$ 132,995**	$ 70,313
Receivables and deposits	**56,027**	234,667
	$ 189,022	$ 304,980
Current	**$ 189,022**	$ 304,980

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

	Cost						
	Balance at November 1, 2016	Additions	Disposals	Balance at October 31, 2017	Additions	Disposals	**Balance at October 31, 2018**
Property and equipment							
Land	$ 1,529,104	$ ---	$ 81,000	$ 1,448,104	$ ---	$ ---	**$ 1,448,104**
Buildings	8,853,527	268,976	835,905	8,286,598	494,899	---	**8,781,497**
Leasehold improvements	233,816	---	---	233,816	520,561	---	**754,377**
Computer equipment	734,331	892	---	735,223	242,423	1,313	**976,333**
Furniture and equipment	1,451,102	66,121	---	1,517,223	101,991	2,326	**1,616,888**
	12,801,880	335,989	916,905	12,220,964	1,359,874	3,639	**13,577,199**
Intangible assets							
Computer software	990,784	---	---	990,784	35,794	---	**1,026,578**
	$13,792,664	$ 335,989	$ 916,905	$13,211,748	$ 1,395,668	$ 3,639	**$14,603,777**

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

	Accumulated Depreciation						
	Balance at November 1, 2016	Depreciation	Disposals	Balance at October 31, 2017	Depreciation	Disposals	**Balance at October 31, 2018**
Property and equipment							
Land	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	**$ ---**
Buildings	3,170,791	211,381	251,668	3,130,504	208,440	---	**3,338,944**
Leasehold improvements	142,522	23,777	---	166,299	34,623	---	**200,922**
Computer equipment	498,200	56,876	---	555,076	66,549	1,066	**620,559**
Furniture and equipment	1,262,544	67,680	---	1,330,224	62,541	2,324	**1,390,441**
	5,074,057	359,714	251,668	5,182,103	372,153	3,390	**5,550,866**
Intangible assets							
Computer software	825,900	86,585	---	912,485	69,826	---	**982,311**
	$ 5,899,957	$ 446,299	$ 251,668	$ 6,094,588	$ 441,979	$ 3,390	**$ 6,533,177**

	Net Book Value	
	Balance at October 31, 2018	Balance at October 31, 2017
Property and equipment		
Land	**$ 1,448,104**	$ 1,448,104
Buildings	**5,442,553**	5,156,094
Leasehold improvements	**553,455**	67,517
Computer equipment	**355,774**	180,147
Furniture and equipment	**226,447**	186,999
	$ 8,026,333	$ 7,038,861
Intangible assets		
Computer software	**$ 44,267**	$ 78,299

8. Member deposits

	October 31, 2018	October 31, 2017
Demand	**$ 170,698,136**	$ 157,147,235
Term	**89,295,616**	87,002,548
Registered deposits (RRSPs, RRIFs, RESPs and TFSAs)	**60,936,146**	58,693,601
	320,929,898	302,843,384
Accrued interest	**1,146,685**	782,656
	$ 322,076,583	$ 303,626,040

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, 2018	October 31, 2017
Under 1 year	**$ 196,953,146**	$ 174,582,761
1 to 2 years	**24,767,857**	23,662,766
2 to 3 years	**9,576,402**	13,244,750
3 to 4 years	**5,878,274**	3,817,818
Over 4 years	**83,754,219**	87,535,289
	$ 320,929,898	$ 302,843,384

9. Accounts payable and accrued liabilities

	2018	2017
Accounts payable and accrued liabilities	**$ 731,666**	$ 747,823
Deferred revenue	**4,724**	---
Other liabilities	**---**	96,951
	$ 736,390	$ 844,774
Current	**$ 736,390**	$ 747,823
Non-current	**$ ---**	$ 96,951

10. Borrowings

The Credit Union has an authorized line of credit from Central of $10 million (2017 - $10 million), due on demand and bearing interest at prime minus 0.5%. At October 31, 2018, the balance of the line of credit was $nil (2017 - $nil).

The Credit Union has access to term loans having a combined maximum available credit of $16 million (2017 - $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, 2018, the balance of the revolving term loan was $nil (2017 - $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

On October 23, 2018, the Board of Directors declared a profit share allocation for the current year of $320,225 (2017 - $288,066) paid by issuance of shares valued of $238,965 (2017 - $219,350) and deposits to members accounts of $81,260 (2017 - $68,716). 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, 2018.

In addition, the Board of Directors declared dividends of $156,973 (2017 - $124,833) on all investment shares outstanding as of October 31, 2018. Dividends declared on Series A, Series B, Series C, Series D, Series E and Series F investment shares were $15,094, $28,893, $25,463, $34,955, $27,704 and $24,864, respectively (2017 - Series A - $11,986, Series B - $23,086, Series C - $20,267, Series D - $28,964, Series E - $22,133, and Series F - $18,397). The dividends were calculated at an effective annual rate of 3.80% on Series A, 3.80% on Series B, 3.80% on Series C, 3.80% on Series D, 3.30% on Series E, and 2.80% on Series F investment shares (2017 - Series A - 2.90%, Series B - 2.90%, Series C - 2.90%, Series D - 2.90%, Series E - 2.40%, and Series F - 1.90%). The dividends are to be paid by issuance of Series A, B, C, D, E and F investment shares in December 2018.

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, 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**

	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**

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, 2018	October 31, 2017
Property, equipment and intangible assets	**$ (257,986)**	$ (269,901)
Allowance for credit losses	**264,708**	175,105
Total	**$ 6,722**	$ (94,796)

Income tax rate reconciliation

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

	October 31, 2018	October 31, 2017
Statutory rate	**27.00%**	27.00%
Income tax rate adjusted for the effect of:		
Non-deductible expenses and other	**5.11%**	(3.55)%
Effective income tax rate	**32.11%**	23.45%

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, 2018, 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, 2018	October 31, 2017
Cash	**$ 1,981,146**	$ 1,505,103
Investments and accrued interest	**$ 2,408,145**	$ 1,404,480
Member deposits and accrued interest	**$ 4,246,757**	$ 2,776,010

As at October 31, 2018, 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.

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, 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)	**---**

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)	---

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, 2018	
1% increase of rates	$	388,000
1% decrease of rates	$	(479,000)

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**

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.

15. **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, 2018		October 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Fair-value-through-profit-or-loss				
Derivative financial assets	**$ 130,848**	**$ 130,848**	$ 184,126	$ 184,126
Available-for-sale				
Investments	**31,964,387**	**31,964,387**	29,308,193	29,308,193
Loans and receivable				
Cash	**11,535,553**	**11,535,553**	7,896,427	7,896,427
Other investments	**---**	**---**	250,000	250,000
Loans to members	**296,693,768**	**293,914,450**	284,395,869	282,491,944
Receivables and deposits	**56,027**	**56,027**	234,667	234,667
Financial liabilities				
Fair-value-through-profit-or-loss				
Derivative financial liabilities	**130,848**	**130,848**	184,126	184,126
Other financial liabilities				
Member deposits	**322,076,583**	**321,770,921**	303,626,040	303,372,051
Accounts payable and accrued liabilities	**736,390**	**736,390**	844,774	844,774

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

The following table presents at October 31, 2018 and October 31, 2017, the level within the fair value hierarchy for each financial asset and liability measured at fair value.

October 31, 2018

	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**

October 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	$ 7,896,427	$ ---	$ ---	$ 7,896,427
Investments	$ ---	$ 29,308,193	$ ---	$ 29,308,193
Derivative financial assets	$ ---	$ 184,126	$ ---	$ 184,126
Financial liabilities:				
Derivative financial liabilities	$ ---	$ 184,126	$ ---	$ 184,126

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.

16. **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, 2018	October 31, 2017
Capital as a % of total assets	**7.61%**	7.71%
Capital as a % of risk weighted assets	**14.38%**	14.19%

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.

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

As at October 31, 2018, the Credit Union had the following outstanding financial instruments subject to credit risk:

	October 31, 2018	October 31, 2017
Guarantees and standby letters of credit	**$ 482,807**	$ 387,200
Commitments to extend credit – original term to maturity of greater than one year	**8,788,508**	5,966,269
Commitments to extend credit – original term to maturity of one year or less	**42,401,181**	39,163,066
	$ 51,672,496	$ 45,516,535

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 $7.45 million at October 31, 2018 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. Subsequent to the date of the audit report, the claim was struck in Provincial Court and the Credit Union is in the process of having the order entered and filed.

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

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 2.49% to 7.45% (2017 – 2.68% to 6.70%) per annum. Directors pay regular member rates. Directors, management and staff had $8,744,170 (2017 - $9,806,973) in loans outstanding at October 31, 2018. All loans were in good standing at October 31, 2018 and October 31, 2017.

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 $767,827 (2017 - $639,199). Remuneration paid to the Board of Directors during the year was $21,375 (2017 - $20,250), ranging from $nil to $3,825, with an average of $1,943 per director. Reimbursement for director expenses totalled $29,110 (2017 - $7,202).

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.

20. Comparative figures

Some of the comparative figures have been reclassified to conform to the current year's presentation.