Beaumont Credit Union Ltd.

Financial Statements

Year Ended October 31, 2015

Management's Responsibility for Financial Reporting

The financial statements of Beaumont Credit Union Ltd. and all other information contained in the annual report are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with International Financial Reporting Standards. The preparation of the statements necessarily involves the use of estimates, which are made using careful judgment.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through a Risk, Audit & Finance Committee, which is composed entirely of directors who are not officers or employees of Beaumont Credit Union Ltd. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Risk, Audit & Finance Committee reviews the annual financial statements, as well as issues related to them. The Risk, Audit & Finance Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Risk, Audit & Finance Committee's review of financial reports includes an assessment of key management estimates and judgments material to the financial results.

The external auditor, appointed by the Board of Directors, conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The external auditor has full and unrestricted access to the Risk, Audit & Finance Committee to discuss their audit findings as to the integrity of Beaumont Credit Union Ltd.'s financial reporting and adequacy of internal controls.

Mowbrey Gil LLP, Chartered Accountants, have examined these financial statements and their report follows.

Mr. David Williamson, Chief Executive Officer

Beaumont, AB
December 17, 2015

Independent Auditor's Report

To the Members of Beaumont Credit Union Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Beaumont Credit Union Ltd., which comprise the statement of financial position as at October 31, 2015 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.

Auditor's 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 judgment, 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 Beaumont Credit Union Ltd. as at October 31, 2015 and its financial performance, changes in members' equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Mowbrey Gil LLP

Edmonton, Alberta
December 17, 2015

CHARTERED ACCOUNTANTS

Beaumont Credit Union Ltd.
Statement of Financial Position
October 31, 2015

	2015	2014
Assets		
Cash and cash equivalents *(Note 4)*	**$ 8,502,295**	$ 8,486,504
Members' loans receivable and accrued interest *(Note 5)*	**202,822,676**	211,332,411
Investments and accrued interest *(Note 6)*	**35,285,061**	23,188,780
Income taxes recoverable	**38,948**	-
Other assets *(Note 7)*	**745,634**	1,136,580
Property and equipment *(Note 8)*	**3,018,750**	3,088,347
Intangible assets *(Note 9)*	**305,700**	237,248
	$250,719,064	$247,469,870
Liabilities		
Accounts payable and accrued liabilities	**$ 622,787**	$ 488,455
Income taxes payable	**-**	52,932
Derivative financial liabilities *(Note 10)*	**310,794**	708,217
Member deposits and accrued interest *(Note 11)*	**230,409,396**	227,465,211
Deferred tax *(Note 12)*	**32,675**	10,427
	231,375,652	228,725,242
Contingent liabilities and commitments *(Note 13)*		
Members' equity		
Members' common equity shares *(Note 14)*	**7,796,710**	8,017,899
Patronage allocation	**182,956**	197,672
Retained earnings	**11,363,746**	10,529,057
	19,343,412	18,744,628
	$250,719,064	$247,469,870

On behalf of the Board

______________________________ *Director*

______________________________ *Director*

	2015	2014
Interest income		
Member loans	$ **7,605,084**	$ 7,954,661
Investments	**429,075**	454,432
	8,034,159	8,409,093
Interest expense		
Member deposits	**3,275,977**	3,435,356
Interest on financing	**75**	9,396
	3,276,052	3,444,752
Financial margin	**4,758,107**	4,964,341
Other income (expense)		
Service and other charges	**1,175,802**	1,221,689
Provision for loan recovery (impairment) *(Note 5)*	**82,641**	(70,835)
	1,258,443	1,150,854
Operating expenses		
Personnel	**2,389,775**	2,448,116
General	**1,529,361**	1,328,140
Member security	**397,034**	366,324
Occupancy	**261,093**	303,870
Organization	**153,823**	142,014
	4,731,086	4,588,464
Income before income taxes	**1,285,464**	1,526,731
Income taxes *(Note 12)*		
Current	**289,060**	351,409
Deferred	**22,248**	(2,197)
	311,308	349,212
Net income and comprehensive income for the year	**974,156**	1,177,519

	Member shares	Patronage allocation	Retained earnings	**Total**
Balance, October 31, 2013	$ 8,195,865	$ 119,271	$ 9,504,790	**$ 17,819,926**
Net income and comprehensive income	-	-	1,177,519	**1,177,519**
Issuance of member shares	478,777	(119,271)	-	**359,506**
Redemption of member shares	(656,743)	-	-	**(656,743)**
Patronage dividend	-	197,672	(197,672)	**-**
Tax recovery on member shares	-	-	44,420	**44,420**
Balance, October 31, 2014	8,017,899	197,672	10,529,057	**18,744,628**
Net income and comprehensive income	-	-	974,156	**974,156**
Issuance of member shares	712,740	(197,672)	-	**515,068**
Redemption of member shares	(933,929)	-	-	**(933,929)**
Patronage dividend	-	182,956	(182,956)	**-**
Tax recovery on member shares	-	-	43,489	**43,489**
Balance, October 31, 2015	$ 7,796,710	$ 182,956	$ 11,363,746	**$ 19,343,412**

	2015	2014
Operating activities		
Net income and comprehensive income for the year	$ 974,156	$ 1,177,519
Items not affecting cash:		
Amortization	206,471	218,346
Deferred taxes	22,248	(2,197)
	1,202,875	1,393,668
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	134,333	98,962
Income taxes payable	(91,880)	(171,073)
Other assets	390,946	101,214
Derivative financial liabilities	(397,423)	(225,806)
	35,976	(196,703)
	1,238,851	1,196,965
Investing activities		
Purchase of property and equipment	(57,608)	(113,841)
Purchase of intangible assets	(147,718)	(3,168)
Net change in member loans receivable and accrued interest	8,509,735	(15,252,164)
Net purchase of investments	(12,096,281)	(5,155,661)
	(3,791,872)	(20,524,834)
Financing activities		
Net change in member deposits and accrued interest	2,944,185	14,912,197
Net change in member shares	(235,906)	(99,565)
Common share dividends paid, net of tax recovery	(139,467)	(153,252)
	2,568,812	14,659,380
Increase (decrease) in cash flow	15,791	(4,668,489)
Cash and cash equivalents - beginning of year	8,486,504	13,154,993
Cash and cash equivalents - end of year	$ 8,502,295	$ 8,486,504
Cash flows supplementary information		
Interest received	$ 8,048,366	$ 8,461,298
Interest paid	$ 3,491,300	$ 3,364,983
Income taxes paid	$ 303,044	$ 522,482

1. **Reporting entity information**

Entity information

Beaumont Credit Union Ltd. (the "Credit Union") is incorporated under the Credit Union Act of the Province of Alberta. The Credit Union operates one branch in the community of Beaumont and the surrounding area. The address of the Credit Union's registered office is 5007 - 50th Avenue, Beaumont, Alberta, T4X 1E7.

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

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").

Basis of measurement

These financial statements for the year ended October 31, 2015 were recommended for approval and authorized for issue by the Board of Directors on December 17, 2015.

These financial statements have been prepared on the historic cost basis except for financial assets and financial liabilities classified as available for sale or as fair value with gains or losses included in the statement of income and comprehensive income.

Functional and presentation currency

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

2. **Significant accounting policies**

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, the current account with Credit Union Central Alberta Limited (operating as "Alberta Central"), items in transit and accounts with other financial institutions. Cash and cash equivalents are recorded at amortized cost in the statement of financial position. These items are highly liquid financial assets with maturities of three months or less from the acquisition date and are used by the Credit Union in the management of short-term commitments.

Investments

Central deposits and shares

Alberta Central term deposits and other investments are accounted for as loans and receivables at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. Alberta Central shares are classified as available for sale and are initially recognized at fair value. There is no separately quoted market value for these shares and the fair value could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

(continues)

2. **Significant accounting policies** *(continued)*

Portfolio investments

Investments and other shares are valued initially at fair value, then are adjusted to recognize other than a temporary impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Equity investments that do not have a quoted market price in an active market are estimated to be equal to cost.

Member loans receivable

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

Foreclosed properties held for resale are carried at the lower of the amortized cost of the loan or mortgages foreclosed, adjusted for revenues received and cost incurred subsequent to foreclosure, and the estimated net proceeds from the sale of assets.

Impairment of financial assets

The Credit Union assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets, other than a financial asset held at fair value through profit or loss, is impaired. A financial asset or group of financial assets is considered to be impaired only if there is objective evidence that one or more events that occurred after the initial recognition of the asset(s) has had a negative effect on the estimated future cash flows of that asset and the impact can be reliably estimated.

The Credit Union first assesses whether objective evidence of impairment exists for assets that are individually

significant and collectively for assets that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed asset, the asset is assessed collectively in groups that share similar credit risk characteristics.

Members' loans

The Credit Union maintains an allowance for specific and collective credit losses on members' loans, which are established as a result of reviews at an individual loan and loan portfolio level.

A specific allowance is recognized by reviewing the creditworthiness of the individual borrowers and the value of the collateral underlying the loan.

The amount of the allowance is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted for fixed rate loans at the loan's original effective interest rate and for variable rate loans at the effective rate at the time of impairment. Cash flows arising from the recovery and sale of collateral are included, whether or not foreclosure is probable. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized within the provision for credit loss expense in the statement of income and comprehensive income.

(continues)

2. **Significant accounting policies** *(continued)*

Where individual loans are not considered to be specifically impaired, they are placed into groups of loans with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

A collective allowance is established where the Credit Union has identified objective evidence that losses in the loan portfolio have been incurred, but for which a specific provision cannot yet be determined. The collective allowance is based on observable data including the current portfolio delinquency profile, historic loss experience and management's evaluation of other conditions existing at the reporting date which are not reflected in historical trends. Changes in the collective allowance account are recognized within the provision for credit loss expense in the statement of income and comprehensive income.

The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in assumptions used could result in a change in the allowance for loan losses and have a direct impact on the provision for credit loss expense in the statement of income and comprehensive income.

Following impairment, interest income is recognized using the original effective rate of interest. This rate is then used to discount the future cash flows for the purpose of measuring the potential impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the specific or general allowance. The amount of the reversal is recognized within the provision for credit losses in the statement of income and comprehensive income.

The Credit Union writes off amounts charged to the allowance account against the carrying value of an impaired loan when there is no realistic prospect of future recovery and all collateral has been realized. The Credit Union seeks to work with the members to bring their accounts to a current status before taking possession of collateral.

Other financial assets

For assets measured at amortized cost, an impairment loss is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset held at cost is calculated as the difference between its carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset.

All impairment losses are recognized in the statement of income and comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of income and comprehensive income. Reversals of impairments are not recognized for available-for-sale financial assets that are measured at cost.

Property and equipment

Property and equipment are stated at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

(continues)

2. **Significant accounting policies** *(continued)*

Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives:

Building	2.50%	straight-line method
Parking lot	6.67%	straight-line method
Computer and security equipment	10.00% to 25.00%	straight-line method
Furniture and equipment	20.00%	straight-line method

The useful lives of items of property and equipment are reviewed on a regular basis and the useful life is altered if estimates have changed significantly. Gains or losses on disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the statement of income and comprehensive income as other operating income or other operating costs, respectively.

Intangible assets

Intangible assets consist of certain acquired and internally developed banking software. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value an impairment loss is recognized in the statement of income and comprehensive income.

Intangible assets available for use are amortized on a straight-line basis over their useful lives (which has been estimated to range from 4 to 10 years). The method of amortization and the useful lives of the assets are reviewed annually and adjusted if appropriate.

There are no indefinite life intangible assets.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of income and comprehensive income.

(continues)

2. **Significant accounting policies** *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statement of income and comprehensive income.

Accounts payable and accrued liabilities

Accounts payable are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

Member deposits

Member deposits are initially recognized at fair value net of transaction costs directly attributable to issuance and are subsequently measured at amortized cost using the effective interest method.

Member shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares subject to regulatory restriction are accounted for using the criteria set out in IFRIC 2 Members' Shares in Cooperative Entities and Similar Instruments.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest income is recognized on the statement of income and comprehensive income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Commissions and fees that are considered an integral part of the effective interest rate are included in the measurement of the effective interest rate. Commissions and fees that are not an integral part of the effective interest rate, including insurance commissions and mortgage prepayment penalties, are recognized as income when charged to the members.

Account service charges are recognized as income when charged to the members.

Income taxes

Current tax and deferred tax are recognized in the statement of income and comprehensive income except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

(continues)

2. **Significant accounting policies** *(continued)*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

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.

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 year end date. Translation gains and losses are recognized in the statement of income and comprehensive income for the year.

Financial instruments

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 are expensed as incurred. Transaction costs for other financial instruments are capitalized on initial recognition.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in the statement of income and comprehensive income.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Credit Union classifies its shares in Alberta Central as available for sale.

The financial assets classified as loans and receivables are initially measured at fair value, then subsequently carried at amortized cost using the effective interest method less any accumulated impairment losses. Loans and receivables include cash and cash equivalents, term deposits, accounts receivable and member loans and accrued interest.

Other financial liabilities are initially measured at fair value, then subsequently carried at amortized cost. Accounts payable and accrued liabilities and member deposits and accrued interest are classified as other financial liabilities.

(continues)

2. **Significant accounting policies** *(continued)*

De-recognition of financial assets

De-recognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
- The Credit Union has transferred substantially all the risks and rewards of the asset, or
- The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent that the Credit Union's continuing involvement in the asset, in that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the statement of income and comprehensive income.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income is the total of net income and other comprehensive income. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with International Financial Reporting Standards, require recognition, but are excluded from net income. The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in the statement of income and comprehensive income for the year.

New IFRS standards and interpretations not applied

Certain new standards have been published that are mandatory for the Credit Union's accounting periods beginning on or after October 31, 2015 or later periods that the Credit Union has decided not to early adopt. The new IFRS standards not yet applied include:

IFRS 7 Financial Instruments: Disclosures

This amendment aligns with the deferral of the effective date of IFRS 9. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 to IFRS 9 on the basis of the entity's date of adoption and if the entity chooses to restate prior periods. The amendment is effective for annual periods beginning on or after January 1, 2015.

(continues)

2. **Significant accounting policies** *(continued)*

IFRS 9 Financial Instruments

The new standard is the first phase of the project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard simplifies the current financial asset classifications contained in IAS 39 by creating two classifications – amortized cost and fair value. In addition the standard will require that all equity instruments are measured at fair value. The new standard has a mandatory effective date for periods beginning on or after January 1, 2018, with earlier application permitted. The second and third phases of the project dealing with financial asset impairment and hedging remain in development and so the full impact of the standard on the Credit Union will be unknown until the completion of the project.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2017, with earlier application permitted.

IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016, with earlier application permitted.

3. **Significant accounting judgments, estimates and assumptions**

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of the financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. The resulting accounting estimates will, by definition, seldom equal the resulted actual results, and actual results may ultimately differ from these estimates.

Allowance for impaired loans

The Credit Union reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Credit Union makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Members' loans receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on members' loans receivable is disclosed in more detail in Note 5.

(continues)

3. **Significant accounting judgments, estimates and assumptions** *(continued)*

Financial instruments not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

4. **Cash and cash equivalents**

	2015	2014
Cash held with financial institutions, plus items in transit	**$ 7,962,873**	$ 7,891,987
Cash on hand	**539,422**	594,517
	$ 8,502,295	$ 8,486,504

5. Member loans

	2015				
	Recorded Loans	**Specific Allowance**	**Collective Allowance**	**Net Carrying Value**	**Gross Impaired Loans**
Agricultural	**1,348,135**	**-**	**-**	**1,348,135**	**-**
Commercial	**48,868,928**	**120,712**	**123,150**	**48,625,066**	**317,237**
Consumer	**37,093,320**	**139,409**	**69,625**	**36,884,286**	**666,176**
Residential	**115,702,497**	**7,500**	**91,794**	**115,603,203**	**904,461**
	203,012,880	**267,621**	**284,569**	**202,460,690**	**1,887,874**
Accrued interest	**361,986**	**-**	**-**	**361,986**	**-**
	203,374,866	**267,621**	**284,569**	**202,822,676**	**1,887,874**

	2014				
	Recorded Loans	Specific Allowance	Collective Allowance	Net Carrying Value	Gross Impaired Loans
Agricultural	1,515,333	3,133	-	1,512,200	3,133
Commercial	56,384,140	275,651	138,816	55,969,673	480,331
Consumer	45,541,419	74,817	68,375	45,398,227	649,227
Residential	108,235,215	6,100	154,153	108,074,962	997,336
	211,676,107	359,701	361,344	210,955,062	2,130,027
Accrued interest	377,349	-	-	377,349	-
	212,053,456	359,701	361,344	211,332,411	2,130,027

Loan allowance details

	2015	2014
Balance, beginning of year	**$ 721,045**	$ 723,832
Less: Accounts written off, net of recoveries	**(86,214)**	(73,622)
	634,831	650,210
Provision for impaired loans (recovery)	**(82,641)**	70,835
Balance, end of year	**$ 552,190**	721,045

(continues)

5. **Member loans** *(continued)*

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	2015		
	30-59 days	**60-89 days**	**Total**
Agricultural	**1,515**	**-**	**1,515**
Commercial	**49,015**	**121,071**	**170,086**
Consumer	**2,582,284**	**10,412**	**2,592,696**
Residential	**414,491**	**-**	**414,491**
	3,047,305	**131,483**	**3,178,788**

	2014		
	30-59 days	60-89 days	Total
Agricultural	3,133	-	3,133
Commercial	19,866	1,519	21,385
Consumer	1,409,461	30,971	1,440,432
Residential	-	386,110	386,110
	1,432,460	418,600	1,851,060

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

6. Investments

	2015	2014
Held to maturity		
Term deposits held with Alberta Central	**$ 27,200,000**	$ 18,950,000
Other term deposits	**4,000,000**	-
Accrued interest	**24,658**	23,502
	31,224,658	18,973,502
Available for sale		
Alberta Central common shares	**2,474,698**	2,319,331
Mortgage pools	**1,585,705**	1,895,947
	4,060,403	4,215,278
	$ 35,285,061	$ 23,188,780

As required by the Credit Union Act, the Credit Union holds investments in Alberta Central to maintain its liquidity level.

Term deposits earn interest at rates ranging from 0.48% to 1.067%. The term deposit maturities range from November 2015 to December 2015.

7. Other assets

	2015	2014
Derivative financial assets *(Note 10)*	**$ 310,794**	$ 708,217
Prepaid expenses	**219,846**	251,997
Accounts receivable	**214,994**	176,366
	$ 745,634	$ 1,136,580

8. **Property and equipment**

	Land	Building	Parking lots	Furniture and equipment	Security equipment and information technology	Total
Cost						
Balance at October 31, 2013 $	276,999	3,809,062	97,900	515,403	399,854	5,099,218
Additions	-	1,380	4,494	32,134	75,831	113,839
Disposals	-	-	-	-	(100,446)	(100,446)
Balance at October 31, 2014	276,999	3,810,442	102,394	547,537	375,239	5,112,611
Additions	-	-	-	4,715	52,893	57,608
Disposals	-	-	-	-	-	-
Balance at October 31, 2015	276,999	3,810,442	102,394	552,252	428,132	5,170,219
Accumulated amortization						
Balance at October 31, 2013 $	-	1,054,557	81,584	498,839	339,674	1,974,654
Additions	-	95,396	6,676	7,753	40,231	150,056
Disposals	-	-	-	-	(100,446)	(100,446)
Balance at October 31, 2014	-	1,149,953	88,260	506,592	279,459	2,024,264
Additions	-	95,373	6,677	7,868	17,287	127,205
Disposals	-	-	-	-	-	-
Balance at October 31, 2015	-	1,245,326	94,937	514,460	296,746	2,151,469
Net book value						
October 31, 2014	276,999	2,660,489	14,134	40,945	95,780	3,088,347
October 31, 2015	**276,999**	**2,565,116**	**7,457**	**37,792**	**131,386**	**3,018,750**

9. **Intangible assets**

	2015	2014
Cost		
As at October 31	$ 675,274	$ 672,107
Additions	147,718	3,167
	822,992	675,274
Accumulated amortization		
As at October 31	$ 438,026	$ 369,740
Amortization	79,266	68,286
	517,292	438,026
Net book value		
As at October 31	**$ 305,700**	$ 237,248

10. **Derivative financial assets and liabilities**

The Credit Union has entered into option agreements with Alberta Central to offset the exposure related to the performance of the underlying index on equity-linked products offered to members. The embedded derivative in the product as well as the option derivative is marked to market each year end, and amounted to $310,794 (2014 - $708,217) as shown on the statement of financial position. At the end of the term, the Credit Union will receive payment from Alberta Central which will offset the amount that will be paid to the members based on the performance of the underlying index of the product.

The Credit Union has $17,054,699 (2014 - $16,666,762) outstanding of equity-linked deposits owed to its members at year end. These deposits mature between 2016 and 2020.

The option agreements with Alberta Central are recorded in member deposits at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the term of the products and amounted to $333,043 (2014 - $332,434) for the year. The balance of the option agreements included in member deposits as at year end is $626,999 (2014 - $732,417).

11. **Member deposits**

The repayment of all deposits, including accrued interest, is guaranteed by Credit Union Deposit Guarantee Corporation, for which the Credit Union pays a deposit guarantee assessment fee.

	2015	2014
Demand deposits	**$ 107,876,730**	$ 95,656,510
Term deposits	**81,958,259**	92,793,763
Registered plans	**39,875,841**	38,101,124
	229,710,830	226,551,397
Accrued interest	**698,566**	913,814
	$ 230,409,396	$ 227,465,211

(continues)

11. **Member deposits** *(continued)*

Member deposits are subject to the following terms:

- Demand deposits are due on demand and bear interest at rates up to 2.00% for the year ended October 31, 2015.
- Term deposits are subject to fixed and variable rates of interest ranging from 0.00% to 3.25%, with interest payments due monthly, annually or on maturity.
- Registered plans are subject to fixed and variable rates of interest ranging from 0.00% to 4.00%, with interest payments due monthly, annually or on maturity.

12. **Income taxes**

The total provision for income taxes in the statement of income and comprehensive income is at a rate differing from the combined federal and provincial statutory income tax rates for the following reasons:

	2015	2014
Combined federal and provincial statutory income tax rates	**48.50 %**	48.00 %
Reduction for Credit Unions and general tax reduction	**(23.33) %**	(25.53) %
Non-deductible and other items	**(0.95) %**	(0.45) %
Income taxes as reported	**24.22 %**	22.02 %

The tax effects of temporary differences which give rise to the deferred tax liability reported in the statement of financial position, are due to differences between amounts deducted for accounting and income tax purposes for property and equipment, intangible assets and the allowance for impaired loans.

Net deferred tax liabilities are comprised of the following:

	2015	2014
Property and equipment	**$ (61,507)**	$ (49,328)
Intangible assets	**(55,950)**	(51,435)
Allowance for impaired loans	**84,782**	90,336
	$ (32,675)	$ (10,427)

13. **Contingent liabilities and commitments**

Financing

To finance short-term cash needs, the Credit Union has an operating line of credit with Alberta Central. The demand revolving operating line of credit has a ceiling of $9,000,000 CDN (2014 - $9,000,000 CDN), including a USD component equivalent to $994,000 CDN (2014 - $600,000 CDN). The demand revolving operating line of credit is payable on demand and bears interest at Alberta Central's Canadian prime rate less 0.5% for CDN advances and the Alberta Central's United States prime rate plus 0.5% for USD advances.

(continues)

13. **Contingent liabilities and commitments** *(continued)*

The demand revolving operating line of credit avoids the need to maintain on hand large sums of cash for short-term purposes. The demand revolving operating line of credit is used generally on a day-to-day basis. There is no balance outstanding as at October 31, 2015 (2014 - $nil).

Additionally, the Credit Union has available a revolving term loan up to $10,000,000 CDN (2014 - $10,000,000 CDN) with terms from 1 to 24 months for each advance, which bear interest at Alberta Central's prime rate plus or minus the applicable discount or margin 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 Alberta Central's money market deposit rate. There is no balance outstanding as at October 31, 2015 (2014 - $nil).

The debt with Alberta Central is secured by the following:

- Registered Security Agreement covering accounts and instruments;
- Pledge of all investments, deposits, and share accounts held with Alberta Central; and,
- General Security Agreement.

Credit commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments, letters of credit, letters of guarantee and loan guarantees, which are not included in the statement of financial position.

Guarantees and standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the member is unable to meet its contractual financial or performance obligations. In the event of a call on such commitments, the Credit Union has recourse against the members.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum credit risk exposure to the Credit Union should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

As at October 31, 2015 the Credit Union had the following amounts outstanding:

	2015	2014
Letters of guarantee	**$ 1,919,970**	$ 1,819,589
Commitments to extend credit:		
Original term to maturity of one year or less	**23,279,900**	23,437,383
Original term to maturity of more than one year	**10,196,346**	10,229,806

14. **Member shares**

The Credit Union Act created a class of equity shares known as common shares, having the following characteristics:

(continues)

14. **Member shares** *(continued)*

a) An unlimited number may be issued;

b) A par value of $1, but fractional shares may be issued;

c) Transferable only in restricted circumstances:

d) Non-assessable; and,

e) Redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the Credit Union Act and Regulations.

A member must purchase at least 1 share to retain membership in the Credit Union.

The Credit Union policy requires all members to make a minimum investment based upon the following criteria:

Regular member account	$5 (2014 - $25)
Trust account	$5
Member with a loan account	$100
Non-profit organization account	$0
Members are allowed to hold a maximum of	$100,000

Common shares are "at risk" capital and are not guaranteed by the Corporation.

15. **Director and officer indemnification**

The Credit Union indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law.

16. **Fair value of financial instruments**

The amounts are designed to approximate the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. Since many of the Credit Union's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair value of cash resources, variable rate loans and deposits and accounts payable are assumed to equal their book values due to their short term nature. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

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

a) The fair values of cash and cash equivalents, short-term investments, other assets and other liabilities are assumed to approximate book values, due to their short-term nature.

b) The estimated fair value of floating rate investments, member loans and member deposits are assumed to equal book value as the interest rates automatically reprice to market.

(continues)

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

c) The estimated fair value of fixed rate member loans, fixed rate investments and fixed rate member deposits is determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

Estimated fair values of financial instruments are summarized as follows:

		2015		2014
	Book Value	**Fair Value**	**Fair Value Difference**	Fair Value Difference
Assets				
Cash	$ 8,502,295	8,502,295	**-**	-
Investments	35,285,061	35,367,061	**82,000**	33,000
Member loans	202,822,676	203,243,676	**421,000**	400,000
Other assets	4,109,032	4,109,032	**-**	-
Less:				
Liabilities				
Member deposits	(230,409,396)	(231,466,396)	**(1,057,000)**	(1,040,000)
Other liabilities	(966,256)	(966,256)	**-**	-
	$ 19,343,412	18,789,412	**(554,000)**	(607,000)

Fair value measurements

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

- Level 1: Quoted prices (unadjusted) are available in active markets for identical asset or liabilities.

- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly.

- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. Investments, member loans and member deposits have been classified as Level 2 as fair values are primarily due to changes in interest rates. There have been no transfers between Level 1 and 2 during the year.

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

17. **Related party transactions**

Key management personnel ("KMP") of the Credit Union include the Chief Executive Officer, the Vice-President Human Resources, Marketing & Communication, the Vice-President Finance & Risk, and the Vice-President Sales & Service.

(continues)

17. **Related party transactions** *(continued)*

Loans made to KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures below.

There are no loans that are impaired in relation to loan balances with KMP or directors.

There are no benefits or concessional terms and conditions applicable to the family members of KMP. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

At year end, the total of loans outstanding to KMP amounted to:

	2015	2014
Aggregate of loans to KMP	**$ 826,615**	$ 1,003,629
Total value of revolving credit facilities to KMP	**15,000**	25,000
Net balance available	**$ 841,615**	$ 1,028,629

During the year, the interest earned on loans and interest paid on deposits for KMP amounted to:

	2015	2014
Interest and other revenue earned on loans to KMP	**$ 9,007**	$ 13,026
Interest paid on deposits to KMP	**16,853**	36,111

At year end, the total value of member deposits from KMP amounted to:

	2015	2014
Aggregate of deposits from KMP	**$ 741,390**	$ 2,630,667

During the year, the aggregate compensation of KMP amounted to:

	2015	2014
Salary, bonuses and short term benefits	**$ 664,391**	$ 650,915

Transactions with the Board of Directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Payments made for honoraria and per diems amounted to $26,381 and reimbursement of expenses amounted to $9,136. Amounts paid to directors ranged from $780 to $6,062 with an average of $3,552.

The Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation ("CUDGC") was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions and to establish sound procedures and controls for credit unions. CUDGC provides a safeguard of all savings and deposits of members of Alberta credit unions.

(continues)

17. **Related party transactions** *(continued)*

Transactions with CUDGC included assessments of $361,512 (2014 - $307,140) and are recorded as member security expense in the statement of income and comprehensive income. There was $93,300 (2014 - $83,400) included in accounts payable and accrued liabilities at year end.

The Credit Union Central Alberta Limited

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

Transactions with Alberta Central included income earned on investments and cash held in the current account in the amount of $374,618 (2014 - $376,598), and fees assessed by Alberta Central which include annual affiliation dues in the amount of $66,767 (2014 - $60,420) recorded as organization expense in the statement of income and comprehensive income.

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the maintenance of the infrastructure needed to ensure uninterrupted delivery of such banking services.

Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Financial Services and Credit Union Electronic Transaction Services.

18. **Financial instruments risk management**

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union, as part of operations, has established avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

a) Ensuring all activities are consistent with the mission, vision and values of the Credit Union;

b) Balancing risk and return by:
   - Managing credit, market and liquidity risk through preventative and detective controls;
   - Ensuring credit quality is maintained;
   - Ensuring credit, market, and liquidity risk is maintained at acceptable levels;
   - Diversifying risk in transactions, member relationships and loan portfolios;
   - Pricing according to risk taken; and,
   - Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Risk, Audit & Finance Committee. The risk policies, procedures and objectives have not changed materially from the prior year.

(continues)

18. **Financial instruments risk management** *(continued)*

Credit risk

Credit risk is the risk of a financial loss in the event of failure by a borrower to completely honour its financial obligation to the Credit Union, such as interest and/or principal payments due on member loans. Credit risk arises principally as a result of the Credit Union's lending activities with members.

Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position. See Note 5 for further information.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being Beaumont and surrounding areas.

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

a) Loan security (collateral) requirements;

b) Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;

c) Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;

d) Borrowing member capacity (repayment ability) requirements;

e) Borrowing member character requirements;

f) Limits on aggregate credit exposure per individual and/or related parties;

g) Limits on concentration to credit risk by loan type, industry and economic sector;

h) Limits on types of credit facilities and services offered;

i) Internal loan approval processes;

j) Loan documentation standards;

k) Loan re-negotiation, extension and renewal processes;

l) Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;

m) Control and monitoring processes including portfolio risk identification and delinquency tolerances;

n) Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;

(continues)

18. **Financial instruments risk management** *(continued)*

o) Collection processes that include action plans for deteriorating loans;

p) Overdraft control and administration processes; and,

q) Loan syndication processes.

Market risk

Market risk is the risk of a loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk. See Note 16 for further information on fair value of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

Foreign currency risk

Foreign currency risk exposure results if financial assets or financial liabilities are denominated in a currency other than Canadian dollars. The Credit Union holds US dollars. The balances held are relatively low therefore, the currency risk is low. The Credit Union follows a policy of holding US dollars in an amount slightly below the US dollar deposit account levels. These levels are monitored and recorded daily. The buy and sell rates are also monitored and recorded daily. Excess US cash holdings are converted into Canadian funds.

Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to pay obligations when they fall due or not be able to repay depositors when funds are withdrawn. To mitigate this risk, the Credit Union Act (the “Act”) requires that the Credit Union maintain, at all times liquidity that is adequate in relation to the business carried on. The Credit Union calculates its liquidity position on a monthly basis to assess compliance with statutory and mandatory liquidity requirements. These balances are communicated to the Board of Directors regularly throughout the year. The Credit Union manages liquidity by continuously monitoring actual daily cash flows, monitoring the maturity dates of financial assets and financial liabilities, and maintaining adequate cash reserves.

The Act requires credit unions to maintain eligible assets for adequate liquidity. Assets held by the Credit Union for such purposes are outlined below:

(continues)

18. **Financial instruments risk management** *(continued)*

	2015	2014
Credit Union Central statutory investments	$ 19,700,000	$ 18,950,000
Credit Union Central common shares	2,474,698	2,319,331
Total assets held for liquidity	$ 22,174,698	$ 21,269,331

19. **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 Credit Union Act of Alberta ("the Act"). The Credit Union complied with these capital requirements throughout the year ending October 31, 2015.

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

- 4% of total assets. As at October 31, 2015, this amounted to $10,028,763;
- 8% of risk weighted assets. Under this method the Credit Union reviews each loan and other assets and assigns a risk weighting using definitions and formulas set out in the Act and by the Credit Union Deposit Guarantee Corporation. The more risk associated with an asset, a higher weighting is assigned. The balance of each asset is multiplied by the risk weighting with the result then added together. 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. As at October 31, 2015, this amounted to $10,875,158.

  Additionally, the Credit Union is required to have a regulatory capital buffer of 2.5% for the year ended October 31, 2015. Further to this requirement, the Credit Union is expected to hold a self-identified internal buffer equal to 2% of risk weighted assets.

The Credit Union 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 and the Risk, Audit & Finance Committee 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.

(continues)

19. **Capital management** *(continued)*

Under the Act, total capital as at October 31, 2015 includes:

	2015	2014
Retained earnings	**$ 11,363,746**	$ 10,529,057
Member shares	**7,796,710**	8,017,899
Patronage allocation	**182,956**	197,672
Collective allowance of credit losses	**284,569**	361,344
Deferred tax	**32,675**	10,427
Less: Intangible assets	**(305,700)**	(237,248)
	$ 19,354,956	$ 18,879,151

Therefore, the Credit Union has exceeded its minimum capital requirements at October 31, 2015.

20. **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

2015		**Variable Rate**	**Within 1 Year**	**1 to 5 Years**	**Non-rate Sensitive**	**Total**
Assets						
Cash	$	8,187,297	-	-	314,998	**8,502,295**
Effective Yield		0.56%	0.00%	0.00%	0.00%	**0.54%**
Investments		4,000,000	27,200,000	1,585,705	2,499,356	**35,285,061**
Effective Yield		1.07%	0.43%	2.29%	0.00%	**0.66%**
Member loans		59,303,727	34,500,873	109,391,642	(373,566)	**202,822,676**
Effective Yield		4.04%	3.46%	3.42%	0.00%	**3.61%**
Other		-	-	-	4,109,032	**4,109,032**
	$	71,491,024	61,700,873	110,977,347	6,549,820	**250,719,064**
Liabilities and Equity						
Member deposits	$	87,560,236	54,046,349	63,775,404	25,027,407	**230,409,396**
Effective Yield		1.06%	1.35%	1.56%	0.00%	**1.15%**
Capital and retained earnings		-	-	-	19,343,412	**19,343,412**
Other		-	-	-	966,256	**966,256**
	$	87,560,236	54,046,349	63,775,404	45,337,075	**250,719,064**
Net gap	$	(16,069,212)	7,654,524	47,201,943	(38,787,255)	**-**
% of assets		-6.41%	3.05%	18.83%	-15.47%	**0.00%**
2014						
Net gap	$	(6,316,417)	(7,277,465)	52,867,615	(39,273,733)	**-**
% of assets		-2.55%	-2.94%	21.36%	-15.87%	**0.00%**