LAKELAND CREDIT UNION LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2019

INDEPENDENT AUDITORS' REPORT

To the Members of Lakeland Credit Union Limited

Opinion

We have audited the accompanying consolidated financial statements of Lakeland Credit Union Limited (the Credit Union), which comprise the consolidated statement of financial position as at October 31, 2019 and the consolidated statements of net 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.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

(continues)

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

(continues)

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

Metrix Group LLP

Chartered Professional Accountants

Edmonton, Alberta
January 30, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Members of Lakeland Credit Union Limited:

Management has the responsibility for preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with these statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with International Financial Reporting Standards and the requirements of the *Credit Union Act (Alberta)*.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, as well as for the accounting systems from which they are derived, management maintains the necessary systems of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The ultimate responsibility to members for the consolidated financial statements lies with the Board of Directors (the "Board"). The Board appoints a Finance Audit and Risk Committee to review consolidated financial statements with management in detail and to report to the Board prior to its approval to publish the consolidated financial statements.

The Board appoints external auditors to audit the consolidated financial statements and to meet separately with both the Finance Audit and Risk Committee and management to review their findings. The external auditors report directly to the members. The external auditors have full and free access to the Finance Audit and Risk Committee to discuss their audit, as well as their findings concerning the integrity of the Credit Union's financial reporting and the adequacy of its systems of internal controls.

Bonnyville, Alberta
January 30, 2020

Shirley A. Mayowski, FCUIC
Vice President, Finance & Risk
Co-Chief Executive, Interim

Wendy Morrison, GPC.D
AVP Corporate Governance
Co-Chief Executive, Interim

Ronda Morin, CCE
Vice President, Member Experience
Co-Chief Executive, Interim

LAKELAND CREDIT UNION LIMITED

Consolidated Statement of Financial Position

As at October 31, 2019

	2019	2018
ASSETS		
Cash and Cash Equivalents *(Note 5)*	**$ 28,411,916**	$ 64,861,668
Investments *(Note 6)*	**49,017,105**	52,056,106
Member Loans *(Note 8)*	**527,753,909**	509,050,594
Assets Held for Sale	**891,112**	1,177,555
Income Taxes Recoverable *(Note 10)*	**430,854**	-
Prepaid Expenses	**188,723**	196,275
Deferred Income Tax Asset *(Note 10)*	**212,571**	366,640
Derivative Assets *(Note 11)*	**236,018**	372,120
Property and Equipment *(Note 13)*	**12,455,515**	12,915,730
Intangible Assets *(Note 14)*	**158,430**	195,174
	$ 619,756,153	$ 641,191,862
LIABILITIES		
Member Deposits *(Note 15)*	**$ 517,247,195**	$ 542,757,136
Accounts Payable and Accrued Liabilities	**2,018,115**	1,201,228
Derivative Liabilities *(Note 11)*	**236,018**	372,120
Income Taxes Payable *(Note 10)*	**-**	229,601
	519,501,328	544,560,085
MEMBERS' EQUITY		
Allocation Distributable *(Note 16)*	**2,771,338**	2,579,972
Member Shares *(Note 17)*	**22,386,958**	22,411,504
Retained Earnings	**75,096,529**	71,640,301
	100,254,825	96,631,777
	$ 619,756,153	$ 641,191,862

Commitment *(Note 21)*

ON BEHALF OF THE BOARD:

Charmaine Code, Board Chair

Dean Dube, Finance Audit and Risk Committee Chair

LAKELAND CREDIT UNION LIMITED

Consolidated Statement of Net Income and Comprehensive Income

For The Year Ended October 31, 2019

	2019	2018
Financial Income		
Interest from member loans	**$ 20,092,075**	$ 19,171,796
Investment income	**1,464,646**	1,309,941
	21,556,721	20,481,737
Financial Expenses		
Interest on member deposits	**6,597,505**	4,179,556
Interest on financing	**11,727**	10,765
	6,609,232	4,190,321
Financial Margin before Impairment Charges	**14,947,489**	16,291,416
Net Investment Impairment Charges	**(726)**	-
Net Member Loan Impairment Charges *(Note 9)*	**(199,809)**	89,338
Financial Margin after Impairment Charges	**15,148,024**	16,202,078
Other Income	**2,471,202**	2,754,893
Gross Margin	**17,619,226**	18,956,971
Operating Expenses *(Schedule 1)*	**10,766,226**	10,890,569
Income before Patronage Allocation and Income Taxes	**6,853,000**	8,066,402
Patronage Allocation *(Note 16)*	**2,094,186**	1,902,777
Income before Income Taxes	**4,758,814**	6,163,625
Income Taxes *(Note 10)*		
Current	**1,284,854**	1,716,981
Deferred (Recovery)	**154,069**	(60,775)
	1,438,923	1,656,206
Net Income and Comprehensive Income	**$ 3,319,891**	$ 4,507,419

LAKELAND CREDIT UNION LIMITED

Consolidated Statement of Changes in Members' Equity

For The Year Ended October 31, 2019

	Allocation Distributable	Member Shares	Retained Earnings	**Total**
Balance, October 31, 2017	$ 2,561,985	$ 22,400,870	$ 67,627,233	**$ 92,590,088**
Net Income	-	-	4,507,419	**4,507,419**
Patronage Paid Through Issuance of Member Shares	(1,881,930)	1,881,930	-	**-**
Patronage Accrued	1,902,777	-	-	**1,902,777**
Dividends Paid Through Issuance of Member Shares *(Note 16)*	(680,055)	680,055	-	**-**
Dividends Accrued *(Note 16)*	677,195	-	(677,195)	**-**
Tax Recovery on Member Shares	-	-	182,844	**182,844**
Issuance of Member Shares	-	244,695	-	**244,695**
Redemption of Member Shares	-	(2,796,046)	-	**(2,796,046)**
Balance, October 31, 2018	$ 2,579,972	$ 22,411,504	$ 71,640,301	**$ 96,631,777**
Impact of adopting IFRS 9 as at November 1, 2018 *(Note 24)*	-	-	632,942	**632,942**
Balance, November 1, 2018	**$ 2,579,972**	**$ 22,411,504**	**$ 72,273,243**	**$ 97,264,719**
Net Income	-	-	3,319,891	**3,319,891**
Patronage Paid Through Issuance of Member Shares	(1,902,777)	1,902,777	-	**-**
Patronage Accrued	2,094,186	-	-	**2,094,186**
Dividends Paid Through Issuance of Member Shares *(Note 16)*	(677,195)	677,195	-	**-**
Dividends Accrued *(Note 16)*	677,152	-	(677,152)	**-**
Tax Recovery on Member Shares	-	-	180,547	**180,547**
Issuance of Member Shares	-	292,182	-	**292,182**
Redemption of Member Shares	-	(2,896,700)	-	**(2,896,700)**
Balance, October 31, 2019	$ 2,771,338	$ 22,386,958	$ 75,096,529	**$ 100,254,825**

LAKELAND CREDIT UNION LIMITED

Consolidated Statement of Cash Flows

For The Year Ended October 31, 2019

	2019	2018
Operating Activities		
Net Income	**$ 3,319,891**	$ 4,507,419
Adjustments for:		
Provision for Loan Impairment	**(199,809)**	89,338
Depreciation	**651,427**	643,543
Amortization of Intangible Assets	**77,788**	59,042
Net Interest Income	**(14,947,489)**	(16,291,416)
Current Income Tax Expense	**1,284,854**	1,716,981
Change in Member Loans	**(18,354,545)**	3,368,850
Change in Member Deposits	**(27,403,478)**	37,129,755
Deferred Income Tax	**154,069**	(60,775)
Change in Assets Held for Sale	**286,443**	(117,178)
Change in Prepaid Expenses	**7,552**	(122,138)
Change in Accounts Payable and Accrued Liabilities	**816,887**	244,078
Gain on Disposal of Property and Equipment	**-**	(360)
Loss on Disposal of Intangible Assets	**127,182**	-
Interest Received	**21,331,433**	20,196,832
Interest Paid	**(4,615,695)**	(3,637,939)
Income Taxes Paid	**(1,610,693)**	(1,361,598)
	(39,201,365)	46,364,434
Financing Activities		
Change in Allocation Distributable	**191,366**	17,987
Change in Member Shares	**(24,546)**	10,634
Dividends on Member Shares	**(677,152)**	(677,195)
	(510,332)	(648,574)
Investing Activities		
Purchases of Property and Equipment	**(191,212)**	(233,078)
Purchase of Intangible Assets	**(168,275)**	(94,500)
Change in Investments	**3,621,432**	5,865,927
	3,261,945	5,538,349
Net Increase In Cash and Cash Equivalents	**(36,449,752)**	51,254,209
Cash and Cash Equivalents, Beginning of Year	**64,861,668**	13,607,459
Cash and Cash Equivalents, End of Year	**$ 28,411,916**	$ 64,861,668

1. INCORPORATION AND GOVERNING LEGISLATION

Lakeland Credit Union (the "Credit Union") is incorporated under the *Credit Union Act* of the Province of Alberta and operates branches in the communities of Bonnyville and Cold Lake.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act*, provides that the Province will ensure that the Corporation carries out this obligation. LCU Financial Ltd. is a wholly owned subsidiary of the Credit Union and is incorporated under the *Business Corporations Act* of Alberta. It provides investment services and financial advice.

The Credit Union's registered office and principal place of business is:

Lakeland Credit Union Limited
5016 50 Avenue
Box 8057
Bonnyville AB T9N 2J3

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Details of the Credit Union’s accounting policies, including changes during the year, are included in Notes 3 and 24. As explained in Note 24, the Credit Union has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from Contracts with Customers* with a date of initial application of November 1, 2018.

The consolidated financial statements were authorized for issue by the Board of Directors on January 30, 2020.

(b) Basis of Measurement

The consolidated financial statements have been prepared using the historical cost basis, except for derivative financial instruments and financial instruments classified as fair value through profit or loss, which has been measured at fair value. The methods to measure fair value are presented in Note 23.

(c) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(Continues)

2. BASIS OF PRESENTATION

(c) Use of Estimates and Judgments (Continued)

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in Notes 3 and 4.

(d) Functional Currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Consolidation

The consolidated financial statements of Lakeland Credit Union Ltd. include the assets, liabilities, income and expenses of its subsidiary, LCU Financial Ltd., after eliminating inter-company transactions and balances.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, ATM cash, foreign currency, operating accounts with Credit Union Central Alberta ("Central"), items in transit and money market term deposits. 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.

(c) Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

(d) Member Loans

Member loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments - Applicable Before November 1, 2018

All financial instruments are initially recognized on the statement of financial position at fair value through acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available for sale, held-to-maturity, loans and receivables, or other financial liabilities. During the year there has been no reclassification of financial instruments.

(i) Financial Assets

The Credit Union designates financial assets as follows: fair value through profit or loss, loans and receivables, held-to-maturity investments and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(ii) Fair Value Through Profit or Loss

Fair value through profit or loss financial assets are measured at fair value with unrealized gains and losses recognized through the statement of comprehensive income. The Credit Union's fair value through profit or loss financial assets include cash and cash equivalents and derivatives.

(iii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans, accrued interest and other receivables are designated as loans and receivables. Loans and receivables are initially recognized at fair value - which is the cash consideration to originate or purchase the loan net of any transaction costs - and measured subsequently at amortized cost using the effective interest rate method.

(iv) Held-to-Maturity

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until its maturity date, and which are not designated as a fair value through profit or loss or as available for sale. The Credit Union's held-to-maturity investments includes its term deposits with Central, Concentra Financial and other credit unions. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

(v) Available for Sale Financial Assets

Available for sale (“AFS”) investments are financial assets that are intended to be held for an indefinite period of time and are not classified as loans and receivables. The Credit Union’s AFS investments include its shares in Central. AFS financial assets are initially recognized at fair value plus transaction costs and measured subsequently at cost with gains and losses being recognized in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognized.

If an AFS financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the statement of net income. However, interest is calculated using the effective interest method, and dividends on AFS equity instruments are recognized in the statement of comprehensive income in investment income when the right to receive payment is established.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial Instruments - Applicable Before November 1, 2018 (Continued)

(vi) Financial Liabilities

The Credit Union designates member deposits, and accounts payable and accrued liabilities as other financial liabilities. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

(vii) Impairment of Financial Assets

The Credit Union assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and the loss event(s) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

(viii) De-Recognition of Financial Instruments

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union recognizes the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset. Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

(f) Financial Instruments - Applicable After November 1, 2018

(i) Financial Assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in net income and comprehensive income when incurred.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments - Applicable After November 1, 2018 (Continued)

Classification and subsequent measurement

On initial recognition, financial assets are recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial instruments are classified as follows:

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment by-investment basis. All other financial assets are classified as measured at FVTPL.

For financial assets designated as measured at FVTPL, changes in fair value are recognized in the consolidated statement of net income and comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of net income and comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the consolidated statement of net income and comprehensive income.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments - Applicable After November 1, 2018 (Continued)

Classification and subsequent measurement (Continued)

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies financial assets only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For members' loans receivable and accrued interest the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for other receivables. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial asset is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments - Applicable After November 1, 2018 (Continued)

Impairment (Continued)

Loss allowances for expected credit losses are presented in the consilidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and
- Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union’s derecognition policy.

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

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

(Continues)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial Instruments - Applicable After November 1, 2018 (Continued)

(ii) Financial liabilities

Recognition and initial measurement

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

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss. When the transfer of a financial asset does not qualify for derecognition because the Credit Union has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in net income and comprehensive income.

All financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits and accrued interest, trade payables and accrued liabilities and securitization debt.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in the statement of net income and comprehensive income while distributions to members of instruments classified as members' equity are recognized in members' equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

(g) Derivatives and Hedge Accounting

The Credit Union uses option contract derivatives to manage its exposure to Canadian equity indices. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into and subsequently measured at fair value with changes in fair value recognized through profit and loss immediately, unless the derivative is designated in a qualifying hedging relationship.

The Credit Union designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Credit Union formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Premiums paid to enter into these hedges are recorded in member deposits and are amortized over the contract life.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Assets Held for Sale

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on the loans that are in default. Foreclosed properties are classified as assets held-for-sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

The Credit Union does not, as a rule, occupy repossessed property for its business use. These assets are normally sold in a manner that maximizes the benefit to the Credit Union, the member and the member’s other creditors and may involve the use of realtors and auctioneers.

(i) Syndication

The Credit Union syndicates groups of assets with various other financial institutions primarily to create liquidity and manage regulatory capital for the Credit Union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union’s Consolidated Statement of Financial Position. All loans syndicated by the Credit Union have been on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets. Fee income is recognized in other income on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

(j) Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverable amount is determined as the higher of an asset’s fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset’s cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income.

(k) Investments in Associates and Joint Ventures

The equity method of accounting is used to account for the investments in associates and joint ventures in which the Credit Union has an ownership interest which results in it having significant influence to participate in the financial and operating policy decisions of the investee but not control. Under this method, the investment is initially recorded at cost and is adjusted thereafter for the post-acquisition change in the Credit Union's share of net assets of the investee.

The carrying value of the investment accounted for using the equity method are based on the initial investment in these companies adjusted for the Credit Union's share of profit or loss of the investee which is deemed to be a reasonable estimate of fair value. As these investments are not publicly traded it is not possible to determine what the actual trading value might be should a sale occur.

For additional information on the Credit Union's investments in associates and joint ventures see Note 7.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property and Equipment

Land is measured at cost. Other items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated. Depreciation of other items of property and equipment are calculated at the following annual rates and methods:

Buildings	2.5%	Straight-line
Parking lot	20%	Straight-line
Furniture and equipment	20%	Declining balance
Security equipment	20%	Straight-line
Computer equipment	10%, 20% and 33%	Straight-line

Depreciation is recorded in the initial month of acquisition; no depreciation is recorded in the month of disposal. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains and losses on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net income within Other Income.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(m) Intangible Assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment (losses). Software is amortized on a straight-line basis over its estimated useful life of 2 or 10 years.

The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in net income within Other Income.

(n) Income Taxes

Tax expense for the period is comprised of current and deferred income taxes.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax basis of the Credit Union’s member loans, and property and equipment. Deferred income 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.

(o) Dividends

Dividends are accounted for when they have been approved by the Board.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Member Shares

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

Common and surplus shares are accounted for in accordance with *IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments* ("IFRIC 2"). Common and surplus shares that are available for redemption are classified as a liability. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

(q) Revenue Recognition

Interest income is recognized on the statement of net 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. The amortized cost of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Other income is recognized in the fiscal period in which the related service is provided, which includes fees, service charges and commission income.

(r) 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 exchange rates at the statement of financial position date. Translation gains and losses are included in other income.

(s) Future Accounting Changes

At October 31, 2019 a number of standards, interpretations, and amendments have been issued by the IASB, which are not effective for these financial statements. Those which could have an impact on the Credit Union's consolidated financial statements are discussed below:

IFRS 16 Leases

IFRS 16 Leases specifies that all leases with the exception of very short term and small items may be required to be recognized on the Consolidated Statement of Financial Position. The effective date for IFRS 16 is for fiscal periods beginning on or after January 1, 2019. The Credit Union will assess what impact the application of IFRS 16 will have on amounts reported on the consolidated financial statements.

4. USE OF ESTIMATES AND KEY JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the reporting year. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. Revisions to accounting estimates are recognized in the year in which the estimate is revised if it affects only that period or in the period of revision and future periods if the revision affects both current and future years.

The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described as follows:

(a) Allowance for Impaired Loans - Applicable Before November 1, 2018

The specific allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the future cash flows the Credit Union expects to receive from these specific loans. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

For the purpose of the collective allowance component of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors. Future cash flows on the group of financial assets, that are collectively evaluated for impairment, are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data. The purpose of the adjustment is to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. This includes for example changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

(b) Expected Credit Loss Allowance - Applicable After November 1, 2018

The Credit Union measures loss allowances at an amount equal to lifetime expected credit loss (ECL). In particular, management judgement is required in the estimate of whether credit risk of a specific impaired loan has increased significantly, inputs into the ECL quantitative model and in the use of forward-looking information.

(Continues)

4. USE OF ESTIMATES AND KEY JUDGMENTS (CONTINUED)

(b) Expected Credit Loss Allowance - Applicable After November 1, 2018 (Continued)

The Credit Union assesses whether credit risk on a financial asset has increased significantly considering reasonable and supportable information since initial recognition in order to determine whether a 12 month ECL or lifetime ECL should be recognized. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience and expert credit assessment.

See the impairment of loans and advances under the significant accounting policies contained in Note 3 for further discussion of allowance for credit losses.

(c) 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. Those techniques are significantly affected by the assumptions used, including discount 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. The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 23.

(d) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

(e) Income Taxes

Management exercises judgment in estimating the provision for income taxes. The Credit Union is subject to income tax laws in the federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Credit Union and the relevant tax authority. To the extent that the Credit Union's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgment is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized. This is based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

(e) Joint Arrangements

The Credit Union holds a 50% (2018 - 33 1/3%) proportionate ownership interest in InStride Resources Ltd. ("InStride") and a 9% (2018 - 9%) proportionate ownership interest in CUSO Wealth Strategies Inc. ("CUSO"). The Credit Union has contractually agreed sharing of control of an agreement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Therefore, management has determined that the Credit Union is part of separate joint ventures with both InStride and CUSO.

5. CASH AND CASH EQUIVALENTS

The Credit Union's cash and cash equivalents consist of cash on hand, ATM cash, foreign exchange cash, operating accounts with Credit Union Central Alberta ("Central"), items in transit and money market term deposits. The average yield on the operating accounts with Central at October 31, 2019 is 0.25% (2018 - 0.25%).

6. INVESTMENTS

	2019	2018
Measured at Amortized Cost		
Central - term deposits	**$ 37,854,887**	$ 41,768,700
Other Credit Union - term deposits	**3,000,000**	1,300,000
Concentra - term deposits	**1,302,600**	2,210,337
Accrued interest	**403,720**	319,775
	42,561,207	45,598,812
Measured at Fair Value Through Profit or Loss		
Central - shares	**6,457,194**	6,457,194
CUSO Wealth Strategies Inc. - shares	**100**	100
	6,457,294	6,457,294
Allowance for impairment	**(1,396)**	-
	$ 49,017,105	$ 52,056,106

All term deposits mature within one year with interest rates ranging from 1.49% to 2.93% (2018 - 1.20% to 2.74%). As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements as described in Note 22.

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(i) InStride Resources Ltd.

The Credit Union holds a 50% (2018 - 33 1/3%) proportionate ownership interest in InStride Resources Ltd. ("InStride"). Management has determined that the Credit Union has joint control, over InStride.

InStride was incorporated under the *Business Corporations Act* of Alberta in 2012 and operates as a shared information and resource centre for its members. Other Credit Unions hold the remainder of the ownership as follows: 1st Choice Savings and Credit Union Ltd. holds the remaining 50% (2018 - Mountain View Credit Union holds 33 1/3% and 1st Choice Savings and Credit Union Ltd. holds the remaining 33 1/3%). There are no significant risks encountered by InStride in the normal course of operations. The Credit Union has not incurred any contingent or future liabilities relating to its investment in InStride.

InStride had assets of $819,965 (2018 - $270,350), liabilities and equity of $819,965 (2018 - $270,350), income of $952,042 (2018 - $1,933,011) and expenses inclusive of income taxes of $952,042 (2018 - $1,933,011) for the year ended October 31, 2019.

(ii) CUSO Wealth Strategies Inc.

The Credit Union holds a 10% (2018 - 9%) proportionate ownership interest in CUSO Wealth Strategies Inc. ("CUSO"). Management has determined that the Credit Union has joint control, over CUSO.

CUSO carries on the business of providing management, administrative and advisory services in respect of wealth management services and products, together with such other businesses as the parties may from time to time approve. There are no significant risks encountered by CUSO in the normal course of operations. The Credit Union has not incurred any contingent or future liabilities relating to its investment in CUSO.

CUSO had assets of $154,810 (2017 - $14,727), liabilities and equity of $154,810 (2017 - $14,727), income of $888,393 (2017 - $601,010) and expenses of $605,873 (2017 - $515,171) for the year ended December 31, 2018.

8. MEMBER LOANS

Member loans by portfolio at amortized cost

	Principal Performing	Principal Impaired	Allowance for Imparied loans	**2019**
Consumer loans	$ 50,410,788	$ 2,523,642	$ (825,328)	**$ 52,109,102**
Residential mortgages	303,113,667	11,339,935	(331,749)	**314,121,853**
Commercial loans	31,668,877	335,107	(27,152)	**31,976,832**
Commercial mortgages	93,038,332	4,429,980	(240,092)	**97,228,220**
Agricultural loans	2,109,251	144,304	(2,355)	**2,251,200**
Agricultural mortgages	13,885,906	-	(9,999)	**13,875,907**
Authorized and unauthorized overdrafts	13,931,716	968,951	(63,851)	**14,836,816**
	508,158,537	19,741,919	(1,500,526)	**526,399,930**
Accrued interest	1,245,109	108,870	-	**1,353,979**
	$ 509,403,646	$ 19,850,789	$ (1,500,526)	**$ 527,753,909**

Principal and Allowance by Loan Type

	Principal Performing	Principal Impaired	Specific Allowance	Collective Allowance	2018
Consumer loans	$ 51,302,965	$ 107,438	$ 36,273	$ 453,376	$ 50,920,754
Residential mortgages	297,760,416	1,143,289	142,009	750,174	298,011,522
Commercial loans	30,945,669	5,413	-	77,941	30,873,141
Commercial mortgages	100,174,866	911,052	61,052	396,695	100,628,171
Agricultural loans	2,157,702	-	-	29,920	2,127,782
Agricultural mortgages	11,637,152	-	-	161,365	11,475,787
Authorized and unauthorized overdrafts	13,595,107	677,018	267,443	196,263	13,808,419
	507,573,877	2,844,210	506,777	2,065,734	507,845,576
Accrued interest	1,212,636	-	7,618	-	1,205,018
	$ 508,786,513	$ 2,844,210	$ 514,395	$ 2,065,734	$ 509,050,594

(Continues)

8. 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 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 full repayment.

	30-59 Days	60-89 Days	90 days or More	**2019 Total**
Consumer loans	$ 547,512	$ 966,711	$ 339,266	**$ 1,853,489**
Residential mortgages	3,545,808	1,120,403	1,951,614	**6,617,825**
Commercial loans	2,465,041	20,753	100,732	**2,586,526**
Agricultural loans	20,271	142,119	13,972	**176,362**
	$ 6,578,632	$ 2,249,986	$ 2,405,584	**$ 11,234,202**

	30-59 Days	60-89 Days	90 days or More	2018 Total
Consumer loans	$ 861,149	$ 724,179	$ 108,266	$ 1,693,594
Residential mortgages	3,486,550	-	1,922,721	5,409,271
Commercial loans	1,028,475	909,337	175,697	2,113,509
	$ 5,376,174	$ 1,633,516	$ 2,206,684	$ 9,216,374

Credit Quality of Loans

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees. It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. The Credit Union has policies in place to monitor the existence of undesirable concentrations 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.

9. ALLOWANCE FOR IMPAIRED LOANS

Reconciliation of allowance for expected credit loss

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	**2019**
Balance at November 1 per IAS 39	$ -	$ -	$ -	**$ 2,580,129**
Adjustment on initial application of IFRS 9	-	-	-	**(635,020)**
Balance at November 1 per IFRS 9	1,086,585	344,129	514,395	**1,945,109**
Charges (recovery) of loan impairment	(213,393)	180,125	(166,541)	**(199,809)**
Loans written off	-	-	(244,774)	**(244,774)**
Balance, end of year	$ 873,192	$ 524,254	$ 103,080	**$ 1,500,526**

	2018
Balance, beginning of year	$ 2,504,828
Charges (recovery) of loan impairment	89,338
Loans written off during the year, net of recoveries	(14,037)
Balance, end of year	$ 2,580,129

Allowance for expected credit loss by portfolio

	12- Month ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Allowance for Impaired Loans
Consumer loans	$ 491,683	$ 261,757	$ 103,080	$ 856,520
Residential mortgages	224,239	107,510	-	331,749
Commercial loans and mortgages	145,259	154,017	-	299,276
Agricultural loans and mortgages	12,011	970	-	12,981
	873,192	524,254	103,080	1,500,526
Accrued interest	-	-	-	-
	$ 873,192	$ 524,254	$ 103,080	$ 1,500,526

10. INCOME TAXES

The significant components of income tax expense included in the calculation of net income are composed of:

	2019	2018
Current income tax expense		
Based on current year taxable income	**$ 1,284,854**	$ 1,716,981
Deferred income tax expense		
Origination and reversal of temporary differences	**154,069**	(60,775)
Total income tax expense	**$ 1,438,923**	$ 1,656,206

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

	2019 %	2018 %
Statutory rate	**26.66**	27.00
Income tax rate adjusted for the effect of:		
Non-deductible expenses and other	**3.57**	(0.10)
Effective income tax rate	**30.23**	26.90

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

	2019	2018
Property and equipment	**$ (159,074)**	$ (177,963)
Intangible assets	**(28,396)**	(27,034)
Allowance for impaired loans	**400,041**	571,637
	$ 212,571	$ 366,640

The Credit Union has $12,327 of capital losses available for application against future capital gains.

11. DERIVATIVES

The Credit Union has $4,272,517 (2018 - $6,067,522) in index-linked deposits to its members. These deposits mature in years 2020 to 2023 and pay bonus interest to the depositors, at the end of the term, based upon the performance of the index. The Credit Union has entered into option agreements with Central to offset the exposure on these deposits and, at the end of the term, the Credit Union will receive payments from Central which will offset the amounts that will be paid to the depositors.

The unamortized portion of the equity-linked option contracts are $96,281 (2018 - $183,955) and are included in member deposits. Amortization in the amount of $88,815 (2018 - $125,231) is calculated on a straight-line basis over the term of the deposits and is included in interest on member deposits.

The notional amounts of equity-linked derivative contracts maturing at various times are as follows:

	2019	2018
Within 1 year	**$ 2,356,078**	$ 1,795,005
Within 2 years	**586,912**	2,356,078
Within 3 years	**845,337**	586,912
Within 4 years	**484,190**	845,337
Within 5 years	**-**	484,190
	$ 4,272,517	$ 6,067,522

12. OPERATING DEMAND LOAN AND TERM LOAN

The Credit Union has an approved operating demand loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the operating demand loan is $18,000,000 including a US dollar component equivalent to $145,000 CDN. The demand loan bears interest at Central's prime rate for CDN dollar advances and Central's US base rate on US advances, in both cases plus or minus Central's applicable discount or margin rates in effect from time to time. At October 31, 2019, the Credit Union had $NIL outstanding on its operating demand loan (2018 - $NIL).

The Credit Union has an approved term loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the term loan is $21,500,000 (2018 - $21,500,000). The term loan bears interest at (i) Central's prime rate plus or minus Central's applicable discount or margin rates in effect from time to time, or (ii) at the option of the Credit Union for terms of more than 30 days at 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 rate. At October 31, 2019, the Credit Union had $NIL outstanding on its term loan (2018 - $NIL).

13. PROPERTY AND EQUIPMENT

	Land	Buildings	Parking Lots	Furniture and Equipment	Security Equipment	Computer Equipment	Total
COST:							
Balance at October 31, 2018	$ 1,224,880	$ 13,892,813	$ 161,105	$ 1,187,589	$ 223,108	$ 819,818	$ 17,509,313
Additions	-	38,704	109,040	-	-	43,468	191,212
Balance at October 31, 2019	**1,224,880**	**13,931,517**	**270,145**	**1,187,589**	**223,108**	**863,286**	**17,700,525**
ACCUMULATED DEPRECIATION:							
Balance at October 31, 2018	-	2,710,165	93,567	951,420	172,112	666,319	4,593,583
Depreciation	-	347,401	41,422	144,255	23,963	94,386	651,427
Balance at October 31, 2019	**-**	**3,057,566**	**134,989**	**1,095,675**	**196,075**	**760,705**	**5,245,010**
NET BOOK VALUE:							
October 31, 2019	**$ 1,224,880**	**$ 10,873,951**	**$ 135,156**	**$ 91,914**	**$ 27,033**	**$ 102,581**	**$ 12,455,515**
October 31, 2018	$ 1,224,880	$ 11,182,648	$ 67,538	$ 236,169	$ 50,996	$ 153,499	$ 12,915,730

14. INTANGIBLE ASSETS

	Computer Software
COST:	
Balance at October 31, 2018	$ 684,917
Additions	168,275
Disposals	(146,525)
Balance at October 31, 2019	706,667
ACCUMULATED AMORTIZATION:	
Balance at October 31, 2018	489,743
Amortization	77,788
Disposals	(19,294)
Balance at October 31, 2019	**548,237**
NET BOOK VALUE:	
October 31, 2019	**$ 158,430**
October 31, 2018	$ 195,174

15. MEMBER DEPOSITS

	2019	2018
Demand deposits	**$ 223,856,412**	$ 312,278,443
Term deposits	**220,202,031**	169,523,676
Registered Retirement Savings Plans (RRSPs)	**33,589,713**	31,130,620
Tax-Free Savings Accounts (TFSA)	**24,221,817**	18,442,696
Registered Retirement Income Funds (RRIFs)	**11,584,475**	9,482,491
	513,454,448	540,857,926
Accrued interest	**3,792,747**	1,899,210
	$ 517,247,195	$ 542,757,136

Concentra Financial Services Association is the trustee of the RRSPs, RRIFs and TFSAs offered to members. Under an agreement with Concentra, members' contributions to the plans, as well as income earned, are deposited in the Credit Union.

16. ALLOCATIONS DISTRIBUTABLE

The Board of Directors declared patronage allocations and a dividend allocation to be paid to members by way of the issuance of common shares and cash, depending on the balance in the members common share account. The balance of the allocation distributable was paid between November 25 - 28, 2019 and is calculated as follows:

	2019	2018
Patronage allocation	**$ 2,094,186**	$ 1,902,777
Dividend allocation	**677,152**	677,195
Net allocations distributable	**$ 2,771,338**	$ 2,579,972

For 2019, patronage allocations were determined based on 12% bonus interest on member deposit account interest (2018 - 12%), 9% interest rebate on member loan interest (2018 - 9%) and a 9% rebate on member service charges (2018 - 9%).

For 2019, the Board has declared a 3.00% dividend on member common shares (2018 - 3.00%).

17. MEMBER SHARES

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

i) an unlimited number may be issued;
ii) a par value of $1, but fractional shares may be issued;
iii) transferable only in restricted circumstances;
iv) non-assessable; and
v) 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.

Memberships and shares to become a member are voluntary. Redemption of member equity accounts shall be with the approval of the Board or in a manner approved by the Board and in accordance with the *Credit Union Act*. Credit Union policy requires all members to make a minimum investment of $25 ($5 for minors and members over 65 years). The Corporation does not guarantee common shares which represent "at risk" capital.

18. PENSION PLAN

The Credit Union has a defined contribution pension plan for qualifying employees. The assets are held in trust by the CUMIS Life Insurance Company and are not recorded in these financial statements. The Credit Union matches employee contributions at a rate ranging from 5% to 9% of the employee's salary determined by years of employment. The expense and payments for the year ended October 31, 2019 were $273,939 (2018 - $300,032). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

19. RELATED PARTY TRANSACTIONS

Key management personnel ("KMP") of the Credit Union are those persons having authority and responsibility for planning, directing, and controlling the activities of the Credit Union, directly or indirectly. KMP have been taken to comprise members of management responsible for the day-to-day financial and operational management of the Credit Union.

The Credit Union, in accordance with its policy, grants loans to its management and staff at rates established by the Board. For mortgage loans, the rates staff pay are based on a blended rate between the Canada Revenue Agency prescribed rate and regular member rates. For other loans, rates are blended between prime and regular member rates. Directors pay regular member rates on loans.

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 or directors. There are no loans that are impaired in relation to the loan balances with family of KMP or directors. As at October 31, 2019, loans to KMP and directors totaled 1.69% (2018 - 1.50%), in aggregate, of the assets of the Credit Union. The aggregate value of loans disbursed and renewed during the year to KMP and directors was $1,676,009 (2018 - $1,647,058).

Deposit accounts are held by the directors, management and staff of the Credit Union. For RRSP and term deposits the Credit Union's management and staff receive an interest rate bonus of 1% above the posted rates for amounts of $500 or more with a minimum of one year investment. Directors receive regular member rates on deposits.

Aggregate value of assets and liabilities held by KMP and directors is as follows:

	2019	2018
Aggregate value of loans advanced	**$ 9,218,266**	$ 7,799,637
Aggregate value of unadvanced loans	**$ 1,261,464**	$ 1,843,634
Demand deposits	**$ 1,652,945**	$ 1,252,888
Term and TFSA deposits	**$ 511,987**	$ 227,348
Registered plans	**$ 200,273**	$ 167,086
Member shares	**$ 109,368**	$ 76,197
Interest and other revenue earned on loans	**$ 307,744**	$ 297,446
Interest on deposits	**$ 15,754**	$ 9,254
Patronage allocation	**$ 12,019**	$ 10,468

Aggregate compensation of KMP and directors during the years is as follows:

	2019	2018
Salaries and short-term benefits	**$ 1,754,618**	$ 1,549,074
Post-employment benefits	**$ 104,693**	$ 77,457
Directors meetings and training	**$ 99,422**	$ 45,605
Directors and committee remuneration	**$ 56,475**	$ 49,775
Severance benefits	**$ -**	$ 134,000

There was no compensation for long-term benefits, or share-based compensation during 2019 and 2018. The Credit Union's KMP is comprised of 15 (2018 - 9) employees for the year. Amounts paid to directors in 2019 range from $1,190 to $17,700 (2018 - $375 to $14,100) with an average of $5,648 (2018 - $4,505). The Credit Union has 9 (2018 - 7) directors at October 31, 2019.

20. RISK MANAGEMENT

The Credit Union's risk management policies are designed to identify and analyze risk, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of profitability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets and products.

Risk management is carried out by management who reports to the Board. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on compliance with the risk management policies of the Credit Union.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments – principally loans and mortgages. The primary types of financial risk that arise from this activity are credit risk, liquidity risk and market risk which is comprised of interest rate risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods that may be used in managing those risks.

Activity	Risks	Method of managing risks
Investments	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, monitoring of investment restrictions and monitoring of counterparty risk
Member loans	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching and monitoring of counterparty risk
Member deposits	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching and periodic use of derivatives
Equity-linked derivative contracts	Sensitivity to changes in Canadian equity indices	Options

Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instruments will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the consolidated statement of comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board.

20. RISK MANAGEMENT (CONTINUED)

To manage the re-pricing of asset and liability mismatch opportunities the Credit Union will undertake campaigns to procure deposits or loans that re-price/mature within a specific time period, buy/sell assets that re-price/mature within a specific time period and may purchase derivative instruments. These decisions are based on economic conditions, member behaviour, capital and liquidity levels and compliance with Credit Union policy.

Other types of interest rate risk may involve basis risk, the risk of loss from changes in the relationship of interest rates which may not have identical characteristics (for example the difference between prime rate and variable rate loans and variable rate deposits) and prepayment risk (the risk of loss of interest income arising from early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and reported to the Board.

Interest rate risk is measured by:

- Static gap analysis which aggregates cash flows into repricing periods based on the maturity dates of the assets and liabilities.
- Income simulation models that use current interest revenue, current interest expense and market values. These models incorporate assumptions about pricing strategies, growth, volume, new business and interest rates. The assumptions in the models are updated quarterly.
- Market value of portfolio equity determines the present value of all assets and liabilities. This provides an estimate of the equity value of the Credit Union.

20. RISK MANAGEMENT (CONTINUED)

The following schedule shows the Credit Union's sensitivity to interest rate changes as at October 31, 2019. Fixed rate assets and fixed rate liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to prime rate are reported in the floating rate category. Non-interest bearing assets and non-interest bearing liabilities are reported in the non-rate sensitive category.

As At October 31, 2019

	Floating Rate	Within 1 Year	1 to 5 Years	Non-Rate Sensitive	Total
Assets					
Cash	$ 12,487,381	$ 15,455,040	$ -	$ 469,495	$ 28,411,916
Effective Interest Rate	*0.25%*	*1.64%*	*0.00%*	*0.00%*	*1.00%*
Investments	7,759,794	40,854,887	-	402,424	49,017,105
Effective Interest Rate	*0.00%*	*1.78%*	*0.00%*	*0.00%*	*1.50%*
Member loans	77,734,631	128,783,755	321,382,070	(146,547)	527,753,909
Effective Interest Rate	*5.33%*	*3.93%*	*3.59%*	*0.00%*	*3.93%*
Other	-	-	-	14,573,223	14,573,223
	97,981,806	185,093,682	321,382,070	15,298,595	619,756,153
Liabilities					
Member deposits	200,390,837	182,200,560	104,969,114	29,686,684	517,247,195
Effective Interest Rate	*2.12%*	*2.33%*	*2.69%*	*0.00%*	*2.32%*
Equity	-	-	-	100,254,825	100,254,825
Other	-	-	-	2,254,133	2,254,133
	200,390,837	182,200,560	104,969,114	132,195,642	619,756,153
Net mismatch	$ (102,409,031)	$ 2,893,122	$ 216,412,956	$(116,897,047)	$ -

As At October 31, 2018

Net mismatch	$ (185,219,688)	$ 47,149,395	$ 246,071,194	$(108,000,901)	$ -

The following table provides the potential before-tax impact of a 1% increase or 1% (2018 - 0.75%) decrease in the Credit Union's financial margin before provision for loan impairment. These measures are based on assumptions made by management and validated by experience. 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 management's risk initiatives.

Impact on financial margin before taxes and provision for loan impairment of:

	2019	2018
1% increase in rates	**$ 758,600**	$ 648,500
1% (2018 - 0.75%) decrease in rates	**$ (1,137,600)**	$ (767,200)

20. RISK MANAGEMENT (CONTINUED)

Credit Risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from member loans, investments, securities and derivative instruments with positive market values. The primary credit risk arising from loans is the possibility that members will be unable or unwilling to repay some or all of the principal and interest on their loans. Allowances for credit losses are made for potential losses that have been identified at the statement of financial position date.

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities, that result in member loans and advances, and treasury activities, that result in investments in cash resources. The overall management of credit risk is centralized in the Credit Committee, which reports to the Board, and the respective operating units of the Credit Union.

Concentration of loans is managed by the implementation of sectoral and member specific limits.

The Credit Committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures. It accomplishes this through review and approval of the Credit Union's lending policies and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the quality of loans using an internal rating tool. This rating tool takes into consideration a number of factors, such as the security, the borrower's management performance, current and projected financial results and industry statistics related to the borrower's industry, and utilizes the experience and judgment of the Credit department. The current risk rating format consists of seven categories reflecting various degrees of risk and the availability of collateral.

20. RISK MANAGEMENT (CONTINUED)

The following information represents the maximum exposure to credit risk before taking into consideration any collateral. For financial assets recognized on the balance sheet, the exposure to credit risk is their stated carrying amount. For off balance sheet items, the maximum exposure is the full amount of the undrawn facilities or loan commitment.

	2019	2018
On balance sheet exposure		
Cash and cash equivalents	**$ 28,411,916**	$ 64,861,668
Investments	**49,017,105**	52,056,106
Member loans	**527,753,909**	509,050,594
	$ 605,182,930	$ 625,968,368
Off balance sheet exposure		
Letters of guarantee	**$ 2,168,210**	$ 2,490,594
Commitments to extend credit		
Original terms to maturity of 1 year or less	**30,682,563**	31,358,414
Original terms to maturity exceeding 1 year	**34,148,939**	41,986,486
	$ 66,999,712	$ 75,835,494

Concentration of Risk

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicates the sensitivity of the Credit Union to developments affecting a particular segment of borrowers or geographic region.

There were no individual or related groups of loans to members which exceed 3.64% (2018 - 3.21%) of total member loans at October 31, 2019.

There were no individuals or related groups of members for which deposits exceeded 5.86% (2018 - 5.39%) of total member desposits at October 31, 2019.

Geographic credit risk exists for the Credit Union due to its primary service area being in Bonnyville, Cold Lake and surrounding areas.

Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk, foreign exchange 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 member loans, investments and member deposits. The Credit Union does hedge its fair value risk regarding its equity linked derivatives. For further information on fair value of financial instruments see Note 23.

20. RISK MANAGEMENT (CONTINUED)

Foreign Exchange Risk

Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

Liquidity Risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in Note 22. The Credit Union has established policies which include minimum liquidity requirements, eligibility requirements for liquid assets, investments with counterparties, deposit concentration and diversification limits. The Credit Union monitors expected cash inflows and outflows on a daily, cyclical and long-term basis. The Credit Union's preferred source of funding is member deposits; however, borrowing from Central is permitted during periods where loan demand exceeds deposit growth. Other sources of funding such as sale of assets, deposits from other credit unions, and wholesale deposits are acceptable.

On a periodic basis management ensures that it has adhered to the regulatory requirement of the *Credit Union Act* of Alberta's minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 7.83% at October 31, 2019 (2018 – 7.32%).

Management reviews its compliance with these policies and reports its statutory liquidity position to the Board of Directors on an exception basis. It reports the operating liquidity to the Board of Directors on a monthly basis. The Finance Committee ensures that a periodic review is performed to verify compliance with policy and procedures (no less than annually).

21. COMMITMENT

Retail Banking Services Agreement

The Credit Union recently entered into an amended *eroWORKS* Retail Banking Services Agreement with Celero Solutions Inc. The Agreement is effective for a ten year term commencing January 1, 2016. Under the terms of this Agreement the Credit Union is committed to annual operating fees of approximately $267,000.

22. CAPITAL MANAGEMENT

The Credit Union's objectives when managing capital are:

(a) 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.

(b) To comply at all times with the capital requirements set out in the *Credit Union Act*.

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

i) Total capital as a percentage of total assets; and

ii) Total capital as a percentage 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 *Credit Union 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.

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

(a) Setting policies for capital management, monitoring and reporting;

(b) Setting policies for related areas such as asset liability management;

(c) Reporting to the Board of Directors or its committees regarding financial results and capital adequacy;

(d) Reporting to the Corporation on its capital adequacy; and

(e) Setting budgets and reporting variances to those budgets.

The Credit Union is required under the *Credit Union Act* to have a capital balance that is equal to or exceeds the greater of:

i) 4% of total assets; and
ii) 8% of risk weighted assets

The Corporation also requires an additional regulatory capital buffer of 2.5% (2018 - 2.5%) of total risk weighted assets for 2019. The Corporation also expects the Credit Union to hold an additional internal capital buffer equal to a minimum of 2% of total risk weighted assets.

As at October 31, 2019 the Credit Union’s available capital as a percent of total assets was 16.2% (2018 – 15.3%) and the available capital as a percent of risk weighted assets was 29.6% (2018 – 29.9%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2019.

23. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent the Credit Union's best estimates based on a range of methods and assumptions. Since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instrument. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments.

The following methods and assumptions are used to estimate the fair market value:

i) The fair values of cash, demand deposits, certain other assets and certain other liabilities approximate their carrying values, due to their short-term nature.

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

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

The total value of loans determined using the above assumptions is reduced by the allowance for impaired loans.

	2019			2018		
	Fair Value (FV)	**Carrying Value (CV)**	**Change**	Fair Value (FV)	Carrying Value (CV)	Change
Assets						
Cash	**$ 28,411,916**	**$ 28,411,916**	**$ -**	$ 8,107,459	$ 64,861,668	$ -
Investments	**48,841,098**	**49,017,105**	**(176,007)**	52,405,176	52,056,106	349,070
Members' loans	**529,586,170**	**527,753,909**	**1,832,261**	507,827,821	509,050,594	(1,222,773)
Other	**236,018**	**236,018**	**-**	372,120	372,120	-
	$ 607,075,202	**$ 605,418,948**	**$ 1,656,254**	$ 568,712,576	$ 626,340,488	$ (873,703)
Liabilities						
Members' deposits	**$ 517,037,566**	**$ 517,247,195**	**$ 209,629**	$ 542,350,522	$ 542,757,136	$ 406,614
Other liabilities	**2,254,133**	**2,254,133**	**-**	1,573,348	1,573,348	-
	$ 519,291,699	**$ 519,501,328**	**$ 209,629**	$ 543,923,870	$ 544,330,484	$ 406,614
	$ 87,783,503	**$ 85,917,620**	**$ 1,865,883**	$ 24,788,706	$ 82,010,004	$ (467,089)

23. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONTINUED)

Assets and liabilities recorded at fair value in the statement of the financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: Unadjusted quoted prices in an active market for identical assets and liabilities.

Assets measured at fair value and classified as Level 1 include cash and cash equivalents and derivatives.

- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 2 inputs include quoted prices for assets in markets that are considered less active. There are no assets measured at fair value and classified as Level 2.

- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

Assets measured at fair value and classified as Level 3 include Central shares and CUSO shares.

There were no transfers between fair value hierarchy levels for the years ended October 31, 2019 and 2018.

24. EXPLANATION OF TRANSITION TO IFRS 9

On November 1, 2018, the Credit Union adopted IFRS 9 *Financial Instruments*, which replaced the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The Credit Union elected not to restate comparative figures as permitted by the transitional provisions of IFRS 9. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in opening retained earnings or accumulated other comprehensive income (AOCI) of the current period.

Classification and measurement of financial assets and financial liabilities

IFRS 9 classification is generally based on the business model in which a financial asset is managed and whether its contractual cash flows represent solely payments for principal and interest (SPPI). The standard eliminates existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For the purposes of determining the classification of financial assets, the business model test has been applied on the basis of facts and circumstances existing at the date of initial application with the resulting classification applied retrospectively.

Derivatives embedded within host contracts that are financial assets in the scope of IFRS 9 are no longer separated from the host contract. Instead, the whole hybrid contract is assessed for classification in accordance with the above requirements.

The classification and measurement of financial liabilities is largely retained from IAS 39. However, under IAS 39, all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9, the amount of change in fair value attributable to the Credit Union's own credit risk is generally required to be presented in other comprehensive income.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain undrawn lines of credit, loan commitments, and letters of credit. The Credit Union recognizes ECL for financial assets classified as FVOCI and amortized cost.

IFRS 9 requires the Credit Union to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on the financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

Alternatively, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Credit Union is required to measure the loss allowance for that financial instrument at an amount equal to 12 month ECL.

Summary of impact upon adoption of IFRS 9 - Classification and measurement

The table below reconciles the carrying amount of financial instruments under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on November 1, 2018. The table below also illustrates the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Credit Union's financial assets and financial liabilities as at November 1, 2018.

(Continues)

24. EXPLANATION OF TRANSITION TO IFRS 9 (CONTINUED)

	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 Carrying amounts	IFRS 9 Carrying amounts
Financial assets				
Cash and cash equivalents	FVTPL	FVTPL	$64,861,668	$64,861,668
Investments				
CUC and CUSO shares	Available for sale	FVTPL	$6,457,294	$6,457,294
Non-CUC shares	Held-to-Maturity	Amortized cost	$45,598,812	$45,596,734
Derivative assets	FVTPL	FVTPL	$372,120	$372,120
Member loans	Loans and receivables	Amortized cost	$509,050,594	$509,683,492
Total financial assets			**$626,340,488**	**$626,971,308**
Financial liabilities				
Member deposits	Other financial liabilities	Amortized cost	$542,757,136	$542,757,136
Derivative liabilities	FVTPL	FVTPL	$372,120	$372,120
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	$1,201,228	$1,201,228
Total financial liabilities			**$544,330,484**	**$544,330,484**

The Credit Union’s significant accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3. The application of these policies resulted in the reclassifications as set out in the table above and explained below:

a) Investments in equity investments that do not have a quoted market price in an active market, including Credit Union Central of Alberta shares, classified as available-for-sale under IAS 39, were reclassified as FVTPL.

b) On October 31, 2018 the Credit Union reclassified additional amounts to principal performing member loans from impaired loans. This reclassification is the result of the transition to IFRS 9, and the related new ECL model.

LAKELAND CREDIT UNION LIMITED
Schedule of Consolidated Operating Expenses **Schedule I**
For The Year Ended October 31, 2019

	2019	2018
Personnel		
Salaries and wages	$ 5,070,333	$ 5,602,657
Employee benefits	683,691	709,198
Training	137,596	124,395
Other	123,614	99,866
	6,015,234	6,536,116
Occupancy		
Depreciation	388,823	372,407
Maintenance, utilities and janitorial	377,156	368,076
Property taxes	86,000	92,842
Insurance	46,131	36,905
	898,110	870,230
Security		
Deposit guarantee assessment	445,945	426,215
Bonding	58,967	61,940
Depreciation	23,963	23,713
	528,875	511,868
Organization		
Credit Union Central dues	149,161	161,599
Director meetings and training	99,422	45,605
Directors and committee remuneration	56,475	49,775
Membership meetings	37,412	20,870
	342,470	277,849
General		
Computer services	847,790	695,573
Cash, service charges and other fees	597,398	569,257
Advertising and marketing	371,948	351,744
Consulting and professional fees	306,789	396,819
Depreciation	238,641	247,423
Other	152,680	113,581
Office and communication	129,291	127,681
Loss (gain) on disposal of intangible assets	127,181	-
Amortization of intangible capital assets	77,788	59,042
Dues and subscriptions	55,363	42,905
Equipment leases, repairs and maintenance	45,965	64,066
Staff travel	30,703	26,415
	2,981,537	2,694,506
	$ 10,766,226	$ 10,890,569