# SHELL EMPLOYEES' CREDIT UNION LIMITED
Financial Statements
For the Year Ended October 31, 2017

## MANAGEMENT'S RESPONSIBILITY

To the Members of Shell Employees' Credit Union Limited

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

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

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

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

| | |
|---|---|
| Badriea Taha<br>General Manager | Bruce Wilson<br>Manager of Compliance, Administration and Risk |

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# INDEPENDENT AUDITORS' REPORT

**To the Members of Shell Employees' Credit Union Limited**

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

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

***Opinion***

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

Collins Barrow Edmonton LLP

Edmonton, Alberta
January 31, 2018

Chartered Professional Accountants

**SHELL EMPLOYEES' CREDIT UNION LIMITED**
Statement of Financial Position
October 31, 2017

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents (Note 5) | **$ 318,959** | $ 1,226,163 |
| Income taxes receivable | **274,174** | --- |
| Investments (Note 6) | **39,938,078** | 48,694,995 |
| Other assets (Note 9) | **287,040** | 363,741 |
| Loans to members (Note 8) | **220,977,831** | 221,513,877 |
| Derivative financial assets (Note 7) | **104,588** | 151,100 |
| Deferred income taxes (Note 14) | **---** | 143,159 |
| Property and equipment (Note 10) | **515,780** | 549,259 |
| Intangible assets (Note 11) | **104,805** | 169,262 |
| | **$ 262,521,255** | $ 272,811,556 |
| **Liabilities** | | |
| Member deposits (Note 13) | **$ 245,462,189** | $ 255,725,311 |
| Accounts payable and accrued liabilities | **342,374** | 893,011 |
| Income taxes payable | --- | 42,358 |
| Derivative financial liabilities (Note 7) | **104,588** | 151,100 |
| Deferred income taxes (Note 14) | **19,579** | --- |
| | **245,928,730** | 256,811,780 |
| **Members' Equity** | | |
| Dividends distributable (Note 15) | **229,697** | 180,046 |
| Common shares (Note 15) | **5,824,064** | 5,664,849 |
| Retained earnings | **10,538,764** | 10,154,881 |
| | **16,592,525** | 15,999,776 |
| | **$ 262,521,255** | $ 272,811,556 |

**Contingent liabilities and commitments** (Note 18)

Approved on behalf of the Board

Director

Director

*See accompanying notes to the financial statements*

**SHELL EMPLOYEES' CREDIT UNION LIMITED**
Statement of Income and Comprehensive Income
For the Year Ended October 31, 2017

| | **2017** | 2016 |
|---|---|---|
| **Financial Income** | | |
| Interest on member loans | **$ 6,966,759** | $ 7,215,352 |
| Investment (Note 20) | **787,714** | 878,787 |
| | **7,754,473** | 8,094,139 |
| **Financial Expenses** | | |
| Interest on member deposits | **3,760,346** | 4,011,827 |
| Interest on borrowings | **4,007** | 17,154 |
| | **3,764,353** | 4,028,981 |
| **Financial margin** | **3,990,120** | 4,065,158 |
| Provision for loan impairment (Note 8) | **375,147** | 261,552 |
| **Net interest income after provision for loan impairment** | **3,614,973** | 3,803,606 |
| **Other income** | | |
| Service charges and other | **707,334** | 568,407 |
| **Income before operating expenses** | **4,322,307** | 4,372,013 |
| **Operating expenses** (Schedule 1) | **3,646,967** | 4,107,544 |
| **Income before income taxes** | **675,340** | 264,469 |
| **Income tax expense (recovery)** | | |
| Current income taxes (recovery) expense | **(38,961)** | 222,017 |
| Deferred income taxes expense (recovery) | **162,739** | (163,049) |
| | **123,778** | 58,968 |
| **Net income and comprehensive income** | **$ 551,562** | $ 205,501 |

*See accompanying notes to the financial statements*

**SHELL EMPLOYEES' CREDIT UNION LIMITED**
Statement of Changes in Members' Equity
For the Year Ended October 31, 2017

| | Dividends Distributable | Common Shares | Retained Earnings | Total Equity |
|---|---|---|---|---|
| As at November 1, 2015 | $ 161,154 | $ 5,474,481 | $ 10,082,254 | $ 15,717,889 |
| Net income for the year | --- | --- | 205,501 | 205,501 |
| Share capital issued and redeemed for cash, net | --- | 29,214 | --- | 29,214 |
| Shares issued to settle allocation distributable | (161,154) | 161,154 | --- | --- |
| Dividends declared, net of tax recovery of $38,740 (Note 15) | 180,046 | --- | (132,874) | 47,172 |
| As at October 31, 2016 | $ 180,046 | $ 5,664,849 | $ 10.154,881 | $ 15,999,776 |
| **As at November 1, 2016** | **$ 180,046** | **$ 5,664,849** | **$ 10,154,881** | **$ 15,999,776** |
| Net income for the year | **---** | **---** | **551,562** | **551,562** |
| Share capital issued and redeemed for cash, net | **---** | **(20,831)** | **---** | **(20,831)** |
| Shares issued to settle allocation distributable | **(180,046)** | **180,046** | **---** | **---** |
| Dividends declared, net of tax recovery of $47,172 (Note 15) | **229,697** | **---** | **(167,679)** | **62,018** |
| **As at October 31, 2017** | **$ 229,697** | **$ 5,824,064** | **$ 10,538,764** | **$ 16,592,525** |

*See accompanying notes to the financial statements*

**SHELL EMPLOYEES' CREDIT UNION LIMITED**
Statement of Cash Flows
For the Year Ended October 31, 2017

| | 2017 | 2016 |
|---|---|---|
| **Cash flows (used in) from operating activities:** | | |
| Net income | $ 551,562 | $ 205,501 |
| Adjustments for: | | |
| Non-cash items: | | |
| Net interest income | (3,984,067) | (4,065,158) |
| Provisions for impaired loans (Note 8) | 375,147 | 261,552 |
| Current income tax (recovery) expense | (38,961) | 222,017 |
| Provisions for deferred income taxes (recovery) | 162,739 | (163,049) |
| Depreciation of property and equipment (Note 10) | 123,881 | 124,079 |
| Amortization of intangible assets (Note 11) | 74,090 | 73,830 |
| Income taxes paid | (277,571) | (76,074) |
| | (3,013,180) | (3,417,302) |
| Changes in other assets | 76,701 | (77,570) |
| Changes in accounts payable and accrued liabilities | (550,637) | 601,436 |
| | (473,936) | 523,866 |
| Changes in member activities (net): | | |
| Changes in member loans | 195,201 | 299,354 |
| Changes in member deposits | (9,851,961) | 1,882,734 |
| | (9,656,760) | 2,182,088 |
| Cash flows related to interest: | | |
| Interest received | 7,797,841 | 7,876,921 |
| Interest paid | (4,181,568) | (4,067,259) |
| | 3,616,273 | 3,809,662 |
| | (9,527,603) | 3,098,314 |
| **Cash flows from (used in) financing activities:** | | |
| Issuance of common shares | 236,359 | 234,457 |
| Redemption of common shares | (257,190) | (205,243) |
| Tax recovery on investment share dividends (Note 15) | 62,018 | 47,172 |
| | 41,187 | 76,386 |
| **Cash flows from (used in) investing activities:** | | |
| Purchase of investments | (700,000) | (7,042,311) |
| Proceeds on redemption of investments | 9,379,247 | 4,200,000 |
| Patronage distribution received | --- | 97,509 |
| Additions to intangible assets (Note 11) | (9,633) | (68,911) |
| Additions to property and equipment (Note 10) | (90,402) | (6,971) |
| | 8,579,212 | (2,820,684) |
| **Net (decrease) increase in cash equivalents** | (907,204) | 354,016 |
| **Cash and cash equivalents, beginning of year** | 1,226,163 | 872,147 |
| **Cash and cash equivalents, end of year** | $ 318,959 | $ 1,226,163 |

*See accompanying notes to the financial statements*

## 1. Reporting entity information

### *Entity information*

Shell Employees' Credit Union Limited (the "Credit Union") is incorporated under the *Credit Union Act* ("Act") of Alberta and operates one branch in Calgary, Alberta and another branch at the Shell Scotford plant. The Credit Union is open to current and former employees of Shell Canada Limited, including its affiliates and their immediate family members. The Credit Union is headquartered at 117, 400 – 4th Avenue SW, Calgary, Alberta, T2P 0J4.

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

### *Statement of compliance*

These financial statements and interpretations have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors of the Credit Union on January 31, 2018.

### *Basis of measurement*

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

### *Functional and presentation currency*

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

## 2. Summary of significant accounting policies

The Credit Union follows accounting policies appropriate to its activities and governing legislation, as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and on deposit with an original maturity from the original date of acquisition, including cash on hand, cheques and other items in transit with original maturities of three months or less and includes bank overdraft.

2. **Summary of significant accounting policies** (Continued)

***Financial assets and liabilities***

*Recognition and Measurement*

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

**Financial assets**

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

*Loans and receivables*

Cash and cash equivalents, loans to members and accounts receivable are designated as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

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

Interest from member loans is included in the statement of income. The impairment loss is reported as a deduction from the carrying value of the member loan and recognized in the statement of income as "provision for loan impairment".

2. **Summary of significant accounting policies** (Continued)

***Financial assets and liabilities*** (Continued)

**Financial assets** (Continued)

*Available for sale*

AFS instruments are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM or FVTPL. The Credit Union's AFS assets include the shares in Credit Union Central of Alberta Ltd. ("Central").

AFS assets are measured at fair value, which is the cash consideration paid including transaction costs unless fair value is not readily determinable. Unrealized gains and losses are recognized in Other Comprehensive Income. If an AFS asset is impaired, the cumulative gain or loss previously recognized in Other Comprehensive Income is recognized in net income.

Interest income is calculated using the effective interest method. Dividends on investments in equity instruments classified as AFS are recognized in net income when the right to receive payment is established.

*Held-to-Maturity*

HTM 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 to maturity. The Credit Union's HTM investments includes its term deposits with Central and Concentra Financial. HTM financial assets are measured at amortized cost, with revenue recognition on an effective yield basis. Transaction costs are included in the measurement of the assets.

*Fair value through profit or loss*

A financial asset is classified as FVTPL when the financial asset meets either of the following conditions.

A financial asset is classified as held-for-trading, if:

1. It has been acquired principally for the purpose of selling it in the near term; or
2. On initial recognition, it is part of a portfolio of identified financial instruments that the Credit Union manages together and has a recent actual pattern of short-term profit taking; or
3. It is a derivative (except for a derivative that is designated and effective as a hedging instrument).

2. **Summary of significant accounting policies** (Continued)

***Financial assets and liabilities*** (Continued)

**Financial assets** (Continued)

*Fair value through profit or loss* (Continued)

A financial asset other than a financial asset held-for-trading may be designated as FVTPL upon initial recognition if:

1. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
2. The financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis, in accordance with the Credit Union's documented risk management or investment strategy, and information about the grouping is provided internally on that basis, to the Credit Union's key management personnel.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in Net Income. Fair value is determined in the manner described in Note 21.

Financial assets classified as FVTPL include derivative assets.

*Derivative instruments*

Derivative financial instruments are contracts, such as options with futures, where the value of the contract is derived from the price of an underlying variable. The most common underlying variables include stocks, bonds, commodities, currencies, interest rates and market rates. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices to ensure the rate of return of its member's equity linked deposits.

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

The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

2. **Summary of significant accounting policies** (Continued)

***Financial assets and liabilities*** (Continued)

**Financial liabilities**

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

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

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

**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, resulting from one or more events that occurred after the initial recognition of the asset (a 'loss event'). 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 but are not limited to; 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 will enter bankruptcy.

*Financial assets classified as loans and receivables*

For the purpose of an individual evaluation of impairment, the amount of the impairment loss on a fixed rate financial instrument is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Statement of Income and Comprehensive Income.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

2. **Summary of significant accounting policies** (Continued)

***Financial assets and liabilities*** (Continued)

**Impairment of financial assets** (Continued)

*Financial assets classified as loans and receivables* (Continued)

For the purpose of a collective evaluation of impairment, financial assets are categorized on the basis of similar credit risk characteristics. Future cash flows in a 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, taking into account current rates, work out costs, and discount factors.

On an ongoing basis, the Credit Union adjusts the input on the collective allowance, taking into account factors such as historical loss experience and adjusting for current observable data. Estimates of changes in future cash flows for groups of assets reflects changes in related observable data from period to period including changes in unemployment rates, real estate prices, or payment status.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectable, it is written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Statement of Income and Comprehensive Income in loan impairment expense.

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated, are no longer considered to be past due and are treated as new loans.

***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.

2. **Summary of significant accounting policies** (Continued)

***Interest income and expense***

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

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

***Service charges and other income***

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

***Loans to members and accrued interest***

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

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

***Property and equipment***

Property and equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is calculated at the following annual rates and methods:

| | |
|---|---|
| Computer equipment | 36 months to 60 months |
| Furniture and equipment | 36 months |
| Leasehold improvements | lesser of remaining term of lease or 60 months |

2. **Summary of significant accounting policies** (Continued)

***Property and equipment*** (Continued)

Depreciation is recorded in the initial month of acquisition; no depreciation is recorded in the month of disposal. Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably.

***Intangible assets***

Intangible assets are comprised of computer software costs that are capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life of three to ten years. Amortization expense is recognized in the Statement of Income and Comprehensive Income as part of General Expense.

***Impairment of non-financial assets***

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

Recoverable amount is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

2. **Summary of significant accounting policies** (Continued)

***Leases***

*The Credit Union as a Lessee*

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

*The Credit Union as a Lessor*

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

***Income taxes***

Income tax expense comprises current and deferred tax.

(i) 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.

(ii) Deferred income tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset the current income tax liabilities against current income tax assets and they related to income taxes levied by the same authority on the same taxable entity.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

***Foreign currency translation***

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in the Statement of Income and Comprehensive Income.

2. **Summary of significant accounting policies** (Continued)

***Member shares***

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity.

***Revenue recognition***

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

(i) Interest income is recognized on the Statement of Income and Comprehensive Income for all financial assets measured at amortized costs 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.

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

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

***Provisions***

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

***Employee Benefits***

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

*Termination Benefits*

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

2. **Summary of significant accounting policies** (Continued)

***Employee Benefits*** (Continued)

*Post Employment Benefits – Defined Contribution Registered Retirement Savings Plan*

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

3. **Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Credit Union's financial statements therefore present the financial position and results fairly.

Significant estimates made in the preparation of these financial statements include, but are not limited to the following areas, with further information contained in the applicable accounting policy as per Note 2.

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

*Fair value of financial instruments not traded in active markets:*

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using a model based on observable data. Areas such as credit risk, volatilities and correlations require management to make estimates and changes in assumptions about these factors could affect the disclosed fair value of financial instruments. The fair value of financial instruments is disclosed in Note 21.

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

*Income taxes:*

The Credit Union computes an effective tax rate which includes an evaluation of the small business rate eligible to credit unions under the *Income Tax Act (Canada)*. This small business rate applies until retained earnings reach five percent of amounts owing to members, including deposits and shares.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements. To the extent that estimates differ from the final tax returns, net income would be affected in the subsequent year.

3. **Critical accounting estimates and judgements** (Continued)

*Deferred income taxes:*

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

*Allowance for impaired loans*

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

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

Member loans that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on loans receivable is disclosed in more detail in Note 8.

*Useful lives of property and equipment*

The Credit Union estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

*Impairment of non-financial assets*

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on estimated future cash flows which are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

## 4. Future changes in accounting policies

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

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

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

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

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

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

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

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

5. **Cash and cash equivalents**

The Credit Union's cash and cash equivalents are held with Central.

Included in cash and cash equivalents is $407,186 (2016 - $949,724) denominated in U.S. dollars.

6. **Investments**

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Shares in Central | **$ 2,942,010** | $ 2,942,010 |
| Term deposits with Central | **23,200,000** | 22,800,000 |
| | **26,142,010** | 25,742,010 |
| Mortgage pools | **3,253,001** | 4,832,248 |
| Guaranteed Investment Certificates | **10,390,000** | 17,890,000 |
| Accrued interest | **153,067** | 230,737 |
| | **$ 39,938,078** | $ 48,694,995 |
| Current | **$ 27,392,365** | $ 30,153,099 |
| Non-current | **$ 12,545,713** | $ 18,541,896 |

Investments mature from November 2017 to June 2021 with interest rates ranging from 1.08% per annum to 2.40% per annum. As required by the *Credit Union Act*, the Credit Union holds investments in Central, to maintain its statutory liquidity requirements. The Credit Union has invested in guaranteed investment certificates and term deposits as follows:

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| ATB Financial | **$ 9,500,000** | $ 11,500,000 |
| Concentra Financial | **---** | 1,000,000 |
| Servus Credit Union Ltd. | **890,000** | 5,390,000 |
| | **$ 10,390,000** | $ 17,890,000 |

The Credit Union also invests in mortgage pools with Concentra Financial Services Association ("Concentra") of $1,159,499 (2016 - $1,847,329) and MonCana Bank of Canada ("MonCana") $2,093,502 (2016 - $2,984,919).

6. **Investments** (Continued)

As of October 31, 2017, the credit union is a 6.50% (unit share percentage) participant in a residential mortgage pool with Concentra and a 3.45% (unit share percentage) participant in a second residential mortgage pool with Concentra. The Credit Union receives its unit share percentage of the Concentra return on these pools, less any fees or charges on a monthly basis. These returns equated to 2.71% per annum (2016 – 2.95%) and 3.21% per annum (2016 – 3.17%) respectively.

As of October 31, 2017, the Credit Union is a 49.02% (unit share percentage) participant in a residential mortgage pool with MonCana. The Credit Union receives its unit share percentage of the MonCana return on the pool, less any fees or changes on a monthly basis. This return equated to 2.87% per annum (2016 – 2.93%).

7. **Derivative financial assets and liabilities**

The Credit Union holds $2,587,713 (2016 - $5,042,291) of performance products for its members consisting of index-linked deposits. These deposits mature in years 2018 to 2020 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 Credit Union's policy is not to utilize these derivative financial instruments for trading or speculative purposes.

The unamortized portion of the index-linked option contracts are $32,311 (2016 - $94,151) and are included in member deposits. Amortization in the amount of $61,840 (2016 - $106,535) 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 terms are as follows:

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Notional amounts | | |
| Mature within 1 year | **$ 1,851,084** | $ 2,454,578 |
| Mature in 1-5 years | **736,629** | 2,587,713 |
| | **$ 2,587,713** | $ 5,042,291 |
| Fair value of embedded derivative | **$ 104,588** | $ 151,100 |

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

Equity-linked options are used to fix costs on term deposit, registered retirement savings plans and tax-free savings account products which pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in these products as well as the option derivatives are marked to market through investment income.

## 8. Loans to members

*Principal and allowance by loan type*

| | Gross Amount | Specific Allowance | Collective Allowance | Total Allowance | **October 31, 2017 Net Carrying Value** |
|---|---|---|---|---|---|
| Consumer | $ 15,145,187 | $ 362,670 | $ --- | $ 362,670 | **$ 14,782,517** |
| Residential mortgages | 166,301,876 | --- | --- | --- | **166,301,876** |
| Commercial | 10,410,076 | --- | --- | --- | **10,410,076** |
| Line of credit | 29,248,348 | 31,202 | --- | 31,202 | **29,217,146** |
| | 221,105,487 | 393,872 | --- | 393,872 | **220,711,615** |
| Accrued loan interest | 266,216 | --- | --- | --- | **266,216** |
| | $ 221,371,703 | $ 393,872 | $ --- | $ 393,872 | **$ 220,977,831** |

At October 31, 2017, there were delinquent loan payments totaling $251,393.

*Principal and allowance by loan type*

| | Gross Amount | Specific Allowance | Collective Allowance | Total Allowance | **October 31, 2016 Net Carrying Value** |
|---|---|---|---|---|---|
| Consumer | $ 14,569,217 | $ 110,380 | $ 52,181 | $ 162,561 | **$ 14,406,656** |
| Residential mortgages | 165,035,699 | --- | 30,154 | 30,154 | **165,005,545** |
| Commercial | 10,328,088 | --- | --- | --- | **10,328,088** |
| Line of credit | 31,541,674 | --- | --- | --- | **31,541,674** |
| | 221,474,678 | 110,380 | 82,335 | 192,715 | **221,281,963** |
| Accrued loan interest | 231,914 | --- | --- | --- | **231,914** |
| | $ 221,706,592 | $ 110,380 | $ 82,335 | $ 192,715 | **$ 221,513,877** |

At October 31, 2016, there were delinquent loan payments totaling $301,957.

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

*Loans specifically impaired*

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

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Balance of impaired loans before specific allowances | | |
| Residential mortgages | **$ 1,091,588** | $ 172,654 |
| Consumer | **707,503** | 423,736 |
| Commercial | **---** | --- |
| | **1,799,091** | 596,390 |
| Allowance for impairment | **(393,872)** | (192,715) |
| Net carrying value | **$ 1,405,219** | $ 403,675 |

*Loans past due but not impaired*

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

| | 30 to 59 days | 60 to 89 days | 90 days or more | **2017 Total** |
|---|---|---|---|---|
| Consumer loans | $ 172,158 | $ 295,379 | $ 392,730 | **$ 860,267** |
| Residential mortgages | 1,083,406 | --- | 1,091,588 | **2,174,994** |
| Commercial loans | --- | --- | --- | **---** |
| Line of credit | 50,468 | --- | 19,394 | **69,862** |
| | $ 1,306,032 | $ 295,379 | $ 1,503,712 | **$ 3,105,123** |

| | 30 to 59 days | 60 to 89 days | 90 days or more | **2016 Total** |
|---|---|---|---|---|
| Consumer loans | $ 40,584 | $ 237,274 | $ 160,552 | **$ 438,410** |
| Residential mortgages | 538,875 | --- | 171,490 | **710,365** |
| Commercial loans | --- | --- | --- | **---** |
| Line of credit | 57,134 | --- | 4,501 | **61,635** |
| | $ 636,593 | $ 237,274 | $ 336,543 | **$ 1,210,410** |

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

*Loan allowance details*

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

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Balance, beginning of year | **$ 192,715** | $ 135,929 |
| Provision for loan impairment | **375,147** | 261,552 |
| | **567,862** | 397,481 |
| Less: accounts written off, net of recoveries | **(173,990)** | (204,766) |
| Balance, end of year | **$ 393,872** | $ 192,715 |

During the year, recoveries totaled $16,430 (2016 - $8,184). Included in accounts written off, net of recoveries is the change in the allowance for impaired accrued interest.

*Maturity of loans*

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

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Under 1 year | **$ 62,444,840** | $ 94,595,873 |
| 1 to 2 years | **34,201,120** | 39,880,815 |
| 2 to 3 years | **39,097,826** | 22,826,352 |
| 3 to 4 years | **35,596,879** | 32,440,972 |
| Over 4 years | **49,764,822** | 31,730,666 |
| | **$ 221,105,487** | $ 221,474,678 |

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

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

*Concentration of risk*

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments.

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

*Concentration of risk (continued)*

There were no individual or related groups of loans to members which exceed 1% of total assets as at October 31, 2017 or October 31, 2016, consistent with the Credit Union's lending policy.

The majority of member loans are with members located in and around Calgary, Edmonton and Fort McMurray. A significant portion of the Credit Union's loan portfolio is secured by residential property in and around Calgary, Edmonton and Fort McMurray. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio coverage should the property market be subject to a decline. The risk of loss from loans undertaken is primarily reduced by the nature and quality of the security taken.

9. **Other assets**

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Accounts receivable | **$ 216,818** | $ 254,696 |
| Prepaid expenses | **70,222** | 109,045 |
| | **$ 287,040** | $ 363,741 |
| Current | **$ 269,548** | $ 346,249 |
| Non-current | **$ 17,492** | $ 17,492 |

10. **Property and equipment**

| | Leasehold Improvements | Furniture and Equipment | Computer Equipment | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance, October 31, 2016 | $ 936,659 | $ 176,423 | $ 147,980 | $ 1,261,062 |
| Additions | 66,711 | --- | 23,691 | 90,402 |
| Disposals | 115,823 | --- | --- | 115,823 |
| Balance, October 31, 2017 | $ 887,547 | $ 176,423 | $ 171,671 | $ 1,235,641 |
| **Accumulated Depreciation:** | | | | |
| Balance, October 31, 2016 | $ 435,810 | $ 147,495 | $ 128,498 | $ 711,803 |
| Depreciation | 85,551 | 22,752 | 15,578 | 123,881 |
| Disposals | 115,823 | --- | --- | 115,823 |
| Balance, October 31, 2017 | $ 405,538 | $ 170,247 | $ 144,076 | $ 719,861 |
| **Net Book Value:** | | | | |
| October 31, 2016 | $ 500,849 | $ 28,928 | $ 19,482 | $ 549,259 |
| **October 31, 2017** | **$ 482,009** | **$ 6,176** | **$ 27,595** | **$ 515,780** |

## 11. Intangible assets

| | | |
|---|---|---|
| **Cost:** | | |
| Balance, October 31, 2016 | $ | 663,043 |
| Additions | | 9,633 |
| Disposals | | --- |
| Balance, October 31, 2017 | $ | 672,676 |
| **Accumulated Amortization:** | | |
| Balance, October 31, 2016 | $ | 493,781 |
| Amortization | | 74,090 |
| Disposals | | --- |
| Balance, October 31, 2017 | $ | 567,871 |
| **Net Book Value:** | | |
| Balance, October 31, 2016 | $ | 169,262 |
| Balance, October 31, 2017 | **$** | **104,805** |

## 12. Operating demand loan and term loan

The Credit Union has a revolving operating demand loan with Central of $8,200,000 (2016 - $5,000,000) including a U.S. dollar component equivalent to $nil (2016 - $nil) Canadian. The demand loan bears interest at Central's prime rate for Canadian dollar advances plus or minus Central's applicable discount or margin rates in effect from time to time. At October 31, 2017, the Credit Union had $nil outstanding on its operating demand loan (2016 - $nil).

The Credit Union has a revolving term loan with Central of $12,000,000 (2016 - $7,000,000). 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 of the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin rate. Any borrowings over 5% of the Credit Union's total assets will be priced at a premium of 2%. At October 31, 2017, the Credit Union had $nil outstanding on its term loan (2016 - $nil).

The operating demand loan and the term loan are secured by a Registered Security Agreement covering accounts and instruments; and a pledge of all investments, deposits and share accounts at Central.

13. **Member deposits**

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Demand | **$ 51,808,174** | $ 53,035,766 |
| Term | **118,947,355** | 121,297,625 |
| Registered Retirement Savings Plan ("RRSP") | **41,506,346** | 46,724,838 |
| Registered Retirement Income Fund ("RRIF") | **19,160,047** | 20,069,938 |
| Tax-Free Savings Account ("TFSA") | **9,380,564** | 9,422,692 |
| Registered Educational Savings Plan ("RESP") | **2,997,230** | 3,292,388 |
| | **243,799,716** | 253,843,247 |
| Accrued interest | **1,662,473** | 1,882,064 |
| | **$ 245,462,189** | $255,725,311 |

Concentra Financial acts as the trustee of the Registered Retirement Savings Plan ("RRSP"), the Registered Education Savings Plan ("RESP"), the Tax-Free Savings Account ("TFSA") and the Registered Retirement Income Fund ("RRIF") offered to members. Under the agreement, Concentra Financial deposits the contributions to the plan, and the interest earned on them, in the Credit Union.

*Maturity of deposits*

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

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Under 1 year | **$ 144,677,388** | $163,754,957 |
| 1 to 2 years | **55,942,176** | 31,472,479 |
| 2 to 3 years | **16,009,444** | 38,852,799 |
| 3 to 4 years | **14,709,982** | 10,235,283 |
| Over 4 years | **12,460,726** | 9,527,729 |
| | **$ 243,799,716** | $ 253,843,247 |

**Concentration of risk**

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments. The majority of member deposits are located in and around Calgary, Edmonton and Fort McMurray, Alberta.

There is one (2016 – two) member or related group of members for which deposits exceed 1% of total assets at October 31, 2017.

14. **Income taxes**

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

*Income tax rate reconciliation*

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

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Statutory rate | **38.00%** | 38.00% |
| Income tax rate adjusted for the effect of: | | |
| Credit Union and General Tax deduction | **(11.00)%** | (14.03)% |
| Non-deductible expenses and other | **(7.64)%** | (3.91)% |
| Rate adjustment for losses carryback | **(1.03)%** | ---% |
| Effective income tax rate | **18.33%** | 20.06% |

*Components of deferred income tax asset/liability*

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

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| Lease settlement accrual | **$ ---** | $ (128,952) |
| Property, equipment and intangible assets | **30,214** | 11,003 |
| Allowance for credit losses | **(10,635)** | (25,210) |
| Liability (asset) | **$ 19,579** | $ (143,159) |

15. **Common shares and dividends distributable**

The Credit Union's common shares have the following characteristics:

a) An unlimited number may be issued;
b) A par value of $1, but fractional shares may be issued;
c) Transferable only in restricted circumstances;
d) Non-assessable; and
e) Redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and Credit Union By-Laws.

When an individual becomes a member of the Credit Union, they are issued a membership share at $1 per share. Equity accounts are established as a means of returning excess earnings to the members while maintaining the Credit Union's equity base. Member shares are not guaranteed by the Corporation and cannot exceed $5,000 per member. Characteristics include performances, freedom from mandatory charge and subordination to the rights of creditors and depositors.

The Board of Directors declared a dividend allocation to be paid to members by way of the issuance of common shares. The dividend allocation was issued in November 2017:

| | **October 31, 2017** | October 31, 2016 |
|---|---|---|
| 4.00% dividend on common shares (2016 – 3.25%) | **$ 229,697** | $ 180,046 |

16. **Risk management**

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

- Credit risk;
- Market risk
- Fair value risk;
- Interest rate risk;
- Liquidity risk;
- Foreign exchange risk; and
- Price risk

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

a) 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 cash and cash equivalents, accounts receivable, 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.

16. **Risk management** (Continued)

a) Credit risk (Continued)

Provision for impairment losses are made for losses that are anticipated 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. There is also credit risk in unfunded loan commitments as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member. The overall management of credit risk is centralized in the Credit Committee, which reports to the Board.

The Credit Committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and 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 which may include residential and personal property. 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 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 taking into consideration a number of factors, such as the security, current and projected cashflow and utilizes the experience and judgment of the Credit department. The current risk rating format consists of four categories reflecting various degrees of risk and the availability of collateral.

Significant changes in the economies of the Calgary, Edmonton, Fort Saskatchewan and Fort McMurray areas or deterioration in the residential mortgage lending sectors which represents a concentration within the Credit Union's loan portfolio may result in losses that are different from those predicted for at the statement of financial position date.

(i) Credit risk exposure

The following information represents the maximum exposure to credit risk before taking into consideration any collateral or credit enhancements. For financial assets recognized on the Statement of Financial Position, the exposure to credit risk is their stated carrying amount. For loan commitments, the maximum exposure is the full amount of the undrawn facilities.

16. **Risk management** (Continued)

a) Credit risk (Continued)

(i) Credit risk exposure (Continued)

| | 2017 | 2016 |
|---|---|---|
| **On-balance sheet exposures** | | |
| Cash and cash equivalents (1) | **$ 318,959** | $ 1,226,163 |
| Investments (1) | **39,938,078** | 48,694,995 |
| Member loans (2) | **220,977,831** | 221,513,877 |
| **Off-balance sheet exposures** | | |
| Commitments to extend credit (3) | | |
| Original terms to maturity of 1 year or less | **44,331,547** | 44,639,348 |
| Total exposure | **$ 305,566,415** | $ 316,074,383 |

1. Cash and cash equivalents and investments

Credit risk arises from investments in cash and cash equivalents and investments held by the Credit Union to meet regulatory and internal liquidity requirements as well as general business purposes. This aspect of credit risk is principally managed by management who reports to the Board. All of the Credit Union's liquidity investments are held with Central, ATB Financial and Servus Credit Union Ltd. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. The investment policy requires that all investments are highly-rated and that all of the assets are readily convertible to cash.

2. Member loans

Member loans consist of consumer loans, residential mortgages and lines of credit. Residential mortgages are fully secured by residential property with 30.5% in mortgages insured by Canada Mortgage and Housing Corporation and other mortgage insurance providers, and 44.7% in conventional mortgages with an ongoing maximum advance ratio to 80% of the appraised value. The remaining 24.8% of the member loan portfolio consists of consumer loans, lines of credit and syndicated loans which are either secured by residential personal property, commercial property or are unsecured.

3. Credit commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts for these commitments as set out above represent the maximum exposure to the Credit Union should the contracts be fully drawn and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements. Such commitments are not included on the statement of financial position.

16. **Risk management** (Continued)

a) Credit risk (Continued)

(ii) Concentration of credit 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.

Geographic credit risk exists for the Credit Union due to its primary service area being in and around Calgary, Edmonton and Fort McMurray.

b) 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, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions.

The Credit Union uses various risk management processes to manage market risk.

Management of market risk is established in policies and procedures established by the Board of Directors. In addition, the Corporation establishes standards to which the Credit Union must comply.

The primary market risk policies and procedures include the following:

(i) Interest rate risk management framework to measure and control interest rate exposure:

1. Identify significant interest rate risk, including re-pricing risk and interest spread risk;
2. Utilize sensitivity tools to measure various risk positions and evaluate their possible impact;
3. Develop products and services, and related pricing to ensure consistent net interest margins and profitability; and
4. Utilize derivative products to assist in ensuring consistent interest margins.

(ii) Investments and derivative management to measure and control on and off-balance sheet assets to ensure investment objectives are met:

1. Established standards for safety, liquidity and yield;
2. Limits on eligible investments;
3. Limits on investment concentrations;
4. Limits on investment term to maturity;
5. Limits on the use of derivative products;
6. Controls on securities dealers utilized;
7. Limits on real property and equipment for the Credit Union's use; and
8. Processes that identify adverse situations and trends.

16. **Risk management** (Continued)

c) Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk. See Note 21 for further information on fair value of financial instruments.

d) Interest rate risk

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

To manage the repricing of asset and liability mismatch opportunities, the Credit Union will undertake campaigns to procure deposits or loans that re-price or mature within a specific time period, buy or sell assets that reprice or 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.

Based on the current financial instruments, it is estimated that a 1.0% increase in the prime interest rate would increase financial margin by $1,979 (2016 - $2,764). A 1.0% decrease in the prime interest rate would decrease financial margin by $10,478 (2016 - $24,221).

The following schedule shows the Credit Union's sensitivity to interest changes as at October 31, 2017. Fixed rate assets and liabilities are reported based on scheduled repayments. Variable rate assets and liabilities that are linked to the prime rate are reported in the floating rate category. Non-interest-bearing assets and liabilities are reported in the non-rate sensitive category.

| | Floating Rate | Within One Year | One to Five Years | Non-Rate Sensitive | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | $ 55,143 | $ --- | $ --- | $ 263,816 | $ 318,959 |
| (effective yield) | 0.25% | 0.00% | 0.00% | 0.00% | 0.04% |
| Investments | --- | 29,291,773 | 7,675,405 | 2,970,900 | 39,938,078 |
| (effective yield) | 0.00% | 1.14% | 1.99% | 0.00% | 1.22% |
| Member loans | 53,682,726 | 41,400,451 | 126,022,315 | (127,661) | 220,977,831 |
| (effective yield) | 4.10% | 2.98% | 2.78% | 0.00% | 3.14% |
| Other | --- | --- | --- | 1,286,387 | 1,286,387 |
| (effective yield) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Subtotal | 53,737,869 | 70,692,224 | 133,697,720 | 4,393,442 | 262,521,255 |

16. **Risk management** (Continued)

d) Interest rate risk (Continued)

| | Floating Rate | Within One Year | One to Five Years | Non-Rate Sensitive | Total |
|---|---|---|---|---|---|
| **Liabilities and Equity** | | | | | |
| Member deposits | $ 44,222,499 | $ 85,676,647 | $ 98,659,065 | $ 16,903,978 | $245,462,189 |
| (effective yield) | 0.65% | 1.48% | 2.06% | 0.00% | 1.46% |
| Other | --- | --- | --- | 466,541 | 466,541 |
| (effective yield) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Equity | --- | --- | --- | 16,592,525 | 16,592,525 |
| Subtotal | 44,222,499 | 85,676,647 | 98,659,065 | 33,963,044 | 262,521,255 |
| **2017 Net gap** | **$ 9,515,370** | **$(14,984,423)** | **$ 35,038,655** | **$(29,569,602)** | **$ ---** |
| **Percentage of assets** | **3.63** | **(5.71)** | **13.35** | **(11.27)** | **$ ---** |
| 2016 Net gap | $ 10,508,857 | $(32,672,108) | $ 51,779,261 | $(29,616,010) | $ --- |
| Percentage of assets | 3.85 | (11.98) | 18.98 | (10.86) | $ --- |

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of the Credit Union is to be an intermediate between the expectations of borrowers and depositors.

e) Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 18 for further information about the Credit Union's regulatory requirement.

The Credit Union uses various risk management processes to manage liquidity risk. Management of liquidity risk is established in policies and procedures established by the Board of Directors. In addition, the Corporation establishes standards to which the Credit Union must comply.

The primary liquidity risk and procedures include the following:

Liquidity risk management framework to measure and control liquidity risk exposure;

1. Maintain sufficient liquid assets to meet normal operating requirements;
2. Maintain Corporation regulated liquidity investments;
3. Maintain a line of credit and borrowing facility with Central;
4. Daily management of liquidity, which factors in known and projected inflows/outflows;
5. Maintain sufficient liquid assets that can be readily converted to cash with minimal or no cost;
6. Maintain liquid assets in excess of normal operating requirements;
7. Diversification in investing to ensure various sources of funding liquidity can be maintained; and
8. Liquidity management contingency planning.

16. **Risk management** (Continued)

e) Liquidity risk (Continued)

The Credit Union enters into transactions to borrow funds from financial institutions or other creditors and leases office equipment from various creditors, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from its accounts payable and loans payable by investing in liquid assets.

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 8.88% at October 31, 2017 (2016 - 7.52%).

Management reviews its compliance with these policies and reports its statutory liquidity position to the Board of Directors on a monthly basis. The Audit Finance Committee ensures that a periodic review is performed to verify compliance with policy and procedures.

f) Foreign exchange risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant as at the date of the Statement of Financial Position, 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.

g) Price risk

Price risk arises from changes in market risks other than interest rate, credit, liquidity or foreign exchange risk, such as changes in commodity prices where these changes cause fluctuations in the fair value or future cash flows of a financial instrument. The Credit Union is exposed to significant price risk at this time as members of the Credit Union are employed in the oil and gas commodity sector.

## 17. Capital management

Capital requirements are established by the *Credit Union Act* (the "Act") and Principal Regulations regulated by the Credit Union Deposit Guarantee Corporation (the "Corporation").

Under legislation, the Credit Union is required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets ("RWA") including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of capital to RWA is calculated and compared to the requirement set out in the legislation and by the Corporation. Legislative requirements stipulate that the Credit Union maintain a minimum capital of the greater of 8% of RWA and 4% of total assets. The Credit Union is also required to maintain a Supervisory Capital Buffer equal to 2.5% of its RWA.

The Credit Union also maintains an internal capital buffer, in addition to the legislative and supervisory buffers, of 2% of its risk weighted assets.

Tier 1 capital is defined as the Credit Union's primary capital and comprises share capital and retained earnings while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge.

Tier 2 capital of the Credit Union consists of deferred income taxes payable and the collective allowance for member loans.

The primary capital policies and procedures include the following:

a) Adhere to legislative capital requirements as minimum benchmarks (i.e. growth, operations, enterprise risk);
b) Co-ordinate strategic risk management and capital management;
c) Develop financial performance targets/budgets/goals;
d) Administer a patronage program that is consistent with capital requirements;
e) Administer an employee incentive program that is consistent with capital requirements;
f) Develop a planned growth strategy that is coordinated with capital growth; and
g) Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares the Act's regulatory requirements to the Credit Union's board policy for the year:

| | Regulatory Requirements | Board Minimum Limits |
|---|---|---|
| Total eligible capital to risk-weighted assets | 8% | 8% |
| Capital conservation buffer | 2.5% | 4.5% (i) |
| Total eligible capital to total assets | 4% | 5% |

(i) Equal to Supervisory buffer of 2.5% plus a minimum Credit Union buffer of 2%.

17. **Capital management** (Continued)

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

***Capital summary***

| | **2017** | 2016 |
|---|---|---|
| Total Assets ("TA") | **$ 262,521,255** | $ 272,811,556 |
| Risk Weighted Assets ("RWA") | **$ 101,276,485** | $ 102,051,697 |
| **Eligible Capital** | | |
| Total tier 1 capital | **$ 16,592,525** | $ 15,999,776 |
| Total tier 2 capital | **19,579** | 82,235 |
| Deductions – intangible assets | **(104,805)** | (312,421) |
| Total eligible capital | **$ 16,507,299** | $ 15,769,590 |
| **Risk-Weighted Assets** | | |
| Total eligible capital to risk-weighted assets (8.0% of RWA) | **16.30%** | 15.45% |
| **Total Assets** | | |
| Total eligible capital to total assets (4.0% of TA) | **6.29%** | 5.78% |

***Calculation of capital targets for the Credit Union***

| | 2017 | 2016 |
|---|---|---|
| Legislated minimum (greater of 4.0% of TA and 8.0% of RWA) | **$ 10,500,850** | $ 10,912,462 |
| Supervisory buffer (2.5% of RWA) | **2,531,912** | 2,551,292 |
| Minimum supervisory capital requirement | **13,032,762** | 13,463,754 |
| Minimum Credit Union internal buffer (2.0% of RWA) | **2,025,530** | 2,041,034 |
| Minimum target capital requirement | **$ 15,058,292** | $ 15,504,788 |
| Total eligible capital | **$ 16,507,299** | $ 15,769,590 |
| Minimum target capital requirement | **(15,058,292)** | (15,504,788) |
| Excess | **$ 1,449,007** | $ 264,802 |

18. **Contingent liabilities and commitments**

**Contingent liabilities**

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

**Commitments**

Retail banking services

The Credit Union entered into an *eroWORKS* Retail Banking Services Agreement with Celero Solutions Inc. for a seven-year term commencing January 2016 with an automatic three-year renewal unless terminated by either party. Annual operating fees vary annually based on the projected operating costs for *eroWORKS* Retail Banking for the upcoming year. For the year ended October 31, 2017, the annual operating fee is $161,207 (2016 - $144,364).

Operating Leases

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

| | | |
|---|---|---|
| 2018 | $ | 157,100 |
| 2019 | $ | 157,100 |
| 2020 | $ | 165,480 |
| 2021 | $ | 163,133 |
| 2022 | $ | 163,133 |
| 2023 and subsequent | $ | 163,133 |

19. **Related party transactions**

*Key management personnel and directors*

a) ***Compensation and dividends***

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 member of management responsible for the day-to-day financial and operational management of the Credit Union. The Credit Union's KMP is comprised of five positions (2016 – six positions). Summary of compensation for KMP for the year ended October 31, 2017 is $686,674 (2016 - $674,437). Common shares held by KMP total $13,510 at October 31, 2017 (2016 - $19,389) with related common share dividends paid of $417 for 2017 (2016 - $632).

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

*Key management personnel and directors* (Continued)

b) ***Member loans***

Directors and KMP of the Credit Union have loans totalling $1,906,638 (2016 - $1,674,995) which is 0.86% (2016 – 0.76%) of total loans. 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 for one single family dwelling or registered condominium unit which is owned and occupied full-time is the Canada Revenue Agency prescribed rate. There are no loans that are impaired in relation to loan balances with KMP or directors. Interest and other revenue earned on the above loans are $42,811 (2016 - $37,968).

*Deposits*

Directors and KMP of the Credit Union have deposits totaling $1,434,443 (2016 - $2,249,219) which is 0.58% (2016 – 0.88%) of total deposits. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in member deposits. Interest on the above deposits is $22,894 (2016 - $44,802).

Directors' fees

There was no remuneration paid to directors in the current or prior fiscal year. Travel, training and meal costs are $7,514 (2016 - $5,660).

*Credit Union Central of Alberta Ltd. (Central)*

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

*The Credit Union Deposit Guarantee Corporation*

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

20. **Investment**

Investment income consists of the following:

| | **2017** | 2016 |
|---|---|---|
| Patronage distribution from Central | **$ 121,933** | $ 97,509 |
| Interest | **665,781** | 781,278 |
| | **$ 787,714** | $ 878,787 |

## 21. Fair value of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in the current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates.

<u>Methods and assumptions</u>

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

i) Financial assets:

The fair value of financial assets is determined by using quoted market values when available. For financial assets where market quotes are not available, the Credit Union uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other financial assets that are substantially the same. Where there is no observable market data, management uses estimates that it believes to be reasonable.

ii) Member loans:

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

iii) Member deposits:

Fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

iv) Derivative instruments

Fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

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

The table below sets out the fair value of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that do not meet the definitions of financial instruments:

***(In thousands)***

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Fair Value | Carrying Amount | Difference | Fair Value | Carrying Amount | Difference |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | $ 319 | $ 319 | $ --- | $ 1,226 | $ 1,226 | $ --- |
| Investments | 39,785 | 39,938 | (153) | 48,692 | 48,695 | (3) |
| Member loans | 217,610 | 220,978 | (3,368) | 219,657 | 221,514 | (1,857) |
| Other assets | 321 | 321 | --- | 405 | 405 | --- |
| | 258,035 | 261,556 | (3,521) | 269,980 | 271,840 | (1,381) |
| **Financial Liabilities** | | | | | | |
| Member deposits | 245,743 | 245,462 | 281 | 256,268 | 255,725 | 543 |
| Other liabilities | 447 | 447 | --- | 1,002 | 1,002 | --- |
| | 246,190 | 245,909 | 281 | 257,270 | 256,727 | 543 |
| | $ 11,845 | $ 15,647 | $ (3,802) | $ 12,710 | $ 15,113 | $ (2,403) |

Fair Value Hierarchy

Assets and liabilities recorded at fair value in the Statement of Financial Position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. Observable inputs represent instances where market data is obtained from independent sources. Unobservable inputs are based on the Credit Union's own internal assumption.

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included within level 1, are observable for the asset or liability either directly or indirectly; and
Level 3 – inputs that are not based on observable market data

The following table presents the classification of financial instruments within the fair value hierarchy:

**October 31, 2017**

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash | $ 318,959 | $ 318,959 | $ --- | $ --- |
| Derivative financial assets | 104,588 | 104,588 | --- | --- |
| Total financial assets | $ 423,547 | $ 423,547 | $ --- | $ --- |
| **Financial liabilities:** | | | | |
| Derivative financial liabilities | $ 104,588 | $ 104,588 | $ --- | $ --- |
| Total financial liabilities | $ 104,588 | $ 104,588 | $ --- | $ --- |

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

Fair Value Hierarchy (Continued)

**October 31, 2016**

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Cash | $ 1,226,163 | $ 1,226,163 | $ --- | $ --- |
| Derivative financial assets | 151,100 | 151,100 | --- | --- |
| Total financial assets | $ 1,377,263 | $ 1,377,263 | $ --- | $ --- |
| **Financial liabilities:** | | | | |
| Derivative financial liabilities | $ 151,100 | $ 151,100 | $ --- | $ --- |
| Total financial liabilities | $ 151,100 | $ 151,100 | $ --- | $ --- |

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

**SHELL EMPLOYEES' CREDIT UNION LIMITED**
Schedule 1: Operating Expenses
For the Year Ended October 31, 2017

| | 2017 | 2016 |
|---|---|---|
| **Personnel** | **$ 2,066,625** | $ 1,785,362 |
| **Security** | | |
| Bonding | **24,285** | 21,174 |
| Deposit guarantee | **227,262** | 411,032 |
| | **251,547** | 432,206 |
| **Organizational** | | |
| Central dues | **70,766** | 71,019 |
| Directors' expenses | **59,111** | 15,161 |
| Directors' meetings and training | **16,582** | 16,581 |
| | **146,459** | 102,761 |
| **Occupancy** | | |
| Depreciation (Note 10) | **85,551** | 81,745 |
| Lease settlement | **---** | 498,750 |
| Rent | **264,527** | 403,036 |
| | **350,078** | 983,531 |
| **General business** | | |
| Advertising | **72,697** | 31,718 |
| Amortization of intangible assets (Note 11) | **74,090** | 73,830 |
| Depreciation (Note 10) | **38,330** | 42,334 |
| Computer | **299,569** | 307,847 |
| Cash, service charges and other fees | **82,798** | 95,167 |
| Courier and postage | **29,482** | 27,801 |
| Office | **96,395** | 86,133 |
| Other | **19,826** | 13,395 |
| Memberships and subscriptions | **25,989** | 21,708 |
| Equipment leases, repairs and maintenance | **38,053** | 26,906 |
| Insurance | **13,290** | 15,709 |
| Staff travel | **4,771** | 6,958 |
| Professional fees | **36,968** | 54,178 |
| | **832,258** | 803,684 |
| | **$ 3,646,967** | $ 4,107,544 |

*See accompanying notes to the financial statements*