PIERCELAND CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2013

BAERT CAMERON ODISHAW LA COCK
CHARTERED ACCOUNTANTS

PIERCELAND CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2013

CONTENTS

MANAGEMENT REPORT

Pierceland Credit Union Limited
Report of Management

Management has the responsibility for preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles in making objective judgements and estimates in accordance with International Financial Reporting Standards.

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

Ultimate responsibility for the financial statements to members lies with the board of directors.

External auditors appointed by the board audit the financial statements. The external auditors report directly to the board and their report follows. The external auditors have full and free access to the board of directors to discuss their audit and their findings as to the integrity of the credit union's financial reporting and the adequacy of the system of internal controls.

Craig Barclay
Manager

April 16, 2014

BAERT CAMERON ODISHAW LA COCK
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Members
Pierceland Credit Union Limited
Pierceland, Saskatchewan

We have audited the accompanying financial statements of Pierceland Credit Union Limited, which comprise the statement of financial position as at December 31, 2013, the statements of profit, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Pierceland Credit Union Limited as at December 31, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Baert Cameron Odishaw La Cock
Chartered Accountants

North Battleford, Saskatchewan
April 16, 2014

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

	2013	2012
ASSETS		
Cash and cash equivalents (Note 4)	$ 1,981,288	$ 2,067,526
Investments (Note 5)	3,767,887	5,557,411
Loans (Note 6)	31,019,783	27,451,037
Other assets (Note 8)	105,829	153,618
Property, plant and equipment (Note 7)	208,891	211,655
	$ 37,083,678	$ 35,441,247
LIABILITIES		
Deposits (Note 9)	$ 33,777,213	$ 32,517,457
Current income tax payable	44,459	35,794
Deferred income tax liability	2,700	5,226
Other liabilities	91,400	76,296
Patronage allocation payable	89,567	
Membership shares (Note 11)	7,130	7,410
	34,012,469	32,642,183
EQUITY		
Retained earnings	3,071,209	2,799,064
	$ 37,083,678	$ 35,441,247

APPROVED ON BEHALF OF THE BOARD

Director

Director

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF PROFIT
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
INTEREST INCOME		
Loan interest	$ 1,514,624	$ 1,283,364
Investments	66,119	79,416
	1,580,743	1,362,780
INTEREST EXPENSE		
Borrowed money	27,436	1,300
Deposits	362,956	374,345
Patronage allocation	89,567	
	479,959	375,645
NET INTEREST INCOME	1,100,784	987,135
Provision for credit losses	(14,841)	(23,341)
NET INTEREST MARGIN	1,085,943	963,794
NON - INTEREST INCOME	271,875	197,904
OPERATING EXPENSES		
Personnel	486,828	422,215
Security	38,422	32,119
Organizational	53,880	42,118
Occupancy	61,026	48,398
General business	403,584	362,472
	1,043,740	907,322
PROFIT BEFORE PROVISION FOR INCOME TAX	314,078	254,376
Income tax expense (Note 17)	41,933	32,439
PROFIT FOR THE YEAR	$ 272,145	$ 221,937

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
RETAINED EARNINGS at beginning of year	$ 2,799,064	$ 2,577,127
Profit for the year	272,145	221,937
RETAINED EARNINGS at end of year	$ 3,071,209	$ 2,799,064

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Profit for the year	$ 272,145	$ 221,937
Adjustments for:		
Provision for credit losses	14,841	23,341
Amortization	44,001	29,881
Deferred income tax	(2,526)	(3,355)
	328,461	271,804
Net change in non-cash working capital		
Decrease (increase) in other assets	47,789	(1,818)
Increase (decrease) in other liabilities	113,335	(497,766)
	161,124	(499,584)
Cash flows provided (used) by operating activities	489,585	(227,780)
CASH FLOWS USED BY INVESTING ACTIVITIES		
Decrease (increase) in investments	1,789,524	(784,468)
Increase in loans	(3,583,587)	(4,288,777)
Additions to property, plant and equipment	(41,236)	(21,970)
Cash flows used by investing activities	(1,835,299)	(5,095,215)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Increase in deposits	1,259,756	5,882,782
Increase (decrease) in shares	(280)	145
Cash flows provided by financing activities	1,259,476	5,882,927
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(86,238)	559,932
CASH AND CASH EQUIVALENTS at beginning of year	2,067,526	1,507,594
CASH AND CASH EQUIVALENTS at end of year	$ 1,981,288	$ 2,067,526

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
PERSONNEL		
Salaries	$ 399,038	$ 350,478
Employee benefits	46,898	44,017
Other	40,892	27,720
	486,828	422,215
SECURITY		
CUDGC assessment	29,197	23,908
Other	9,225	8,211
	38,422	32,119
ORGANIZATIONAL		
SaskCentral dues	16,625	15,085
Officials development and travel	34,207	25,214
Other	3,048	1,819
	53,880	42,118
OCCUPANCY		
Building amortization	9,941	9,941
Building maintenance and insurance	29,612	18,947
Other	21,473	19,510
	61,026	48,398
GENERAL BUSINESS		
Advertising and member education	27,406	25,681
Audit fees	22,058	16,860
Clearing fees and service charges	43,461	42,357
Courier	29,136	27,409
Data processing	104,973	97,117
Equipment amortization	34,060	19,940
Equipment repairs and maintenance	7,408	11,602
Office supplies	8,492	6,776
Other	118,982	106,322
Telephone and postage	7,608	8,408
	403,584	362,472
	$ 1,043,740	$ 907,322

See accompanying notes

1. REPORTING ENTITY

Pierceland Credit Union Limited is a credit union domiciled in Canada. The address of the credit union's registered office is Pierceland, Saskatchewan. The credit union is a financial service provider.

The credit union was continued pursuant to *The Credit Union Act, 1998* of the Province of Saskatchewan. The credit union serves members in Pierceland and the surrounding area. In accordance with *The Credit Union Act, 1998,* Credit Union Deposit Guarantee Corporation (CUDGC), a provincial corporation, guarantees the repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

The financial statements for the year ended December 31, 2013 were authorized for issue by the board of directors on April 16, 2014.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Use of Estimates and Key Judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements as well as the reported amounts of income and expenses during the year.

Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of Estimates and Key Judgements (continued)

The most significant uses of judgements and estimates are as follows:

(i) Valuation of financial instruments

The credit union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described in the fair value of financial instruments accounting policy in note 3. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include consideration of liquidity and other risks affecting the specific instrument. See also note 14 fair value of financial instruments for further discussion.

(ii) Determination of allowance for credit losses

The individual allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgement is required in the estimate of the amount and timing of the cash flows the credit union expects to receive. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

The collective allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective allowance, management considers factors such as credit quality, historical loss experience and current economic conditions. See also the significant accounting policy note on loans in note 3 and note 6 for further discussion on allowance for credit losses.

(b) Financial Instruments

All financial instruments are initially recognized at their fair value, plus transaction costs, except in the case of financial assets and liabilities classified as fair value through profit or loss. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. Measurement in subsequent years depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

(i) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The credit union recognizes transaction costs as part of the carrying amount of all financial instruments, except for those classified as at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(ii) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(iii) Held-to-maturity

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the credit union has the positive intention and ability to hold until its maturity date and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

(iv) Fair value through profit or loss

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

Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

The financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, 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; or

It forms part of a contract containing one or more embedded derivatives.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized immediately in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the profit or loss. Fair value is determined in the manner described in note 14.

(v) Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the previous categories. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available for sale financial assets are carried at fair value. Fair value is determined in the manner described in note 14.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(v) Available-for-sale (continued)

Interest income is recognized in profit and loss using the effective interest method. Dividend income is recognized in profit and loss when the credit union becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized immediately in profit and loss. Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit and loss as a reclassification adjustment.

(vi) Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the credit union does not intend to sell immediately or in the near term. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment. Interest income, calculated using the effective interest rate method, is recognized in profit.

(vii) Other financial liabilities

Other financial liabilities include liabilities that have not been classified as fair value through profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, calculated using the effective interest rate method, is recognized in profit.

(viii) Embedded derivatives

Derivatives embedded in other non-derivative financial instruments or other host contracts are separated from their host contracts and accounted for as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument or contract is not measured at fair value through profit or loss. Embedded derivatives that are accounted for as separate derivatives are measured at fair value with changes in fair value recognized to profit and loss immediately. As at December 31, 2013, the credit union does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

(ix) Financial asset impairment

The credit union assesses financial assets, other than those carried at fair value through profit or loss, for indicators of impairment each year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(ix) Financial asset impairment (continued)

For an equity security investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency by the borrower, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, or other observable data relating to a portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

For certain categories of financial assets, such as loans, assets that are assessed not to be impaired individually are, in addition, assessed for impairment of a collective basis. In assessing collective impairment, the credit union considers historical experience on similar assets in similar economic conditions.

Impairment losses on financial assets carried at amortized cost is measured as the difference between the financial 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 financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, which is reduced through the use of allowance accounts. Impairment losses are recognized in profit and loss.

When an available for sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the year.

With the exception of available for sale equity instruments, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent recovery in the fair value of an impaired available for sale equity instruments is recognized in other comprehensive income.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid securities with a short maturity from the date of acquisition. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments. Cash and cash equivalents are classified as loans and receivables and carried at amortized cost on the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Investments

Investments are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(e) Loans

Loans are initially measured at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment.

The credit union establishes an allowance for impairment. The allowance comprises two parts - an individual allowance component and a collective allowance component, calculated as follows:

(i) The credit union records a specific individual allowance based on management's regular review and evaluation of individual loans and is based upon the management's best estimate of the present value of the cash flows expected to be received, discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured on the basis of the instrument's fair value using an observable market price. 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 foreclosure is probable.

(ii) The credit union records a collective allowance for loans with similar credit risk characteristics, that have not been individually assessed as impaired, when objective evidence of impairment within the groups of loans exists but the individually impaired loans cannot be identified. The credit union estimates the collective allowance for impairment using a formula based on its historical loss experience for similar groups of loans in similar economic circumstances and current economic conditions. As management identifies individually impaired loans, it assigns an individual allowance for impairment to that loan and adjusts the collective allowance accordingly.

(f) Assets Held for Sale

Assets are considered held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, Plant and Equipment

Property, plant and equipment are reported at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight line method over the estimated useful life of the related asset as follows, with the exception of land which is not amortized:

Buildings	40 years
Equipment	3-5 years

The estimated useful lives, residual values and amortization methods are reviewed at each year end and adjusted if appropriate.

Gains and losses on the disposal or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in profit or loss in the year of disposal.

(h) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

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

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future years for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the year of change except when they relate to items recognized directly in other comprehensive income.

Deferred taxes are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but the credit union intends to settle its current tax assets and liabilities on a net basis or simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Revenue Recognition

(i) Loan interest income

Loan interest income is recognized on an accrual basis in profit and loss using the effective interest method.

Once a loan is written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees, are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

(ii) Investment interest income

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

(iii) Other income

Other revenue is recognized in the fiscal year in which the related service is provided.

(j) Membership Shares

Membership shares are classified as financial liabilities in accordance with their terms. All shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

(k) Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities that are measured in terms of historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined.

Translation gains and losses are included in profit or loss, except for available-for-sale equity instruments which are recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee Future Benefits

The credit union's employee future benefit program consists of a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the credit union pays fixed contributions into a separate entity. The credit union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Credit union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $16,192 (2012 - $ 15,182) were paid to defined contribution retirement plans during the year.

(m) New Standards and Interpretations not yet Adopted

At December 31, 2013 a number of standards and interpretations and amendments thereto have been issued by the IASB, which are not effective for these financial statements. Those which could have an impact on the credit union's financial statements are discussed below.

(i) Financial instruments

IFRS 9, Financial Instruments (IFRS 9), issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. Recently, the IASB has re-opened the classification and measurement requirements of financial assets and published an exposure draft in November 2012 proposing limited improvements to IFRS 9. In March 2013, the IASB issued a revised exposure draft relating to impairment methodology. The IASB has not yet issued final amendments to IFRS 9.

(ii) Key requirements of IFRS 9

All recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) New Standards and Interpretations not yet Adopted (continued)

(ii) Key requirements of IFRS 9 (continued)

With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

The credit union anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect to the credit union's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

The credit union did not early adopt any new or amended standards in 2013.

4. CASH AND CASH EQUIVALENTS

	2013	2012
Cash on hand	$ 1,981,288	$ 2,067,526

5. INVESTMENTS

	2013	2012
Held-for-trading		
Concentra Financial	$ 3,242	$ 2,116,238
SaskCentral and Concentra Financial shares	252,862	252,862
SaskCentral - liquidity pool	3,500,000	3,175,000
Accrued interest	11,783	13,311
Total held-for-trading investments	$ 3,767,887	$ 5,557,411

Pursuant to regulation 18(1)(a), Credit Union Central of Saskatchewan (SaskCentral) requires that the credit union maintain 10% of its total liabilities using a prescribed formula in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan credit unions, CUDGC requires that the credit union adhere to these prescribed limits and restrictions. As of December 31, 2013 the credit union met the requirement.

At December 31, 2013, $2,650,000 (2012 - $900,000) of investments are expected to be recovered more than twelve months after the reporting date.

6. LOANS

	Performing	Impaired	Allowances Individual	Allowances Collective	2013 Net
Government Guaranteed	$ 8,089,927				$ 8,089,927
Conventional Mortgages					
- residential & farm	14,687,637	$ 31,971			14,719,608
- commercial	1,261,954				1,261,954
Personal loans	3,101,215	5,781	$ 5,781	$ 119,000	2,982,215
Lines of credit					
& overdrafts	1,304,442				1,304,442
Non-personal loans	2,507,530				2,507,530
Accrued interest	154,100	7			154,107
	$ 31,106,805	$ 37,759	$ 5,781	$ 119,000	$ 31,019,783

	Performing	Impaired	Allowances Individual	Allowances Collective	2012 Net
Government Guaranteed	$ 9,971,345				$ 9,971,345
Conventional Mortgages					
- residential & farm	10,093,446				10,093,446
- commercial	1,129,205				1,129,205
Personal loans	3,155,004	$ 9,692	$ 9,692	$ 102,000	3,053,004
Lines of credit					
& overdrafts	1,315,912				1,315,912
Non-personal loans	1,731,995				1,731,995
Accrued interest	156,130	84	84		156,130
	$ 27,553,037	$ 9,776	$ 9,776	$ 102,000	$ 27,451,037

At December 31, 2013, $28,727,254 (2012 - $20,314,923) of loans are expected to be recovered more than twelve months after the reporting date.

Allowance for impaired loans:

	2013 Individual	2013 Collective	2012 Individual	2012 Collective
Balance at beginning of year	$ 9,776	$ 102,000	$ 12,099	$ 76,336
Recoveries	(2,856)		(5,214)	
Impairment losses recognized	697	17,000	2,891	25,664
Amounts written-off	(1,836)			
Balance at end of year	$ 5,781	$ 119,000	$ 9,776	$ 102,000

6. LOANS (continued)

The aging of loans, including those past due but not impaired and those that were individually impaired, as at December 31, 2013 was:

	2013		2012	
	Performing	**Impaired**	**Performing**	**Impaired**
Current	$ 31,095,589		$ 27,242,775	
31 - 60 days	6,981		130,951	
61 - 90 days	4,235		105,493	
91 - 120 days			73,818	
121 + days		$ 37,759		$ 9,776
	$ 31,106,805	$ 37,759	$ 27,553,037	$ 9,776

The credit union holds collateral against loans to customers in the form of interests over property, other securities over assets and guarantees.

7. PROPERTY, PLANT AND EQUIPMENT

	2013			2012
	Cost	**Accumulated amortization**	**Net**	**Net**
Land	$ 26,500		$ 26,500	$ 26,500
Buildings	267,465	$ 196,765	70,700	80,641
Equipment	355,257	243,566	111,691	104,514
	$ 649,222	$ 440,331	$ 208,891	$ 211,655

8. OTHER ASSETS

	2013	**2012**
Prepaid expenses	$ 105,829	$ 153,618

9. DEPOSITS

	2013	2012
Chequing	$ 6,128,286	$ 6,368,441
Interest chequing	2,958,305	3,823,426
AgriInvest	235,035	227,175
Premium investment	10,510,119	8,687,136
Property tax holding	31,207	23,410
RRSP	5,073,489	4,988,766
RRIF	521,115	494,126
Special savings	2,075,077	1,873,260
Tax free savings account	975,221	637,134
Term deposits	3,475,579	3,651,600
US $ deposits	1,302,364	1,258,455
Youth accounts	419,823	408,738
Accrued interest	71,593	75,790
	$ 33,777,213	$ 32,517,457

At December 31, 2013, $4,257,000 (2012 - $4,087,000) of deposits are expected to be settled more than twelve months after the reporting date.

10. LOANS PAYABLE

The credit union has an authorized line of credit bearing interest at prime less a half percent in the amount of $1,000,000 (2012 - $630,000) from SaskCentral. At December 31, 2013, the credit union had not utilized the line of credit (2012 - $Nil). The line of credit is secured by the statutory liquidity held at SaskCentral.

11. MEMBERSHIP SHARES

Membership shares are as provided for by the Credit Union Act and administered according to the terms of the bylaws which set out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

The number of outstanding membership shares consists of:

	2013	2012
Issued at January 1	$ 7,410	$ 7,265
Issued (allocated)	(280)	145
Issued at December 31	$ 7,130	$ 7,410

A patronage allocation of 5% of interest paid or received by members has been declared on member shares in this period. No allocation was declared in the preceding period.

PIERCELAND CREDIT UNION LIMITED

12. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

The credit union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 1.250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital. In addition to the minimum capital ratios, the credit union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus and accumulated other comprehensive income (AOCI). Deductions from common equity tier 1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own-use property. Additional tier 1 capital consists of qualifying membership shares and other investment shares issued by the credit union that meet the criteria for inclusion in additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, subordinated indebtedness and qualifying membership shares of other investment shares issued by the credit union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the credit union to maintain a minimum leverage ration of 5%. This ratio is calculated by dividing eligible capital by total assets less deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio. All items deducted from capital are excluded from total assets. The credit union may also exclude from total assets mortgages securitized through Canada Mortgage and Housing Corporate (CMHC) programs up to and including March 31, 2010 and all existing and future reinvestments related to Canada Mortgage Bonds (CMB) Insured Mortgage Purchase Program transactions completed up to and including March 31, 2010.

12. CAPITAL MANAGEMENT (continued)

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 CUDGC regulatory standards to the credit union's board policy for 2013.

	Regulatory Standards	Board Limits
Total eligible capital to risk-weighted assets	8%	8%
Total tier 1 capital rish-weighted assets	6%	6%
Common equity tier 1 capital to risk-weighted assets	4.5%	4.5%
Minimum leverage ratio	5%	5%

During the year, the credit union complied with all internal and external capital requirements.

The following table summarizes key capital information:

	2013
Eligible capital	
Common equity tier 1 capital	$ 3,000,709
Additional tier 1 capital	NIL
Total tier 1 capital	3,000,709
Total tier 2 capital	126,130
Total eligible capital	$ 3,126,839
Risk-weighted assets	$ 19,403,328
Total eligible capital to risk-weighted assets	16.11%
Total tier 1 capital to risk-weighted assets	15.46%
Common equity tier 1 capital to risk-weighted assets	15.46%
Minimum leverage ratio	8.29%

	2012
Eligible capital	
Total tier 1 capital	$ 2,806,473
Total tier 2 capital	102,000
Total eligible capital	$ 2,908,473
Risk-weighted assets	$ 16,905,736
Total eligible capital to risk-weighted assets	17.20%
Tier 1 capital to total assets	7.92%
Tier 2 capital to tier 1 capital	3.63%

13. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the credit union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

(a) Loans Receivable

At December 31, 2013, certain members of the board of directors and other key management personnel were indebted to the credit union. These loans were granted under the same lending policies applicable to other members and are included in loans on the consolidated statement of financial position.

	Directors and other key management personnel		**Other related parties**	
	2013	**2012**	**2013**	**2012**
Loans outstanding at January 1	$ 606,298	$ 1,120,637	$ 153,145	$ 26,131
Net change	159,460	(514,339)	138,572	127,014
Loans outstanding at December 31	$ 765,758	$ 606,298	$ 291,717	$ 153,145

(b) Deposit Accounts

Directors and other key management personnel may hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members and are included in member deposits on the statement of financial position.

	Directors and other key management personnel		**Other related parties**	
	2013	**2012**	**2013**	**2012**
Deposits at January 1	$ 713,898	$ 553,498	$ 430,062	$ 200,708
Net change	123,582	160,400	38,809	229,354
Deposits at December 31	$ 837,480	$ 713,898	$ 468,871	$ 430,062

13. RELATED PARTY TRANSACTIONS (continued)

(c) Remuneration

Compensation for directors and other key management personnel comprised:

	2013	2012
Salaries and other short term employee benefits	$ 118,561	$ 114,027

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

(a) Methods and Assumptions

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

The fair values of short term financial instruments including cash, other assets, other liabilities, accrued income and expenses are approximately equal to their book values due to their short term nature.

Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.

For variable interest rate loans that reprice frequently, fair values approximate book values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.

Carrying values approximate fair values for deposits, loans payable and membership shares without specified maturity terms.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT

The nature of the credit union's financial instruments exposes them to credit, liquidity and market risk.

(a) Credit Risk

Credit risk is the risk of loss to the credit union if a customer or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans and receivables and principal and interest amounts due on investments.

Credit risk is managed in accordance with policies and procedures established by the board of directors. In addition, CUDGC establishes standards with which the credit union must comply.

15.FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(a) Credit Risk (continued)

Except as otherwise noted below, the carrying amount of the financial assets recognized in the financial statements, which is net of impairment losses, represents the credit union's maximum exposure to credit risk, without taking into account collateral of other credit enhancements held.

The maximum exposure to credit risk for loans and receivables at the reporting date was:

	2013	2012
Consumer loans	74 %	75 %
Commercial loans	10 %	8 %
Agricultural loans	12 %	12 %
Overdrafts and lines of credit	4 %	5 %
	100 %	100 %

In addition, in the normal course of business, the credit union has entered into various commitments to extend credit that may not be reported on the statement of financial position, as well as guarantees and standby letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Guarantees and standby letters of credit represent irrevocable assurance that the credit union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the credit union up to a stipulated amount subject to specific terms and conditions. The credit union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The amounts reported below represent the maximum credit exposure to the credit union. Many of these contracts expire without being drawn upon, thereby reducing the credit union's credit risk from the maximum commitment. As many commitments will expire or terminate without being funded, the amounts shown on the table below do not necessarily represent future cash requirements.

	2013	2012
Undrawn lines of credit	$ 3,860,999	$ 3,213,743
Guarantees and standby letters of credit	8,136	
Commitments to extend credit (undrawn loans)		
- original term to maturity of greater than one year	782,160	1,489,113
	$ 4,651,295	$ 4,702,856

15.FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(a) Credit Risk (continued)

The credit union's investment portfolio risk ratings are as follows:

Investment Portfolio Rating	2013	2012
Unrated	$ 3,767,887	$ 5,557,411

SaskCentral and Concentra investments, including shares are unrated and total $3,767,887 (2012 - $5,557,411).

(b) Liquidity Risk

Liquidity risk is the risk that the credit union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

Liquidity risk is managed in accordance with policies and procedures established by the board of directors. In addition, CUDGC establishes standards to which the credit union must comply.

(c) Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The credit union's exposure changes depending on market conditions. The primary market risks that the credit union is exposed to are interest rate risk.

The credit union uses different risk management processes to manage market risk.

Market risk is managed in accordance with policies and procedures established by the board of directors. In addition, CUDGC establishes standards to which the credit union must comply.

The credit union's primary market risk policies and procedures include policies for maximum mismatched levels, monthly monitoring and adjusting product mix to address match position.

(i) Interest rate risk

Interest rate risk is the potential adverse impact on profit due to changes in interest rates. The credit union's exposure to interest rate risk arises due to timing differences in the repricing assets and liabilities as well as due to financial assets and liabilities with fixed and floating rates. The credit union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific years.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the credit union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The credit union did not use interest rate swaps in the current year.

The table below shows the credit union's gap position as at December 31, 2013. Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield.

	Assets	Liabilities	2013 Differential	2012 Differential
Repricing within 1 year	$ 24,945	$ 23,321	$ 1,624	$ 3,729
1 - 2 years	3,005	2,738	267	292
2 - 3 years	3,475	638	2,837	816
3 - 4 years	1,604	601	1,003	1,263
4 - 5 years	2,300	274	2,026	1,783
Over 5 years	733	6	727	273
Non interest bearing items	1,022	9,506	(8,484)	(8,156)
	$ 37,084	$ 37,084	$ NIL	$ NIL

The above schedule does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations, the credit union maintains the same amount of foreign denominated assets as foreign denominated liabilities.

16. COMMITMENTS

The credit union entered into a ten year commitment for the provision of retail banking services provided by Celero Solutions with a five year contract renewal option. The annual operating fee is calculated as a percentage of the aggregate fees paid by all credit unions using the new banking system. The operating fees for 2013 are $39,218 (2012 - $38,448).

17. INCOME TAXES

Income tax expense is comprised of:

	2013	2012
Current tax expense		
Current year	$ 44,459	$ 35,794
Deferred tax expense		
Other	(2,526)	(3,355)
Total income tax expense	$ 41,933	$ 32,439

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2013	2012
Profit before provision for income taxes	$ 314,078	$ 254,376
Combined federal and provincial tax rate	27.0%	27.0%
Income taxes at statutory rate	84,801	68,682
Adjusted for the effect of:		
- non-deductible expenses	3,093	1,555
- credit union rate reduction	(43,435)	(34,443)
	(40,342)	(32,888)
	$ 44,459	$ 35,794

18. COMPARATIVE FIGURES

Certain prior period's comparative figures may have been reclassified to conform with the current period's financial statement presentation.