PIERCELAND CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2017

Vantage

CHARTERED PROFESSIONAL ACCOUNTANTS

PIERCELAND CREDIT UNION LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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.

Vantage, an independent firm of Chartered Professional Accountants, is appointed by the board as external auditors to 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.

x ______________________
Craig Barclay
General Manager

March 1, 2018

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, 2017, the statements of profit and comprehensive income, 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, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vantage

Chartered Professional Accountants

North Battleford, Saskatchewan
March 1, 2018

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	2017	2016
ASSETS		
Cash and cash equivalents (Note 4)	$ 2,537,924	$ 1,886,099
Investments (Note 5)	5,762,859	5,830,068
Loans (Note 6)	34,488,373	36,662,933
Other assets (Note 8)	94,569	110,569
Income taxes recoverable	12,019	
Property, plant and equipment (Note 7)	79,930	119,434
	$42,975,674	$44,609,103
LIABILITIES		
Deposits (Note 9)	$38,767,472	$40,640,822
Current income tax payable		11,134
Other liabilities	132,702	107,853
Membership shares (Note 11)	7,300	7,350
TOTAL LIABILITIES	38,907,474	40,767,159
EQUITY		
Retained earnings	4,068,200	3,841,944
	$42,975,674	$44,609,103

APPROVED ON BEHALF OF THE BOARD

x Debra Theriault
Director

x
Director

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
INTEREST INCOME		
Loan interest	$ 1,604,066	$ 1,626,167
Investments	92,131	76,275
	1,696,197	1,702,442
INTEREST EXPENSE		
Borrowed money	24,505	9,556
Deposits	413,921	455,985
	438,426	465,541
NET INTEREST INCOME	1,257,771	1,236,901
Provision for credit losses	(46,477)	(82,179)
NET INTEREST MARGIN	1,211,294	1,154,722
NON - INTEREST INCOME	290,125	295,134
OPERATING EXPENSES		
Personnel	590,782	549,805
Security	44,432	47,156
Organizational	69,766	52,630
Occupancy	84,252	93,284
General business	448,090	458,430
	1,237,322	1,201,305
PROFIT BEFORE PROVISION FOR INCOME TAX	264,097	248,551
PROVISION FOR INCOME TAXES		
Income tax expense (Note 18)	37,841	49,858
PROFIT AND COMPREHENSIVE INCOME FOR THE YEAR	$ 226,256	$ 198,693

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
RETAINED EARNINGS at beginning of year	$ 3,841,944	$ 3,643,251
Profit and comprehensive income for the year	226,256	198,693
RETAINED EARNINGS at end of year	$ 4,068,200	$ 3,841,944

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Issued (redeemed)	$ 226,256	$ 198,693
Adjustments for:		
Provision for credit losses	46,477	82,179
Amortization	43,531	60,668
Interest and dividend revenue	(1,696,197)	(1,702,442)
Interest expense	438,426	465,541
Financing and investment items		
Income tax expense	37,841	49,858
	(903,666)	(845,503)
Net change in non-cash working capital		
Decrease in other assets	15,999	13,906
Increase (decrease) in deposits	(1,873,351)	1,408,687
Increase (decrease) in other liabilities	24,849	(73,863)
Decrease (increase) in loans	2,142,102	(2,390,892)
	309,599	(1,042,162)
	(594,067)	(1,887,665)
Cash generated from operations		
Interest received	1,699,145	1,672,299
Interest paid	(455,392)	(462,084)
Income taxes paid	(60,994)	(18,678)
	588,692	(696,128)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Decrease (increase) in investments	67,210	(217,635)
Additions to property, plant and equipment	(4,027)	(16,163)
	63,183	(233,798)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Decrease in shares	(50)	(75)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	651,825	(930,001)
CASH AND CASH EQUIVALENTS at beginning of year	1,886,099	2,816,100
CASH AND CASH EQUIVALENTS at end of year	$ 2,537,924	$ 1,886,099

See accompanying notes

PIERCELAND CREDIT UNION LIMITED

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
PERSONNEL		
Salaries	$ 467,731	$ 437,946
Employee benefits	71,738	67,953
Employee development and travel	44,858	34,513
Other	6,455	9,393
	590,782	549,805
SECURITY		
CUDGC assessment	32,413	35,203
Insurance	12,019	11,953
	44,432	47,156
ORGANIZATIONAL		
Annual meeting	9,000	7,126
SaskCentral dues	14,925	13,564
Officials development and travel	13,656	13,007
Officials remuneration	21,196	16,926
Other	10,989	2,007
	69,766	52,630
OCCUPANCY		
Building amortization	9,013	9,941
Building maintenance and insurance	66,995	75,356
Janitorial	8,244	7,987
	84,252	93,284
GENERAL BUSINESS		
Administration and support fees	65,289	96,650
Advertising and member promotion	33,155	29,170
Audit fees	26,498	20,652
Clearing fees and service charges	55,549	52,851
Community development and donations	13,688	14,236
Credential	12,500	
Data processing	167,316	148,579
Equipment amortization	34,518	50,727
Equipment repairs and maintenance	11,626	8,896
Office supplies	6,982	8,522
Telephone	8,808	8,611
Other	12,161	19,536
	448,090	458,430
	$1,237,322	$1,201,305

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, 2017 were authorized for issue by the board of directors on March 1, 2018.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(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.

(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.

The credit union has classified the following financial assets as held-to-maturity:

Concentra Financial deposits
SaskCentral deposits

(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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(iv) Fair value through profit or loss (continued)

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 recognized 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.

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.

The credit union has classified the following financial assets as available-for-sale:

SaskCentral shares
Concentra Financial shares

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(vi) Loans and receivables (continued)

The credit union has classified the following financial assets as loans and receivables:

Accounts receivable
Loans
Lines of credit

(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.

The credit union has classified the following financial liabilities as other financial liabilities:

Deposits
Accounts payable
Membership shares
Equity accounts

(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, 2017, the credit union does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

(ix) Fair value of financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(ix) Fair value of financial instruments (continued)

Fair values are determined where possible by reference to quoted bid or asking prices in an active market. In the absence of an active market, the credit union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The credit union classifies fair value measurements of financial instruments recognized in the statement of financial position using the following three tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

Level 1: Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities;

Level 2: Fair value measurements are derived from inputs other than quoted prices that are included within level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Fair value measurements derived from valuation techniques that include significant unobservable inputs.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgement, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy. See note 14 for further discussion on fair value of financial instruments.

(x) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(x) Financial asset impairment (continued)

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 instrument 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.

(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.

The fair value of investments approximates their carrying value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 sale 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 $27,856 (2016 - $24,904) were paid to defined contribution retirement plans during the year.

(m) New Standards and Interpretations not yet Adopted

At December 31, 2015 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

On July 24, 2014 the IASB issued the final version of IFRS 9, which replaces the current accounting standard IAS 39 - Financial instruments: recognition and measurement (IAS 39). This standard is effective for annual periods beginning on or after January 1, 2018.

Key requirements of IFRS 9

All recognized financial assets that are within the scope of IAS 39 are 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows that are solely of principal and interest on the principal amount outstanding, are generally measured at fair value through OCI (FVTOCI). 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 OCI, with only dividend income generally recognized in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Financial instruments(continued)

The credit union is currently evaluating the impact of the new standard on its financial statements.

(ii) Revenue from contracts with customers

IFRS 15, Revenue from Contracts with Customers (IFRS 15), is a new standard that addresses the recognition of revenue from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, Revenue (IAS 18), IAS 11, Construction Contracts (IAS 11) and the related Interpretations when it becomes effective. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity instruments are no longer within the scope of IFRS 15. Instead they are within the scope of IAS 39 (or IFRS 9, once adopted).

The core principle of the new standard is the recognition of revenue to depict the transfer of goods or services to customers in the amounts that reflect the consideration to which the entity expects to be entitled in the exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied) i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The extent of the impact from this standard has not yet been determined.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) Leases

The IASB has published a new standard, IFRS 16, Leases (IFRS16). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting has remained largely unchanged. IFRS 16 supersedes IAS 17, Leases and related Interpretations and is effective for periods beginning on or after January 1, 2019. The Credit Union is currently evaluating the impact of the new standard on the consolidated financial statements.

The Credit Union did not early adopt any new or amended standards in 2016.

4. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	$ 2,537,924	$ 1,886,099

5. INVESTMENTS

	2017	2016
Available-for-sale		
Concentra Financial shares	$ 10	$ 10
SaskCentral - shares	456,344	456,344
	456,354	456,354
Held-to-maturity		
SaskCentral	4,175,000	4,175,000
Concentra Financial	1,127,924	1,183,832
Accrued interest	3,581	14,882
	5,306,505	5,373,714
Total investments	$ 5,762,859	$ 5,830,068

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, 2017 the credit union met the requirement.

At December 31, 2017, $575,000 (2016 - $750,000) of investments are expected to be recovered more than twelve months after the reporting date.

6. LOANS

	Performing	Impaired	Allowances Individual	Allowances Collective	2017 Net
Government Guaranteed	$ 8,974,634	$ 672,604			$ 9,647,238
Conventional Mortgages					
- residential and farm	17,951,164			$ 22,327	17,928,837
- commercial	1,119,964				1,119,964
Personal loans	2,339,685			53,198	2,286,487
Lines of credit and overdrafts	1,854,413			84,475	1,769,938
Non-personal loans	1,573,449				1,573,449
Accrued interest	128,732	33,728			162,460
	$ 33,942,041	$ 706,332	$ NIL	$ 160,000	$ 34,488,373

	Performing	Impaired	Allowances Individual	Allowances Collective	2016 Net
Government Guaranteed	$ 10,069,221	$ 514,358			$ 10,583,579
Conventional Mortgages					
- residential and farm	17,581,121				17,581,121
- commercial	1,121,865				1,121,865
Personal loans	2,364,487	130,779	$ 108,647	$ 85,826	2,300,793
Lines of credit and overdrafts	2,263,567			37,174	2,226,393
Non-personal loans	2,682,325				2,682,325
Accrued interest	136,735	30,122			166,857
	$ 36,219,321	$ 675,259	$ 108,647	$ 123,000	$ 36,662,933

At December 31, 2017, $31,732,455 (2016 - $33,363,984) of loans are expected to be recovered more than twelve months after the reporting date.

Allowance for impaired loans:

	2017 Individual	2017 Collective	2016 Individual	2016 Collective
Balance at beginning of year	$ 108,647	$ 123,000	$ 7,265	$ 166,000
Impairment losses recognized	9,477	37,000	125,179	
Amounts written-off	(118,124)		(23,797)	(43,000)
Balance at end of year	$ NIL	$ 160,000	$ 108,647	$ 123,000

PIERCELAND CREDIT UNION LIMITED

6. LOANS (continued)

The aging of loans, including those past due but not impaired and those that were individually impaired, as at December 31, 2017 was:

	2017 Performing	2017 Impaired	2016 Performing	2016 Impaired
Current	$ 33,736,593		$ 35,645,247	
31 - 60 days	164,747		346,910	
61 - 90 days			65,380	
91 - 120 days	7,106		161,784	
121 + days	33,595	$ 706,332		$ 675,259
	$ 33,942,041	$ 706,332	$ 36,219,321	$ 675,259

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

	2017 Cost	2017 Accumulated amortization	2017 Net	2016 Net
Land	$ 26,500		$ 26,500	$ 26,500
Buildings	267,465	$ 235,602	31,863	40,876
Equipment	454,172	432,605	21,567	52,058
	$ 748,137	$ 668,207	$ 79,930	$ 119,434

8. OTHER ASSETS

	2017	2016
Prepaid expenses	$ 94,569	$ 110,569

PIERCELAND CREDIT UNION LIMITED

9. DEPOSITS

	2017	2016
Chequing	$ 7,222,194	$ 6,129,050
Interest chequing	4,159,236	4,449,551
AgriInvest	310,855	272,450
Premium investment	7,801,651	8,718,521
Property tax holding	42,610	24,293
RRSP	5,099,096	5,110,280
RRIF	1,195,103	1,198,223
Special savings	2,182,223	1,910,985
Tax free savings	2,101,720	1,958,234
Term deposits	6,024,645	7,718,038
US $ deposits	1,887,177	2,435,532
Youth accounts	633,120	590,856
Accrued interest	107,842	124,809
	$ 38,767,472	$ 40,640,822

At December 31, 2017, $4,825,993 (2016 - $4,605,978) of deposits are expected to be settled more than twelve months after the reporting date.

10. LOANS PAYABLE

The credit union has authorized lines of credit bearing interest at prime less a half percent in the amount of $820,000 (2016 - $820,000) from SaskCentral and bearing interest at 3.43% in the amount of $2,500,000 from Concentra Financial (2016 - $2,500,000). At December 31, 2017, the credit union had not utilized the lines of credit (2016 - $Nil). The lines of credit are secured by the statutory liquidity held at SaskCentral and deposits at Concentra Financial.

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:

	2017	2016
Issued at January 1	$ 7,350	$ 7,275
Issued (redeemed)	(50)	75
Issued at December 31	$ 7,300	$ 7,350

11. MEMBERSHIP SHARES (continued)

A patronage allocation was not declared on member shares in this period.

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.

PIERCELAND CREDIT UNION LIMITED

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 2017.

	Regulatory Standards	Board Limits
Total eligible capital to risk-weighted assets	10.50%	11.50%
Total tier 1 capital to risk-weighted assets	8.50%	9.50%
Common equity tier 1 capital to risk-weighted assets	7.00%	8.00%
Minimum leverage ratio	5.00%	6.50%

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

The following table summarizes key capital information:

	2017
Eligible capital	
Common equity tier 1 capital	$ 4,046,879
Total tier 2 capital	167,300
Total eligible capital	$ 4,214,179
Risk-weighted assets	$ 21,109,715
Total eligible capital to risk-weighted assets	19.96%
Total tier 1 capital to risk-weighted assets	19.17%
Common equity tier 1 capital to risk-weighted assets	19.17%
Minimum leverage ratio	9.79%

	2016
Eligible capital	
Total tier 1 capital	$ 3,801,844
Total tier 2 capital	130,350
Total eligible capital	$ 3,932,194
Risk-weighted assets	$ 21,771,098
Total eligible capital to risk-weighted assets	18.02%
Total tier 1 capital to risk-weighted assets	17.42%
Common equity tier 1 capital to risk-weighted assets	17.42%
Minimum leverage ratio	8.75%

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. For the purposes of the below key management personnel include the General Manager.

(a) Loans Receivable

At December 31, 2017, 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	
	2017	**2016**	**2017**	**2016**
Loans outstanding at January 1	$ 942,188	$ 900,577	$ 30,222	$ 242,771
Net change	(18,013)	41,611	(6,977)	(212,549)
Loans outstanding at December 31	$ 924,175	$ 942,188	$ 23,245	$ 30,222

(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	
	2017	**2016**	**2017**	**2016**
Deposits at January 1	$ 858,480	$ 868,448	$ 780,396	$ 882,318
Net change	63,920	(9,968)	46,779	(101,922)
Deposits at December 31	$ 922,400	$ 858,480	$ 827,175	$ 780,396

13. RELATED PARTY TRANSACTIONS (continued)

(c) Remuneration

Compensation for directors and other key management personnel comprised:

	2017	2016
Salaries and other short term employee benefits	$ 147,655	$ 142,167

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 and membership shares without specified maturity terms. Fair values for other deposits and loans payable with specified maturity terms are estimated using discounted cash flow calculations at market rates for similar deposits with similar terms.

The interest rates used to discount estimated cash flows, when applicable, are based on the government treasury bill rates for investments with maturities less than a year and government bond rates for longer-term investments. Loan discount rates are based on the Credit Union's best consumer rate plus an adequate credit spread. These are as follows:

	2017	2016
Investments	1.045-1.869%	0.5666-1.131%
Loans	3.600-5.500%	3.100-5.098%
Deposits	0.000-2.645%	0.000-2.119%

PIERCELAND CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Methods and Assumptions (continued)

The following table provides an analysis of financial instruments measured at fair value at the end of the reporting period, by the fair value hierarchy into which the fair value measurement is categorized:

2017

(000's)

	STATED VALUE	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Financial Assets					
Investments	$ 4,631	$ 4,622		$ 4,622	
Loans	32,621	32,665		32,665	
	$ 37,252	$ 37,287	$ NIL	$ 37,287	$ NIL
Financial Liabilities					
Deposits	$ 38,278	$ 38,308	$ NIL	$ 38,308	$ NIL

2016

(000's)

	STATED VALUE	FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
Financial Assets					
Investments	$ 5,707	$ 5,712		$ 5,712	
Loans	34,464	34,355		34,355	
	$ 40,171	$ 40,067	$ NIL	$ 40,067	$ NIL
Financial Liabilities					
Deposits	$ 39,891	$ 39,880	$ NIL	$ 39,880	$ NIL

There were no transfers between level 1 and level 2 in the period.

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.

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:

	2017	2016
Consumer loans	75 %	74 %
Commercial loans	6 %	6 %
Agricultural loans	14 %	14 %
Overdrafts and lines of credit	5 %	6 %
	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.

15. FINANCIAL INSTRUMENT RISK MANAGEMENTS (continued)

(a) Credit Risk (continued)

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.

	2017	**2016**
Undrawn lines of credit	$3,582,885	$3,306,938
Guarantees and standby letters of credit	32,470	32,470
Commitments to extend credit (undrawn loans)		
- original term to maturity of greater than one year		33,432
- original term to maturity of one year or less	76,833	286,901
	$3,692,188	$3,659,741

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

Investment Portfolio Rating	**2017**	**2016**
Unrated	$ 5,762,859	$ 5,553,557

SaskCentral and Concentra investments, including shares, are unrated and total $5,762,859 (2016 - $5,553,557).

(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 the risk of financial loss to the credit union in the event 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.

The credit union's primary liquidity risk policies and procedures include the following:

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(b) Liquidity Risk (continued)

The credit union manages this credit risk through adherence to internal policies and procedures established by the board of directors to monitor, measure and control the exposure to liquidity risk. These include management of liquidity on a daily basis factoring in known and projected cash inflows and outflows, the requirement to maintain both sufficient liquid assets to meet normal operating requirements and excess liquid assets that can be converted to cash with minimal cost. In addition CUDGC establishes standards to which the credit union must comply.

The credit union enters into transactions to purchase goods and services on credit; borrow funds from SaskCentral or other 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 from these transactions by investing in liquid assets such as money market term deposits and by entering into agreements to access loans.

The following table details contractual maturities of financial assets liabilities:

At December 31, 2017:

	(000's)			
	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	$ 2,538			$ 2,538
Investments	5,187	$ 375	$ 200	5,762
Member loans receivable	20,745	2,954	10,789	34,488
Member deposits	33,941	3,123	1,703	38,767
	$ 62,411	$ 6,452	$ 12,692	$ 81,555

At December 31, 2016:

	(000's)			
	< 1 year	**1-2 years**	**> 3 years**	**Total**
Cash and cash equivalents	$ 1,886			$ 1,886
Investments	5,455		$ 375	5,830
Member loans receivable	21,252	$ 3,372	12,038	36,662
Member deposits	36,035	2,001	2,604	40,640
	$ 64,628	$ 5,373	$ 15,017	$ 85,018

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(b) Liquidity Risk (continued)

The credit union manages the liquidity risk by requiring collateral to be given if an adverse credit related event occurs.

(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.

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, 2017. 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.

PIERCELAND CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

	Assets	Liabilities	2017 Differential	2016 Differential
Repricing within 1 year	$ 25,255	$ 26,623	$ (1,368)	$ (3,695)
1 - 2 years	3,330	3,123	207	1,745
2 - 3 years	3,761	694	3,067	1,466
3 - 4 years	4,818	504	4,314	2,690
4 - 5 years	2,121	505	1,616	3,935
Over 5 years	289		289	1,718
Non interest bearing items	3,401	11,526	(8,125)	(7,859)
	$ 42,975	$ 42,975	$ NIL	$ NIL

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

A plus or minus 1% change in interest rates with all other variables held constant would result in an increase/a decrease in the credit union's profit for the year ended December 31, 2017 of $14,611 (2016 - ($24,557)). The credit union uses static gap reports to simulate the effect of a change in the market rate of interest.

(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 2017 are $108,811 (2016 - $100,953).

17. SUBSEQUENT EVENT

The membership will vote in regards to amalgamation with Innovation Credit Union at the 2018 annual general meeting.

PIERCELAND CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

18. INCOME TAXES

Income tax expense is comprised of:

	2017	2016
Total income tax expense	$ 37,841	$ 49,858

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

	2017	2016
Profit before provision for income tax	$ 264,097	$ 248,551
Combined federal and provincial tax rate	40.0%	40.0%
Income tax at statutory rate	105,639	99,420
Adjusted for the effect of:		
- non-deductible expenses	15,454	60,128
- Small business deduction	(83,252)	(109,690)
	(67,798)	(49,562)
	$ 37,841	$ 49,858