

TransCanada Credit Union Ltd.
Financial Statements
October 31, 2018

Table of Contents

	Page
Independent Auditors' Report	
Financial Statements	
Statements of Financial Position.....	1
Statements of Comprehensive Income (Loss).....	2
Statements of Changes in Equity.....	3
Statements of Cash Flows.....	4
Notes to the Financial Statements	5

Independent Auditors' Report

To the Members of TransCanada Credit Union Ltd.:

We have audited the accompanying financial statements of TransCanada Credit Union Ltd., which comprise the statement of financial position as at October 31, 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TransCanada Credit Union Ltd. as at October 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Calgary, Alberta

March 13, 2020


MNP LLP

Chartered Professional Accountants

TransCanada Credit Union Ltd.
Statements of Financial Position
As at

	Notes	October 31, 2018 \$	October 31, 2017 \$
ASSETS			
Cash and cash equivalents		6,912	7,236
Investments and accrued interest	6	4,674,614	4,222,285
Loans to members and accrued interest	7	26,077,359	22,321,461
Other assets	8	7,894	20,823
Property and equipment	9	2,665	-
Intangible assets	10	176,110	105,737
Deferred tax asset	12	111,023	105,737
Total Assets		31,056,577	26,677,542
LIABILITIES AND MEMBERS' EQUITY			
Bank overdraft		147,416	17,249
Income taxes payable		12,483	22,015
Accounts payable and accrued liabilities		40,094	33,740
Allocation payable	13	8,173	19,414
Member deposits and accrued interest	11	29,421,498	24,323,434
		29,629,664	24,415,852
Members' Equity			
Allocation distributable	13	35,177	39,510
Member shares	14	879,472	816,282
Retained earnings		512,264	1,405,898
		1,426,913	2,261,690
Total Liabilities and Members' Equity		31,056,577	26,677,542

Approved on behalf of the Board of Directors

(Signed) 
 Director

(Signed) 
 Director

The accompanying notes are an integral part of these financial statements.

TransCanada Credit Union Ltd.
Statement of Comprehensive Income (Loss)

For the year ended October 31,

	Notes	2018 \$	2017 \$
Financial income			
Interest on member loans		831,658	670,720
Interest on investments		104,610	55,848
		936,268	726,568
Financial expense			
Interest on member deposits		515,240	207,667
		515,240	207,667
Financial margin			
		421,028	518,901
Provision for loan losses, net of recoveries	7	(11,623)	(12,000)
Write-off of member loans	7	(1,030,707)	-
Other income		55,184	51,040
		(566,118)	557,941
Operating expenses			
Employee salaries and benefits		223,830	209,312
Member security		28,873	28,637
Depreciation and amortization	9, 10	9,513	72
Organization		13,848	14,225
Other operating and administrative		116,046	165,143
		392,110	417,389
(Loss) income before patronage allocation to members and income taxes		(958,228)	140,552
Patronage allocation to members	13	(8,173)	(19,414)
(Loss) income before income taxes		(966,401)	121,138
(Provision for) recovery of income taxes			
Current tax expense	12	-	(23,319)
Deferred tax recovery	12	111,023	-
Total comprehensive (loss) income for the year		(855,378)	97,819

The accompanying notes are an integral part of these financial statements.

TransCanada Credit Union Ltd.
Statement of Changes in Equity
For the year ended October 31,

	Notes	Allocation Distributable \$	Member shares \$	Retained earnings \$	Total \$
As at October 31, 2016		38,228	856,546	1,347,589	2,242,363
Total comprehensive income for the year		-	-	97,819	97,819
Distributions to members, net of tax	13,14	1,282	37,222	(39,510)	(1,006)
Issuance of member shares for cash	14	-	39,806	-	39,806
Redemption of member shares	14	-	(117,292)	-	(117,292)
As at October 31, 2017		39,510	816,282	1,405,898	2,261,690
Total comprehensive loss for the year		-	-	(855,378)	(855,378)
Distributions to members, net of tax	13,14	(4,333)	38,433	(38,256)	(4,156)
Issuance of member shares for cash	14	-	96,815	-	96,815
Redemption of member shares	14	-	(72,058)	-	(72,058)
As at October 31, 2018		35,177	879,472	512,264	1,426,913

The accompanying notes are an integral part of these financial statements.

TransCanada Credit Union Ltd.

Statement of Cash Flows

For the year ended October 31,

	Notes	2018 \$	2017 \$
Cash provided by (used for) the following activities			
Operating activities			
Interest received from member loans		831,658	670,720
Interest received from investments		104,610	55,263
Other income received		55,184	51,040
Interest paid to members		(515,240)	(198,185)
Income taxes paid		(9,532)	(13,124)
Operating expenses paid		(382,728)	(426,390)
Net cash flows from operating activities		83,952	139,324
Financing activities			
Net change in member deposits		5,098,064	(101,776)
Member shares issued for cash	14	96,815	39,806
Cash dividends paid		(4,156)	(1,006)
Redemption of member shares	14	(72,058)	(117,292)
Net cash flows from (used for) financing activities		5,118,665	(180,268)
Investing activities			
Net change in loans to members		(4,798,228)	(1,710,546)
Additions to intangible assets		(79,886)	(105,737)
Additions to property and equipment		(2,665)	-
Net change in investments		(452,329)	1,645,000
Net cash flows used for investing activities		(5,333,108)	(171,283)
Net decrease in cash and cash equivalents (overdraft)		(130,491)	(212,227)
Cash and cash equivalents (overdraft), beginning of the year		(10,013)	202,214
Overdraft, end of the year		(140,504)	(10,013)
Cash and cash equivalents (overdraft) are composed of			
Overdraft with Credit Union Central of Alberta Limited		(147,416)	(17,249)
Cash on hand		6,912	7,236
		(140,504)	(10,013)

The accompanying notes are an integral part of these financial statements.

TransCanada Credit Union Ltd.

Notes to the Financial Statements

For the year ended October 31, 2018

1. Incorporation and operations

TransCanada Credit Union Ltd. (the "Credit Union") is incorporated under the Credit Union Act of the Province of Alberta (the "Act") and provides financial services to current and former employees of TransCanada Corporation and its subsidiaries ("TransCanada") and operates one branch.

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

The Credit Union's registered office is located at 450 – 1st Street SW, Calgary, Alberta, T2P 5H1.

The financial statements of the Credit Union were authorized for issue in accordance with a resolution of the Board of Directors on March 13, 2020.

2. Basis of preparation

Statement of compliance

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

Basis of measurement

These financial statements are stated in Canadian dollars, which is the Credit Union's functional currency, and were prepared under the historical cost convention except for the certain financial instruments which are measured at fair value.

Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

3. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Credit Union reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit (“CGU”) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Credit Union is not yet committed to or significant future investments that will enhance the asset’s performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Useful lives of property and equipment and intangible assets

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

Allowance for loan impairment

The individual allowance component of the total allowance for loan impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the 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.

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. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include consideration of liquidity, and other risks affecting the specific instrument.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, the current account with Credit Union Central of Alberta Limited (“Central”) and items in transit.

4. Summary of significant accounting policies (continued)

B) Financial instruments – recognition and measurement

Financial instruments are recognized when the Credit Union becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Credit Union has transferred substantially all risks and rewards of ownership. Financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. The Credit Union uses settlement date accounting for regular way contracts when recording financial asset transactions. Subsequent to initial recognition, financial instruments are measured as described below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortized cost using the effective interest method, less impairment allowance if any. The effective interest method is a method of calculating amortized cost and of allocating interest income over the relevant period. 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 instrument. The Credit Union has classified the following financial asset as loans and receivables: loans to members and accrued interest.

Financial instruments at fair value through profit or loss

Financial assets or financial liabilities are classified as fair value through profit or loss (“FVTPL”) when the financial asset or liability is either held for trading or it is designated as such by management on initial recognition.

A financial asset or financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or,
- on initial recognition it is part of a portfolio of identified financial instruments that the Credit Union manages together and has a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument.

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 or financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized immediately in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates any dividend or interest earned. The Credit Union has classified the following financial assets and liabilities as FVTPL: cash and cash equivalents and bank indebtedness.

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 their maturity dates, 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: term deposits with Central and accrued interest.

4. Summary of significant accounting policies (continued)

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.

Interest income is recognized in the statement of comprehensive income using the effective interest method. Dividend income is recognized in the statement of comprehensive income 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 the statement of comprehensive income. 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 the statement of comprehensive income as a reclassification adjustment.

The Credit Union has classified the following financial assets as available-for-sale: shares in Central.

Other financial liabilities

Other financial liabilities include liabilities that have not been classified as FVTPL. 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 the statement of comprehensive income.

The Credit Union has classified the following financial liabilities as other financial liabilities: member deposits and accrued interest and accounts payable and accrued liabilities.

C) Financial instruments – derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Credit Union has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when the obligation has been discharged, cancelled or expires.

D) Impairment of financial assets

The Credit Union assesses financial assets, other than those carried at FVTPL, for indicators of impairment at each reporting period. 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.

4. Summary of significant accounting policies (continued)

For certain categories of financial assets, such as loans to members, the allowance for impairment comprises two parts – a specific 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. In assessing the need for collective allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. 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.

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive income in the period.

With the exception of available-for-sale equity instruments, if, in a subsequent period, 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 the statement of comprehensive income 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.

E) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses if any. Such cost includes the cost of replacing part of the equipment. When significant parts of property and equipment are required to be replaced in intervals, the Credit Union recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Depreciation is recorded on a straight-line basis using the following annual rates:

Furniture and equipment	5 years
Computer equipment	3 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. Gains and losses on the disposal of property and equipment are recorded in the statement of comprehensive income in the year of disposal.

F) Intangible assets

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

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

4. Summary of significant accounting policies (continued)

G) Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

H) Revenue recognition

Interest on member loans

Interest on member loans is recognized on an accrual basis and in the statement of comprehensive income using the effective interest method.

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.

Interest on investments

Interest on investments 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.

Other income

Other income is recognized in the fiscal period in which the related service is provided.

I) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

4. Summary of significant accounting policies (continued)

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and,
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and,
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities in a transaction that is not a business combination and that effects neither accounting, nor taxable profit or loss.

J) 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 statement of financial position date. Translation gains and losses are included in the statement of comprehensive income.

5. Recent accounting pronouncements

The Credit Union has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Credit Union:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programs*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The new standard requires revenue to be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services. The principles are to be applied in the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new standard is to be applied either retrospectively or on a modified retrospective basis and is effective for the annual period commencing November 1, 2018 and the Credit Union does not anticipate a material impact to the financial statements.

IFRS 9 Financial Instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The adoption of IFRS 9 is expected to result in certain differences in the classification of financial assets when compared to the Credit Union's classification under IAS 39. The Credit Union continues to monitor and refine certain elements of its analysis of classification and measurement differences and the impairment assessment in advance of the Credit Union's October 31, 2019 financial statements.

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

5. Recent accounting pronouncements (continued)

IFRS 9 Financial Instruments (Amendments)

Amendments to IFRS 9, issued in October 2017, address the classification of certain prepayable financial assets. The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held as well as consideration of whether certain eligibility conditions are met. The amendments are effective for annual periods beginning on or after January 1, 2019. The Credit Union does not expect these amendments to have a material impact on its financial statements.

IFRS 16 Leases

During January 2016, the IASB issued the new standard, which requires lessees to recognize assets and liabilities for most leases. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as IFRS 16. The adoption of IFRS 16 will have no impact on the Credit Union as it has no leases.

6. Investments and accrued interest

	October 31, 2018	October 31, 2017
	\$	\$
Available-for-sale		
Shares in Central	310,288	310,288
	310,288	310,288
Held to maturity		
Term deposits with Central	4,355,000	3,905,000
Accrued interest	9,326	6,997
	4,364,326	3,911,997
Total investments	4,674,614	4,222,285

As required by the Act, the Credit Union holds investments with Central to maintain its liquidity level. All term deposits mature within one year.

7. Loans to members and accrued interest

Principal and allowance by loan type

October 31, 2018	Principal amount	Specific allowance	Net carrying amount	Gross impaired loans
	\$	\$	\$	\$
Consumer loans	12,063,610	-	12,063,610	-
Consumer mortgages	13,990,059	-	13,990,059	-
	26,053,669	-	26,053,669	-
Accrued interest	23,690	-	23,690	-
	26,077,359	-	26,077,359	-
October 31, 2017	Principal amount	Specific allowance	Net carrying amount	Gross impaired loans
	\$	\$	\$	\$
Consumer loans	9,670,232	(12,000)	9,658,232	16,869
Consumer mortgages	12,647,823	-	12,647,823	-
	22,318,055	(12,000)	22,306,055	16,869
Accrued interest	15,406	-	15,406	-
	22,333,461	(12,000)	22,321,461	16,869

7. Loans to members and accrued interest (continued)

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

Maturity of loans

Loans to members, not including accrued interest, mature as follows:

	October 31, 2018	October 31, 2017
	\$	\$
Under 1 year	9,542,478	8,849,975
1 to 2 years	1,380,950	2,970,790
2 to 3 years	4,279,031	1,948,953
3 to 4 years	2,603,653	4,088,369
Over 4 years	8,247,557	4,459,968
	26,053,669	22,318,055

Loan allowance details

	October 31, 2018	October 31, 2017
	\$	\$
Balance, beginning of year	12,000	-
Net increase in provision for loan impairment	11,623	12,000
Write-off	(23,623)	-
Balance, end of year	-	12,000

Write-off of fictitious loans

In January 2019, the Credit Union identified a series of fraudulent transactions that had occurred at the Credit Union. The Board of Directors engaged external legal counsel and independent forensic investigators to investigate these transactions. The independent forensic investigation was concluded in June 2019 and the Credit Union wrote-off fraudulent loans of \$1,030,707 (see Note 22).

Loans past due but not impaired

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

October 31, 2018	1-29 days	30-59 days	60-89 days	90 days and greater	Total
	\$	\$	\$	\$	\$
Consumer loans	243,659	-	219,506	-	463,165
Consumer mortgages	-	-	-	-	-
Accrued interest	1,985	-	2,772	-	4,757
	245,644	-	222,278	-	467,922
October 31, 2017	1-29 days	30-59 days	60-89 days	90 days and greater	Total
	\$	\$	\$	\$	\$
Consumer loans	-	-	-	-	-
Consumer mortgages	-	-	-	-	-
Accrued interest	-	-	-	-	-
	-	-	-	-	-

TransCanada Credit Union Ltd.
Notes to the Financial Statements
For the year ended October 31, 2018

8. Other assets

	October 31, 2018	October 31, 2017
	\$	\$
Prepaid expenses	7,894	20,823
	7,894	20,823

9. Property and equipment

	Furniture and equipment	Computer equipment	Total
	\$	\$	\$
Cost			
At October 31, 2016 and 2017	18,359	38,131	56,490
Additions	-	2,665	2,665
At October 31, 2018	18,359	40,796	59,155
Depreciation and impairment			
At October 31, 2016	18,287	38,131	56,418
Charge for the year	72	-	72
At October 31, 2017	18,359	38,131	56,490
Charge for the year	-	-	-
At October 31, 2018	18,359	38,131	56,490
Net book value			
At October 31, 2017	-	-	-
At October 31, 2018	-	2,665	2,665

10. Intangible assets

	Computer software
	\$
Cost	
At October 31, 2017	321,700
Additions	79,886
At October 31, 2018	401,586
Amortization and impairment	
At October 31, 2016	215,963
Charge for the year	-
At October 31, 2017	215,963
Charge for the year	9,513
At October 31, 2018	225,476
Net book value	
At October 31, 2017	105,737
At October 31, 2018	176,110

Total amortization of \$9,513 was recorded for the year-ended October 31, 2018.

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

11. Member deposits and accrued interest

	October 31, 2018	October 31, 2017
	\$	\$
Demand deposits	21,976,393	15,287,925
Term deposits	3,877,251	5,445,465
Registered Retirement Savings Plans	3,504,138	3,532,727
	29,357,782	24,266,117
Accrued interest	63,716	57,317
	29,421,498	24,323,434

Concentra Financial acts as the trustee of the Registered Retirement Savings Plans (“RRSP”) offered to members. Under an agreement with Concentra Financial, the contributions to the plan, and the interest earned on them, are deposited in the Credit Union. When members terminate these plans, the funds are repaid to them.

Maturity of deposits

Member deposits, not including accrued interest, mature as follows:

	October 31, 2018	October 31, 2017
	\$	\$
Payable on demand	21,976,393	15,287,925
Under 1 year	2,367,916	4,108,224
1 to 2 years	1,766,916	858,167
2 to 3 years	1,832,631	2,088,841
3 to 4 years	716,180	497,447
Over 4 years	697,746	1,425,513
	29,357,782	24,266,117

12. Income taxes

Income tax expense (recovery) comprises:

	October 31, 2018	October 31, 2017
	\$	\$
Tax expense (recovery)		
Current tax expense	-	23,319
Deferred tax recovery	(111,023)	-
	(111,023)	23,319

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

	October 31, 2018	October 31, 2017
	\$	\$
(Loss) income before provision for taxes	(966,401)	121,138
Combined federal and provincial tax rate	12.1%	12.7%
Tax (recovery) expense at statutory rate	(116,776)	15,385
Adjusted for the effect of:		
permanent differences and other items	5,753	7,934
	(111,023)	23,319

The statutory tax rate decreased from 12.7% to 12.1% due to a decrease in the Canadian federal tax rate on January 1, 2018.

The Credit Union has recognized a deferred tax asset of \$111,023 (2017 - \$nil) in respect of non-capital losses. Deferred tax assets are recorded only to the extent that future taxable income will be available against which the deferred tax asset can be utilized. The Credit Union expects sufficient taxable income in the subsequent year as a consequence of the insurance proceeds to be received (see Note 22).

TransCanada Credit Union Ltd.

Notes to the Financial Statements

For the year ended October 31, 2018

13. Allocation distributable

The Board of Directors declared a \$35,177 (2017 – \$39,510) dividend on member shares on record as of October 31, 2018. The member share dividend of 4.0% (2017 – 5.0%) is calculated on the members minimum monthly member share balance.

The Board of Directors declared a \$8,173 patronage rebate as of October 31, 2018 (2017 – \$19,414). The patronage rebate includes 5.0% (2017 – 20.0%) of all interest received on savings deposits by members and 0.5% (2017 – 0.5%) of all interest paid on loans by members.

14. Member shares

A) Authorized shares

The member shares are:

- a) issuable in unlimited number;
- b) issuable as fractional shares with a par value of \$1;
- c) transferable only in restricted circumstances;
- d) non-assessable; and,
- e) redeemable at par value at the discretion of the Credit Union, subject to restrictions contained in the Act.

Each member must purchase a minimum of twenty-five common shares.

The Corporation does not guarantee common shares, which represent "at-risk" capital.

B) Issued and outstanding

	October 31, 2018	October 31, 2017
	\$	\$
Balance, beginning of year	816,282	856,546
Issued as share dividends	38,433	37,222
Issued for cash	96,815	39,806
Shares redeemed	(72,058)	(117,292)
Balance, end of year	879,472	816,282

15. Financial instrument risk management

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

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

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

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

15. Financial instrument risk management (continued)

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

<u>Activity</u>	<u>Risks</u>	<u>Method of managing risks</u>
Investments	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, monitoring of investment restrictions and monitoring of counterparty risk
Member loans	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching and monitoring of counterparty risk
Member deposits	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching

Credit risk

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

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

Concentration of loans is managed by the implementation of sectoral and member specific limits. The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments. The majority of loans to members are with members located in and around Calgary, Alberta who are concentrated in the oil and gas infrastructure and energy sector. A significant portion of the Credit Union's loan portfolio is secured by residential property in and around Calgary, Alberta. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio coverage should the property market be subject to a decline. The risk of loss from loans undertaken is primarily reduced by the nature and quality of the security taken.

There were no member loans which exceeded 2.3% of total assets as at October 31, 2018.

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

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

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

15. Financial instrument risk management (continued)

The following information represents the maximum exposure to credit risk before taking into consideration any collateral:

	October 31, 2018	October 31, 2017
	\$	\$
Cash and cash equivalents	6,912	7,236
Held to maturity investments	4,364,326	3,911,997
Loans to members and accrued interest	26,077,359	22,321,461
	30,448,597	26,240,694

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. The Credit Union monitors expected cash inflows and outflows on a daily, cyclical, and long term basis. The Credit Union's preferred source of funding is member deposits; however, borrowing from Central is permitted during periods where loan demand exceeds deposit growth. Other sources of funding such as sale of assets, deposits from other credit unions and wholesale deposits are acceptable.

The Act requires the Credit Union to maintain a minimum liquidity ratio of 6.0% of total assets. The Credit Union's liquidity ratio was 7.9% at October 31, 2018 (2017 – 9.0%).

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include two types of risk: interest rate risk and foreign currency risk.

Interest rate risk

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

Interest rate risk is measured by:

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

The following table provides the potential before-tax impact on an immediate and sustained 1% increase or decrease in interest rates on net interest income. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and risk management initiatives.

	October 31, 2018	October 31, 2017
	\$	\$
Before tax impact of		
1% increase in rates	187,667	127,514
1% decrease in rates	(187,667)	(127,514)

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

15. Financial instrument risk management (continued)

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

The following table provides the interest rate sensitivity gap which represents the net principal values of interest rate sensitive financial assets and liabilities excluding accrued interest.

October 31, 2018	Floating rate	Within one year	One to five years	Non-rate sensitive	Total
Assets					
Cash and cash equivalents	-	-	-	6,912	6,912
<i>(effective yield %)</i>	-	-	-	0.00	0.00
Investments	-	4,355,000	-	310,288	4,665,288
<i>(effective yield %)</i>	-	1.80	-	0.00	1.68
Loans to members	15,427,173	1,798,696	8,827,800	-	26,053,669
<i>(effective yield %)</i>	4.19	3.36	2.99	-	3.72
	<u>15,427,173</u>	<u>6,153,696</u>	<u>8,827,800</u>	<u>317,200</u>	<u>30,725,869</u>
Liabilities and Equity					
Bank overdraft	-	-	-	147,416	147,416
<i>(effective yield %)</i>	-	-	-	0.00	0.00
Member deposits	446,223	2,367,914	4,567,032	21,976,613	29,357,782
<i>(effective yield %)</i>	0.50	1.54	2.11	0.00	0.46
Accounts payable and accrued liabilities	-	-	-	40,094	40,094
	<u>446,223</u>	<u>2,367,914</u>	<u>4,567,032</u>	<u>22,164,123</u>	<u>29,545,292</u>
Net gap, October 31, 2018	<u>14,980,950</u>	<u>3,785,782</u>	<u>4,260,768</u>	<u>(21,846,923)</u>	<u>1,180,577</u>
October 31, 2017	Floating rate	Within one year	One to five years	Non-rate sensitive	Total
Assets					
Cash and cash equivalents	-	-	-	7,236	7,236
<i>(effective yield %)</i>	-	-	-	0.00	0.00
Investments	-	3,905,000	-	310,288	4,215,288
<i>(effective yield %)</i>	-	1.15	-	-	1.07
Loans to members	13,116,140	141,078	9,060,837	-	22,318,055
<i>(effective yield %)</i>	3.71	3.00	2.96	-	3.40
Other assets	<u>13,116,140</u>	<u>4,046,078</u>	<u>9,060,837</u>	<u>317,524</u>	<u>26,540,579</u>
Liabilities and Equity					
Bank overdraft	-	-	-	17,249	17,249
<i>(effective yield %)</i>	-	-	-	0.00	0.00
Member deposits	477,709	3,933,061	4,567,422	15,287,925	24,266,117
<i>(effective yield %)</i>	0.50	1.23	1.76	0.00	0.54
Accounts payable and accrued liabilities	-	-	-	33,740	33,740
	<u>477,709</u>	<u>3,933,061</u>	<u>4,567,422</u>	<u>15,338,914</u>	<u>24,317,106</u>
Net gap, October 31, 2017	<u>12,638,431</u>	<u>113,017</u>	<u>4,493,415</u>	<u>(15,021,390)</u>	<u>2,223,473</u>

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

15. Financial instrument risk management (continued)

Foreign currency risk

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

16. Fair value of financial instruments

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

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the assets or liability, either directly or indirectly; and,
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

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 judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Fair value is the consideration that would be agreed to in an arm's length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

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

- a) The fair values of cash, demand deposits, investments, certain other assets and certain other liabilities approximate their carrying values, due to their short term nature.
- b) The estimated fair values of floating rate investments, member loans and member deposits are assumed to equal carrying value as the interest rates automatically reprice to market.
- c) The estimated fair values of fixed rate member loans and member deposits are determined by discounting the expected future cash flows of these items at current market rates for products with similar terms and credit risks.

The Credit Union's financial instruments have been categorized into the fair value hierarchy as follows:

October 31, 2018 (\$ Thousands)	Fair Value	Level 1	Level 2	Level 3
Financial assets				
<i>FVTPL</i>				
Cash and cash equivalents	7	7	-	-
<i>Available-for-sale</i>				
Shares in Central	310	-	-	310
<i>Held to maturity</i>				
Term deposits and accrued interest	4,364	-	4,364	-
<i>Loans and receivables</i>				
Loans to members and accrued interest	26,058	-	26,058	-
Financial liabilities				
<i>FVTPL</i>				
Bank overdraft	147	147	-	-
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	40	-	40	-
Member deposits and accrued interest	29,331	-	29,331	-

16. Fair value of financial instruments (continued)

October 31, 2017 (\$ Thousands)	Fair Value	Level 1	Level 2	Level 3
Financial assets				
<i>FVTPL</i>				
Cash and cash equivalents	7	7	-	-
<i>Available-for-sale</i>				
Shares in Central	310	-	-	310
<i>Held to maturity</i>				
Term deposits and accrued interest	3,912	-	3,912	-
<i>Loans and receivables</i>				
Loans to members and accrued interest	22,086	-	22,086	-
Accounts receivable				
Financial liabilities				
<i>FVTPL</i>				
Bank overdraft	17	17	-	-
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	34	-	34	-
Member deposits and accrued interest	24,431	-	24,431	-

There were no transfers between fair value hierarchy levels for the years ended October 31, 2018 and 2017.

17. Off-balance sheet financial instruments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Guarantees and standby letters of credit represent irrevocable assurances 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.

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 Credit Union makes the following instruments available to its members:

- a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and,
- c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards) or other financing.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

17. Off-balance sheet financial instruments (continued)

The Credit Union had the following outstanding financial instruments subject to credit risk:

	October 31, 2018	October 31, 2017
	\$	\$
Commitment to extend credit - original term to maturity of one year or less	8,295,988	7,494,873

18. Credit facilities

The Credit Union has an authorized line of credit due on demand in the amount of \$800,000 (2017 - \$800,000) from Central, bearing interest at prime minus 0.5% (2017 – prime minus 0.5%). As at October 31, 2018, the balance of this line of credit is \$147,416 (2017 - \$17,249).

The Credit Union also has access to a revolving term loan bearing interest at prime less 1.0% (2017 - prime less 1.0%). This loan has a maximum available limit of \$1,000,000 (2017 - \$600,000). As at October 31, 2018, the balance of this revolving term loan is \$nil (2017 - \$nil).

These credit facilities are secured by all present and future accounts, book debts, instruments, deposits and all monies payable by Central to the Credit Union.

19. Capital management

The Credit Union's objectives when managing capital are:

- To ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses; and,
- To comply at all times with the capital requirements set out in the Act.

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

- Total capital as a percent of total assets; and,
- Total capital as a percent of risk weighted assets. Under this method the Credit Union reviews its loan portfolio and other assets and assigns a risk weighting using definitions and formulas set out in the Act. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

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

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Corporation on its capital adequacy; and,
- Establishing budgets and reporting variances to those budgets.

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

- 4% of total assets; and
- 8% of risk weighted assets (“RWA”)

An additional regulatory capital buffer of 2.5% of total RWA is required for 2018 (2017 – 2.5% of total RWA).

The Credit Union was in compliance with the regulatory requirements as indicated by the Act as follows:

	October 31, 2018	October 31, 2017
Capital as a % of total assets	7.1	8.5
Capital as a % of RWA	14.5	17.4

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

20. Related party transactions

Directors, management and staff

The Credit Union, in accordance with its policy, grants credit to its management and staff at the credit union Prime rate. Directors pay regular member rates on loans. Directors, management and staff had \$2,087,293 (2017 - \$1,061,756) in loans outstanding at October 31, 2018. All loans were in good standing at that date and are included in "Loans to members and accrued interest".

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in "Member deposits and accrued interest". Directors, management and staff had \$173,517 (2017 - \$43,956) in deposits at October 31, 2018.

Directors and key management personnel

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

Loans made to KMP are approved under the same lending criteria available to members. There are no loans that are impaired in relation to loan balances with KMP. There are no benefits or concessional terms and conditions applicable to the family members of KMP. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

The outstanding balances at October 31, 2018 for KMP are as follows:

	October 31, 2018	October 31, 2017
	\$	\$
<hr/>		
Loans		
Total loans advanced	1,312,606	622,758
Total lines of credit advanced	377,204	438,066
Unused value of lines of credit	397,483	932
	2,087,293	1,061,756
Deposits		
Savings deposits	68,361	10,315
Registered plans	38,781	30,226
Credit union shares	66,375	3,415
	173,517	43,956
	October 31, 2018	October 31, 2017
	\$	\$
<hr/>		
Salary and short-term benefits to KMP	170,059	158,580

Directors were not remunerated for their contributions to the Credit Union.

TransCanada provides office space, furniture, equipment, office supplies and employees who perform duties on a part time basis for the Credit Union. No amount is charged for these services.

Central

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

These transactions were made in the normal course of operations and are initially measured at fair value.

TransCanada Credit Union Ltd.
Notes to the Financial Statements

For the year ended October 31, 2018

21. Segmented information

The Credit Union operates principally in personal banking in Calgary.

22. Subsequent events

On July 17, 2019, the Credit Union submitted a bond proof of loss claim to CUMIS General Insurance Co. (“CUMIS”) in relation to fraudulent transactions (see Note 7). On January 9, 2020, CUMIS completed their investigation and paid out \$949,141 under the insurance coverage provided to the Credit Union.