

**BELGIAN-ALLIANCE CREDIT
UNION LTD.**

Financial Statements
For the year ended December 31, 2015

BELGIAN-ALLIANCE CREDIT UNION LTD.

Financial Statements

For the year ended December 31, 2015

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Independent Auditor's Report

To the Members of **BELGIAN-ALLIANCE CREDIT UNION LTD.**

We have audited the accompanying financial statements of **BELGIAN-ALLIANCE CREDIT UNION LTD.**, which comprise the balance sheet as at December 31, 2015 and the statements of comprehensive income, changes in members' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Credit Union's 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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Credit Union'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 Credit Union's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 **BELGIAN-ALLIANCE CREDIT UNION LTD.** as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
March 23, 2016

BELGIAN-ALLIANCE CREDIT UNION LTD.
Balance Sheet

As at December 31 **2015** **2014**

Assets

Funds on hand and on deposit (Note 3)	\$	6,162,848	\$	17,328,957
Income taxes recoverable		11,287		-
Other assets (Note 4)		136,333		180,749
Investments (Note 5)		7,825,404		6,451,821
Loans to members (Notes 6 and 7)		154,726,732		148,082,413
Property and equipment (Note 8)		1,640,437		1,666,526
		<u>170,503,041</u>		<u>173,710,466</u>
	\$	170,503,041	\$	173,710,466

Liabilities and Members' Equity

Income taxes payable	\$	-	\$	31,462
Other liabilities (Note 9)		668,708		919,283
Deposits payable (Note 10)		158,743,205		161,920,823
Deferred income tax liability (Note 12)		21,000		22,000
		<u>159,432,913</u>		<u>162,893,568</u>
Commitments (Note 23)				
Members' Equity (Note 22)				
Members' shares (Note 13)		1,122,574		1,121,966
Provision for issue of common shares (Note 14)		35,000		40,000
Retained earnings		9,912,554		9,654,932
		<u>11,070,128</u>		<u>10,816,898</u>
	\$	170,503,041	\$	173,710,466

Approved on behalf of the Board of Directors:

_____ Director

_____ Director

BELGIAN-ALLIANCE CREDIT UNION LTD.
Statement of Comprehensive Income

For the year ended December 31	2015	2014
Revenue		
Interest on loans to members	\$ 5,331,884	\$ 5,580,480
Investment income		
Liquidity deposits	338,734	378,803
CUCM shares	41,643	25,903
	<u>5,712,261</u>	<u>5,985,186</u>
Cost of Funds		
Interest paid to members	2,005,142	2,165,297
Interest paid to associates	1,379,316	1,330,819
	<u>3,384,458</u>	<u>3,496,116</u>
Gross financial margin	<u>2,327,803</u>	<u>2,489,070</u>
Operating Expenses		
Personnel (Note 16)	1,460,302	1,381,132
Administrative (Note 17)	632,353	681,264
Occupancy	394,690	366,411
Members' security	158,140	175,392
Organizational	112,494	113,281
Patronage refund (Note 14)	35,000	40,000
	<u>2,792,979</u>	<u>2,757,480</u>
Gross operating expenses	<u>2,792,979</u>	<u>2,757,480</u>
Less other income (Note 15)	<u>804,312</u>	<u>675,997</u>
	<u>1,988,667</u>	<u>2,081,483</u>
Gross operating income	<u>339,136</u>	<u>407,587</u>
Provision for impaired loans (Note 7)	<u>29,112</u>	<u>56,600</u>
Income before income taxes	<u>310,024</u>	<u>350,987</u>
Provision for income taxes (Note 12)		
Current	27,922	68,331
Deferred (recovery)	(1,000)	(30,000)
	<u>26,922</u>	<u>38,331</u>
Net and comprehensive income for the year	<u>\$ 283,102</u>	<u>\$ 312,656</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.
Statement of Changes in Members' Equity

For the year ended December 31, 2015

	Provision for Issue of Common Shares	Members' Shares	Retained Earnings	Total
Balance at December 31, 2013	\$ 70,000	\$ 1,092,514	\$ 9,371,001	\$ 10,673,515
Net income for the year	-	-	312,656	312,656
Patronage refund (Note 14)	40,000	-	-	40,000
Dividend on common shares (Note 13)	-	-	(28,725)	(28,725)
Issue of members' shares	(70,000)	98,652	-	28,652
Redemption of members' shares	-	(63,085)	-	(63,085)
Transfer to registered deposits	-	(6,115)	-	(6,115)
Balance at December 31, 2014	\$ 40,000	\$ 1,121,966	\$ 9,654,932	\$ 10,816,898
Net income for the year	-	-	283,102	283,102
Patronage refund (Note 14)	35,000	-	-	35,000
Dividend on common shares (Note 13)	-	-	(25,480)	(25,480)
Issue of members' shares	(40,000)	65,480	-	25,480
Redemption of members' shares	-	(61,309)	-	(61,309)
Transfer to registered deposits	-	(3,563)	-	(3,563)
Balance at December 31, 2015	\$ 35,000	\$ 1,122,574	\$ 9,912,554	\$ 11,070,128

BELGIAN-ALLIANCE CREDIT UNION LTD.

Statement of Cash Flows

For the year ended December 31	2015	2014
Cash Flows from Operating Activities		
Net income for the year	\$ 283,102	\$ 312,656
Adjustments for		
Interest revenue	(5,712,261)	(5,985,186)
Interest expense	3,384,458	3,496,116
Depreciation expense	78,041	68,237
Provision (recovery) for impaired loans	29,112	56,600
Distributions to members	35,000	40,000
Transfer to registered deposits	(3,563)	(6,115)
Deferred income taxes	(1,000)	(30,000)
	<u>(1,907,111)</u>	<u>(2,047,692)</u>
Change in other assets and liabilities	(206,159)	(243,689)
Change in income taxes payable	(42,749)	29,539
	<u>(248,908)</u>	<u>(214,150)</u>
Changes in member activities (net)		
Change in loans to members	(6,679,987)	7,181,848
Change in deposits payable	(3,104,137)	(1,941,098)
	<u>(9,784,124)</u>	<u>5,240,750</u>
Cash flows related to interest, dividends, and income taxes		
Interest received on loans to members	5,338,440	5,601,381
Interest received on investments	389,979	404,706
Interest paid on deposits payable	(2,078,623)	(2,277,489)
Interest paid on borrowings	(1,379,316)	(1,281,067)
	<u>2,270,480</u>	<u>2,447,531</u>
Total cash flows from operating activities	<u>(9,669,663)</u>	<u>5,426,439</u>
Cash Flows from Investing Activities		
Net increase in investments	(883,185)	(91,588)
Acquisition of property and equipment	(51,952)	(88,952)
Total cash flows from investing activities	<u>(935,137)</u>	<u>(180,540)</u>
Cash Flows from Financing Activities		
Redemption of common and surplus shares	(61,309)	(63,085)
Total cash flows from financing activities	<u>(61,309)</u>	<u>(63,085)</u>
Net (decrease) increase in cash and cash equivalents	(10,666,109)	5,182,814
Cash and cash equivalents, beginning of year	22,828,957	17,646,143
Cash and cash equivalents, end of year	\$ 12,162,848	\$ 22,828,957
Comprised of the following:		
Funds on hand and on deposit	\$ 6,162,848	\$ 17,328,957
Credit Union Central of Manitoba - Term deposits	6,000,000	5,500,000
	<u>\$ 12,162,848</u>	<u>\$ 22,828,957</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Belgian-Alliance Credit Union (the "Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act of the Province of Manitoba ("The Act") and is a member of Credit Union Central of Manitoba ("CUCM"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Manitoba. Products and services offered to its members include consumer and commercial loans and mortgages, chequing and savings accounts, term deposits, registered deposits, automated banking machines ("ABMs"), debit and credit cards, Internet banking and sale of mutual funds. The Credit Union has three branches located in Winnipeg with the head office being located at 1177 Portage Avenue, Winnipeg, Manitoba.

These financial statements have been authorized for issue by the Board of Directors on March 23, 2016.

Basis of Presentation

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

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make 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 2.

Significant Accounting Policies

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and current accounts with CUCM and term deposits held with CUCM for liquidity purposes less borrowings that are repayable on demand.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Investments

CUCM - Liquidity Deposits

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, which approximates fair value.

CUCM - Shares

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

Loans to Members

All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Loans to members are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Loans to Members (continued)

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on loans receivable carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate, short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and equipment	10 years
Computer equipment	2 to 5 years
Security equipment	5 to 20 years
Signage	10 years
Building improvements	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Income Taxes

Income tax expense comprises current and deferred income tax. Current and deferred income tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Deferred income tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

Recognition of deferred income tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those income instances where it is probable that future taxable profit will be available which allow the deferred income tax asset to be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred income tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities/assets are settled/recovered.

Deposits Payable

All deposits payable are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Deposits payable are subsequently measured at amortized cost, using the effective interest rate method.

Pension Plan

The Credit Union participates in a multi-employer defined contribution pension plan recognizing contributions as an expense in the year to which they relate as disclosed in Note 11.

Other Liabilities

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Members' Shares

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

Revenue Recognition

Interest on loans is recorded using the effective interest method except for loans which are considered impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan including accrued interest exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for impaired loans as an adjustment to the specific allowance.

Investment income is recorded using the effective interest method, except as it relates to adjustments in the rates received from CUCM, these are recorded when payment is received.

Commissions, service charges and other revenue are recognized as income when the related service is provided or entitlement to receive income is earned.

Leased Assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union under an operating lease, the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union under a finance lease, the asset is treated as if it had been purchased outright.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Standards, Amendments and Interpretations Not Yet Effective

Accounting standards that have been issued but are not yet effective are listed below. The Credit Union has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

i. Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016, with earlier application permitted. The Credit Union is in the process of evaluating the impact of the new standard.

ii. IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Entities are required to apply IFRS 9 for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Credit Union is in the process of evaluating the impact of the new standard.

iii. Amendments to IFRS 7 Financial Instruments: Disclosures

This amendment aligns with the deferral of the effective date of IFRS 9. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 to IFRS 9 on the basis of the entity's date of adoption and if the entity chooses to restate prior periods. The amendment is effective for annual periods beginning on or after January 1, 2016. The Credit Union is in the process of evaluating the impact of the new standard.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Standards, Amendments and Interpretations Not Yet Effective (continued)

iv. IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. Entities are required to apply IFRS 15 for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Credit Union is in the process of evaluating the impact of the new standard.

2. Critical Accounting Estimates and Judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

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

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 20.

Provision for Impaired Loans

In determining whether an impairment loss should be recorded in the statement of comprehensive income the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group loans receivable with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

2. Critical Accounting Estimates and Judgments (continued)

Provision for Impaired Loans (continued)

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 7.

Income Taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the income tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Property and Equipment

The estimated useful life, residual value and depreciation method chosen are the Credit Union's best estimate of such and are based on industry norms, historical experience of management and other estimates. These estimates also consider the period and distribution of future cash inflows.

Readers are cautioned that this list is not exhaustive and other items may also be affected by estimates and judgments.

3. Funds on Hand and on Deposit

The Credit Union's cash and current accounts are held with CUCM. The average yield on the accounts at December 31, 2015 is 0.47% (0.96% in 2014).

Included in the balance of funds on hand and on deposit is \$564,068 (\$868,468 in 2014) denominated in U.S. dollars.

4. Other Assets

	<u>2015</u>	<u>2014</u>
Accounts receivable	\$ 15,182	\$ 14,147
Prepaid expenses	121,151	166,602
	<u>\$ 136,333</u>	<u>\$ 180,749</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

5. Investments

Credit Union Central of Manitoba

Liquidity Deposits

	2015	2014
Term deposits	\$ 6,000,000	\$ 5,500,000
Accrued interest receivable	11,759	21,361
	\$ 6,011,759	\$ 5,521,361

The term deposits with CUCM bear interest at rates ranging from 0.80% to 2.84% and mature in 2016.

Shares

	2015	2014
CUCM - Class 1 shares	\$ 930,465	\$ 644,955
CUCM - Class 2 shares	882,890	285,215
Concentra Financial Services Association - Membership shares	290	290
	\$ 1,813,645	\$ 930,460

The shares in CUCM are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of CUCM. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of CUCM.

Class 1 and 2 CUCM shares are subject to a rebalancing mechanism at least annually and are issued and redeemable at par value. There is no separately quoted market value for these shares; however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

The Credit Union is not intending to dispose of any CUCM shares as the services supplied by CUCM are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of CUCM.

The shares of Concentra Financial Services Association are required as a condition of membership and are redeemable upon withdrawal of membership subject to the approval of the Board of Directors of the Association.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

6. Loans to Members

	2015	2014
Consumer		
Non-real estate	\$ 5,824,763	\$ 5,822,814
Real estate	118,566,610	116,137,666
Lines of credit	7,806,821	7,401,914
Commercial		
Non-real estate	986,197	965,242
Real estate	11,790,605	11,603,111
Lines of credit	939,751	936,253
Syndicated loans		
Real estate	8,652,788	5,055,430
	154,567,535	147,922,430
Deferred transaction costs	102,924	170,496
	154,670,459	148,092,926
Accrued interest receivable	208,833	215,389
	154,879,292	148,308,315
Less: allowance for impaired loans	152,560	225,902
Net loans to members	\$ 154,726,732	\$ 148,082,413

Terms and Conditions

Loans to members can have either a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 2% to prime plus 10.5%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2015 was 3%.

The interest rate offered on fixed rate loans being advanced at December 31, 2015 ranges from 1% to 14%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Consumer real estate loans are loans secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Consumer non-real estate loans and lines of credit are non-real estate secured and, as such, have various repayment terms. They are secured by various types of collateral, including charges on specific equipment or personal property, investments, and personal guarantees.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

6. Loans to Members (continued)

Terms and Conditions (continued)

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	<u>2015</u>	<u>2014</u>
Unsecured loans	\$ 4,667,257	\$ 4,573,292
Loans secured by real property	80,827,089	73,376,460
Loans secured by chattels	10,890,266	10,671,014
Commercial loans insured by government	373,485	401,694
Residential mortgages insured by government and other	57,809,438	58,899,970
	<u>\$ 154,567,535</u>	<u>\$ 147,922,430</u>

Concentration of Risk

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

No individual or related groups of loans to members exceed 5% of deposits payable and capital as at December 31, 2015 or December 31, 2014.

As at December 31, 2015, the Credit Union held \$13,000,956 (\$10,219,925 in 2014) in outstanding commercial loans relating to the real estate, rental, and leasing industry, and \$3,225,309 (\$4,154,131 in 2014) relating to the accommodations industry.

The majority of loans to members are with members located in and around Winnipeg, Manitoba. A sizeable portfolio of the Credit Union's loan portfolio is secured by residential property in Winnipeg, Manitoba. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

7. Allowance for Impaired Loans

Total allowance for impaired loans is comprised of:

	2015	2014
Collective allowance	\$ 86,968	\$ 82,245
Individual specific allowance	65,592	143,657
Total allowance	\$ 152,560	\$ 225,902

During the year ended December 31, 2015, the Credit Union did not acquire any assets in respect of problem loans.

Movement in individual specific and collective allowance for impairment is as follows:

	2015		
	Consumer	Commercial	Total
Balance at December 31, 2014	\$ 176,131	\$ 49,771	\$ 225,902
Provision for impaired loans	27,657	1,455	29,112
	203,788	51,226	255,014
Loans written off	(102,454)	-	(102,454)
Balance at December 31, 2015	\$ 101,334	\$ 51,226	\$ 152,560
Gross principal balance of individually impaired loans	\$ 699,826	\$ -	\$ 699,826

	2014		
	Consumer	Commercial	Total
Balance at December 31, 2013	\$ 219,089	\$ 28,692	\$ 247,781
Provision for impaired loans	35,370	21,230	56,600
	254,459	49,922	304,381
Loans written off	(78,328)	(151)	(78,479)
Balance at December 31, 2014	\$ 176,131	\$ 49,771	\$ 225,902
Gross principal balance of individually impaired loans	\$ 1,154,524	\$ 135,825	\$ 1,290,349

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

7. Allowance for Impaired Loans (continued)

An analysis of individual loans that are impaired or potentially impaired based on age of repayment outstanding is as follows:

	2015		2014	
	Carrying Value	Individual Specific Allowance	Carrying Value	Individual Specific Allowance
Period of delinquency				
Less than 30 days	\$ 208,318	\$ 20,357	\$ 18,938	\$ 8,625
Greater than 90 days	137,520	5,732	574,744	115,032
Total loans in arrears	345,838	26,089	593,682	123,657
Total loans not in arrears	353,988	39,503	696,667	20,000
Total loans	\$ 699,826	\$ 65,592	1,290,349	143,657

Key Assumptions in Determining the Allowance for Impaired Loans Collective Allowance

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

An estimate of the collective allowance is based on the period of repayments that are past due.

For purposes of the collective allowance loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

Loans with repayments past due but not regarded as individually impaired and considered in determining the collective allowance are as follows:

	2015		
	Consumer	Commercial	Total
Less than 30 days	\$ 2,105,021	\$ -	\$ 2,105,021
31 to 90 days	470,867	-	470,867
Greater than 90 days	-	-	-
Balance at December 31, 2015	\$ 2,575,888	\$ -	\$ 2,575,888
	2014		
	Consumer	Commercial	Total
Less than 30 days	\$ 2,748,955	\$ 160,935	\$ 2,909,890
31 to 90 days	638,095	-	638,095
Greater than 90 days	-	-	-
Balance at December 31, 2014	\$ 3,387,050	\$ 160,935	\$ 3,547,985

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

8. Property and Equipment

	Land	Buildings	Furniture and Equipment	Computer Equipment	Security Equipment	Signage	Building Improvements	Total
<u>Cost</u>								
Balance at December 31, 2013	\$ 541,267	\$ 1,347,174	\$ 327,760	\$ 322,045	\$ 170,252	\$ 35,341	\$ 207,227	\$ 2,951,066
Additions	-	47,889	25,123	15,940	-	-	-	88,952
Balance at December 31, 2014	541,267	1,395,063	352,883	337,985	170,252	35,341	207,227	3,040,018
Additions	-	8,101	-	37,411	6,440	-	-	51,952
Balance at December 31, 2015	\$ 541,267	\$ 1,403,164	\$ 352,883	\$ 375,396	\$ 176,692	\$ 35,341	\$ 207,227	\$ 3,091,970
<u>Accumulated Depreciation</u>								
Balance at December 31, 2013	\$ -	\$ 394,937	\$ 291,449	\$ 303,084	\$ 91,491	\$ 20,136	\$ 204,158	\$ 1,305,255
Depreciation expense	-	34,065	14,264	7,031	8,782	3,677	418	68,237
Balance at December 31, 2014	-	429,002	305,713	310,115	100,273	23,813	204,576	1,373,492
Depreciation expense	-	35,022	12,645	17,309	8,970	3,258	837	78,041
Balance at December 31, 2015	\$ -	\$ 464,024	\$ 318,358	\$ 327,424	\$ 109,243	\$ 27,071	\$ 205,413	\$ 1,451,533
<u>Net Book Value</u>								
December 31, 2014	\$ 541,267	\$ 966,061	\$ 47,170	\$ 27,870	\$ 69,979	\$ 11,528	\$ 2,651	\$ 1,666,526
December 31, 2015	\$ 541,267	\$ 939,140	\$ 34,525	\$ 47,972	\$ 67,449	\$ 8,270	\$ 1,814	\$ 1,640,437

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

9. Other Liabilities

	2015	2014
Accrued expenses and trade accounts	\$ 258,238	\$ 430,575
Certified cheques, money orders and travellers cheques outstanding	375,970	452,308
Deposit Guarantee Corporation of Manitoba assessment	34,500	36,400
	\$ 668,708	\$ 919,283

10. Deposits Payable

	2015	2014
Chequing	\$ 16,633,926	\$ 14,105,887
Savings	19,082,094	19,269,275
Term deposits	82,200,749	88,273,402
Registered retirement savings plans and Locked-in retirement accounts	30,034,386	31,051,802
Registered retirement income funds and Locked-in retirement income funds	9,454,672	7,801,390
Unclaimed and inactive accounts	27,357	35,565
	157,433,184	160,537,321
Accrued interest payable	1,310,021	1,383,502
	\$ 158,743,205	\$ 161,920,823

Terms and Conditions

Chequing accounts are due on demand and bear interest at a rate up to 1.25% at December 31, 2015.

Savings accounts are due on demand and bear interest at a rate up to 0.50% at December 31, 2015. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2015 ranged from 1.00% to 3.85%.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

10. Deposits Payable (continued)

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The interest rates offered on RRSP accounts issued on December 31, 2015 ranged from 1.40% to 3.75%. The variable rate RRSPs bear interest at a rate of 0.25% at December 31, 2015.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Individuals may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts have been included in savings accounts above.

Included in chequing deposits is an amount of \$569,332 to be settled in U.S. dollars (\$892,838 in 2014).

Concentration of Risk

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

Deposits payable are concentrated geographically as follows:

	<u>2015</u>	<u>2014</u>
Manitoba	\$ 121,668,692	\$ 125,346,726
Ontario	15,118,671	14,919,978
British Columbia	19,003,662	19,363,671
Other provinces	2,952,180	2,290,448
	<u>\$ 158,743,205</u>	<u>\$ 161,920,823</u>

The majority of deposits payable in Manitoba are with members and associates in and around the City of Winnipeg.

11. Pension Plan

The Credit Union participates in a multi-employer defined contribution pension plan for full-time employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at rates ranging from 6% to 8% of employee salary. The expense for the year ended December 31, 2015 were \$64,082 (\$57,641 in 2014). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

12. Income Taxes

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

	<u>2015</u>	<u>2014</u>
Current Income Tax Expense		
Based on current year taxable income	\$ 27,922	\$ 68,331
Deferred Income Tax Expense		
Origination and reversal of temporary differences	<u>(1,000)</u>	<u>(30,000)</u>
Total income tax expense	<u>\$ 26,922</u>	<u>\$ 38,331</u>

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

	<u>2015</u>	<u>2014</u>
	%	%
Combined federal and provincial statutory income tax rates	27.0	27.0
Small business deduction	(16.0)	(16.0)
Tax saved on distribution charged to equity	(0.9)	(1.0)
Non-deductible and other items	<u>(1.4)</u>	<u>0.9</u>
	<u>8.7</u>	<u>10.9</u>

The movement in deferred income tax liabilities and assets are as follows:

	Balance at December 31 2014	Recognize in Net Income	Reclassify from Equity to Net Income	Balance at December 31 2015
Deferred income tax liabilities				
Property and equipment	\$ 24,525	\$ (1,871)	-	\$ 22,654
Deferred income tax assets				
Allowance for impaired loans	<u>2,525</u>	<u>(871)</u>	-	<u>1,654</u>
Net deferred income tax liability	<u>\$ 22,000</u>	<u>\$ (1,000)</u>	-	<u>\$ 21,000</u>

	Balance at December 31 2013	Recognize in Net Income	Reclassify from Equity to Net Income	Balance at December 31 2014
Deferred income tax liabilities				
Property and equipment	\$ 54,717	\$ (30,192)	-	\$ 24,525
Deferred income tax assets				
Allowance for impaired loans	<u>2,717</u>	<u>(192)</u>	-	<u>2,525</u>
Net deferred income tax liability	<u>\$ 52,000</u>	<u>\$ (30,000)</u>	-	<u>\$ 22,000</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

13. Members' Shares

Each member must purchase one common share. No member may hold more than 10% of the issued and outstanding common shares and surplus shares. Each member of the Credit Union has one vote, regardless of the number of shares that a member holds. Funds invested by members in members' shares are not insured by Deposit Guarantee Corporation of Manitoba.

Authorized Shares

Common Shares

Authorized common share capital consists of an unlimited number of common shares, issued and redeemable at \$5 each. The total amount of common shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed the total amount of common shares issued in that year if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act.

In order to accelerate the capital building plan undertaken by the Credit Union, a member share subscription program existed, whereby members increased their investment in the Credit Union by purchasing additional shares (\$5 each) in addition to their initial share to a maximum of \$1,000.

The Board of Directors approved the payment of a 2.40% dividend on common shares totalling \$25,480 (2014 - 2.70% or \$28,725).

Surplus Shares

Authorized surplus share capital consists of an unlimited number of surplus shares, issued and redeemable at \$1 each. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed 5% of the amount of surplus shares issued and outstanding at the last fiscal year end of the Credit Union if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act.

The redemption of surplus shares is also subject to terms of the Credit Union's member share redemption policy which restricts redemption to certain situations. All such payments are at the option of the Board of Directors.

Class "A" Preference Shares

Authorized Class "A" preference share capital consists of 1,500,000 Class "A" preference shares, having non-cumulative dividend rate, when declared, of not less than the first year rate of the latest issue of Canada Savings Bonds at the date such dividend is declared, issued and redeemable at \$10 each. No person shall hold more than 100,000 Class "A" preference shares. No Class "A" preference shares shall be issued except to the members of the Credit Union. No Class "A" preference shares were outstanding at the current and prior year end.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

14. Provision for Issue of Common Shares

The Board of Directors has approved a patronage refund of \$35,000 (\$40,000 in 2014) to the members which has been reflected in these financial statements as an expense in the current year.

When paid, this refund will be distributed to members on the basis of interest paid with respect to members' savings accounts, term deposits and registered savings plans, and interest earned from variable rate loans and residential mortgages. The patronage refund is intended to be used for the purchase of additional common shares and has been included in the provision for issue of common shares in Members' Capital on the balance sheet as "Provision for Issue of Common Shares".

15. Other Income

	<u>2015</u>	<u>2014</u>
Commissions	\$ 214,097	\$ 169,865
Foreign exchange	55,101	65,945
Other	70,775	69,370
Safety deposit rent, net	12,361	13,336
Service charges and safekeeping	<u>451,978</u>	<u>357,481</u>
	<u>\$ 804,312</u>	<u>\$ 675,997</u>

16. Personnel Expenses

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 1,257,902	\$ 1,186,787
Employee benefits	185,251	170,266
Other	<u>17,149</u>	<u>24,079</u>
	<u>\$ 1,460,302</u>	<u>\$ 1,381,132</u>

17. Administrative Expenses

	<u>2015</u>	<u>2014</u>
Advertising and promotion	\$ 21,302	\$ 35,027
Chattel registration and mortgage expense	36,187	32,285
Clearing and service charges	188,873	192,353
Other	131,109	161,987
Printing, postage, supplies and stationery	104,650	115,253
Professional fees	42,052	60,328
Repairs and maintenance	77,239	53,329
Telephone	<u>30,941</u>	<u>30,702</u>
	<u>\$ 632,353</u>	<u>\$ 681,264</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

18. Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Key management personnel comprises the eight directors and six members of management responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation of key management personnel during the year was as follows:

	<u>2015</u>	<u>2014</u>
Compensation		
Salaries, and other short-term employee benefits	\$ 577,811	\$ 539,143
Total pension	31,813	33,062
Other long-term benefits	15,054	15,941
	<u>\$ 624,678</u>	<u>\$ 588,146</u>

Included in compensation above are the following payments to the directors and officers of the Credit Union for expenses associated with the performance of their duties for the year ended December 31:

	<u>2015</u>	<u>2014</u>
Honoraria and per diems	\$ 22,350	\$ 18,005
Training and conference costs	2,987	2,793
	<u>\$ 25,337</u>	<u>\$ 20,798</u>

Details of loans to key management personnel are as follows as at December 31:

	<u>2015</u>	<u>2014</u>
Aggregate value of loans and lines of credit advanced	\$ 1,462,820	\$ 1,072,519
Interest received on loans and lines of credit advanced	23,210	19,701

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. The staff of the Credit Union is eligible for reduced loan rates at the prescribed rate as set by Canada Revenue Agency. Directors do not receive preferential rates on loans.

Deposits from key management personnel are as follows as at and for the year ended December 31:

	<u>2015</u>	<u>2014</u>
Aggregate value of term and savings accounts	\$ 1,131,735	\$ 1,137,546
Total interest paid on term and savings accounts	19,204	17,957

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel, staff or close family members.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

19. Financial Instrument Classification

The carrying amount of the Credit Union's financial instruments by classification is as follows:

	Available-for-Sale	Held for Trading	Loans and Receivables	Other Financial Liabilities	Total
December 31, 2015					
Funds on hand and on deposit	\$ -	-	\$ 6,162,848	\$ -	\$ 6,162,848
Other assets	-	-	15,182	-	15,182
Investments (Note 5)	1,813,645	-	6,011,759	-	7,825,404
Loans to members	-	-	154,726,732	-	154,726,732
Other liabilities	-	-	-	(668,708)	(668,708)
Deposits payable	-	-	-	(158,743,205)	(158,743,205)
	\$ 1,813,645	\$ -	\$ 166,916,521	\$ (159,411,913)	\$ 9,318,253
December 31, 2014					
Funds on hand and on deposit	\$ -	-	\$ 17,328,957	\$ -	\$ 17,328,957
Other assets	-	-	14,147	-	14,147
Investments (Note 5)	930,460	-	5,521,361	-	6,451,821
Loans to members	-	-	148,082,413	-	148,082,413
Other liabilities	-	-	-	(919,283)	(919,283)
Deposits payable	-	-	-	(161,920,823)	(161,920,823)
	\$ 930,460	\$ -	\$ 170,946,878	\$ (162,840,106)	\$ 9,037,232

20. Fair Value Measurement

Assets and liabilities that are measured at fair value in the balance sheet are grouped into three levels of a fair value hierarchy. The following is an analysis of assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price. There are no assets or liabilities measured at fair value classified as Level 1.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Assets measured at fair value and classified as Level 2 include investments in shares.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). There are no assets or liabilities measured at fair value classified as Level 3.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

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20. Fair Value Measurement (continued)

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels. There were no transfers between levels for the years ended December 31, 2015.

Valuation Process Applied

Valuation techniques used in determination of fair values within level 2 assets and liabilities including the key inputs used are as follows:

<u>Assets or Liabilities</u>	<u>Valuation Approach and Inputs Used</u>
CUCM and Concentra shares	Class 1 and 2 CUCM shares are subject to a rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares. However, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.
	Concentra shares are held at their carrying amount which is deemed to approximate fair value.

Assets and liabilities for which fair values are disclosed in the notes to the financial statements as at December 31, 2015 are as follows:

<u>Assets or Liabilities</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>
Funds on hand and on deposit	The carrying amount of the funds on hand and on deposit approximates their fair value.	-
Liquidity deposits	The fair value of liquidity deposits is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Discount spot rate at 1.10%.
Loans to members	The fair value of loans to members is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Discount spot rates range from 2.59% to 14% based on maturity date of the loans.
Other liabilities	The carrying amount of short-term other liabilities due within 12 months approximates their fair values.	-
Deposits payable	The fair value of deposits payable is calculated based on the present value of future cash flows. To determine present value, future cash flows are discounted by the current rate curve by which the asset or liability is originally priced.	Discount spot rates range from 1.65% to 2.50% based on renewal date of the deposits.

BELGIAN-ALLIANCE CREDIT UNION LTD.

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20. Fair Value Measurement (continued)

The following represents the fair values of financial instruments of the Credit Union. The fair values disclosed exclude the value of assets and liabilities that are not considered financial instruments. In addition, the value of intangibles such as long-term member relationships are not included in the fair value amounts. The Credit Union considers the value of intangibles to be significant.

<i>(in thousands)</i>	As at December 31, 2015			As at December 31, 2014		
	Book Value	Fair Value	Excess over Book Value	Book Value	Fair Value	Excess over Book Value
Assets						
Funds on hand and on deposit	\$ 6,163	\$ 6,163	\$ -	\$ 17,329	\$ 17,329	\$ -
Investments	7,825	7,836	11	6,452	6,463	11
Loans to members	154,727	155,689	962	148,082	147,981	(101)
	\$ 168,715	\$ 169,688	\$ 973	\$ 171,863	\$ 171,773	\$ (90)
Liabilities						
Accounts payable	\$ 669	\$ 669	\$ -	\$ 919	\$ 919	\$ -
Deposits payable	158,743	159,781	1,038	161,921	163,907	1,986
	\$ 159,412	\$ 160,450	\$ 1,038	\$ 162,840	\$ 164,826	\$ 1,986

Interest rate sensitivity is the main cause of changes in the fair value of the Credit Union's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

21. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's management. The Board of Directors receives quarterly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

21. Financial Instrument Risk Management (continued)

Objectives, Policies and Procedures

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, loan administration, credit concentration limits, and risk rating;
- Loan lending limits including Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and depreciation periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for impaired loans quarterly.

Maximum Exposure to Credit Risk

The Credit Union's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows as at December 31:

	2015		2014
	Carrying Value	Maximum Exposure	Maximum Exposure
CUCM deposits	\$ 6,000,000	\$ 6,000,000	\$ 5,500,000
Loans to members	154,726,732	154,726,732	148,082,413
Undisbursed loans	-	2,250,379	1,116,694
Unutilized lines of credit	-	10,557,631	9,875,408
	\$ 160,726,732	\$ 173,534,742	\$ 164,574,515

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

21. Financial Instrument Risk Management (continued)

Maximum Exposure to Credit Risk (continued)

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Notes 6 and 7.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is \$Nil.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, Policies and Procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Act require the Credit Union to maintain liquid assets of at least 8% of deposits payable and borrowings in order to meet member/associate withdrawals.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the year with the exception of the month of December 2015, when the liquidity requirement was not met.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

21. Financial Instrument Risk Management (continued)

As at December 31, 2015, the liquidity position of the Credit Union is as follows:

Qualifying liquid assets on hand	\$ 11,798,636
Total liquidity requirement	<u>12,707,048</u>
Liquidity deficit	<u>\$ (908,412)</u>

The Credit Union had unutilized borrowing capacity available to cover the deficiency of liquidity requirement noted above at December 31, 2015 (Note 23).

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	December 31, 2015					
	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 month	1 - 3 months	3 - 12 months	Greater than 1 year
<i>(in thousands)</i>						
Accounts payable	\$ 669	\$ (669)	\$ (669)	\$ -	\$ -	\$ -
Deposits payable	158,743	(170,755)	(61,433)	(10,883)	(47,156)	(51,283)
Unadvanced loans	-	(2,250)	(2,250)	-	-	-
Unutilized lines of credit	-	(10,558)	(10,558)	-	-	-
	\$ 159,412	\$ (184,232)	\$ (74,910)	\$ (10,883)	\$ (47,156)	\$ (51,283)

	December 31, 2014					
	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 month	1 - 3 months	3 - 12 months	Greater than 1 year
<i>(in thousands)</i>						
Accounts payable	\$ 919	\$ (919)	\$ (919)	\$ -	\$ -	\$ -
Deposits payable	161,921	(174,831)	(58,979)	(9,302)	(36,335)	(70,215)
Unadvanced loans	-	(1,117)	(1,117)	-	-	-
Unutilized lines of credit	-	(9,875)	(9,875)	-	-	-
	\$ 162,840	\$ (186,742)	\$ (70,890)	\$ (9,302)	\$ (36,335)	\$ (70,215)

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

21. Financial Instrument Risk Management (continued)

Timing of unutilized lines of credit and unadvanced loans payments are uncertain. Since these payouts are at the discretion of the members/associates the entire amount of potential payments has been included in less than one month.

The Credit Union had no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

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 three types of risk: interest rate risk, currency risk, and equity risk.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and loans to members and interest paid on deposits payable. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Deposit Guarantee Corporation of Manitoba in accordance with the Credit Union's matching policy. This policy has been approved by the Board of Directors as required by the Regulations to the Act. For the years ended December 31, 2015 and 2014, the Credit Union was in compliance with this policy.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

21. Financial Instrument Risk Management (continued)

The following schedule shows the Credit Union's sensitivity to interest rate changes at December 31, 2015. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity.

Maturity Dates	Assets	Liabilities	Asset / Liability Gap
Interest sensitive			
Variable	\$ 43,305,888	\$ 24,642,678	\$ 18,663,210
< 12 months	37,415,001	66,917,662	(29,502,661)
1 year	26,408,541	26,959,064	(550,523)
2 years	20,958,654	11,638,494	9,320,160
3 years	14,120,145	5,385,953	8,734,192
4 years	22,026,177	3,922,998	18,103,179
> 5 years	1,338,038	3,376,883	(2,038,845)
Interest sensitive	165,572,444	142,843,732	22,728,712
Non-interest sensitive	4,930,597	27,659,309	(22,728,712)
Total	\$ 170,503,041	\$ 170,503,041	\$ -

As at December 31, 2015, the weighted average rate for interest-bearing assets is 3.34% and for interest-bearing liabilities is 2.56%.

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

An analysis of the Credit Union's risk due to changes in interest rates was calculated using financial modelling software and determined that an increase in interest rates of 1% could result in a decrease to net income of \$157,504 while a decrease in interest rates of 1% could result in an increase to net income of \$157,504.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Foreign Exchange Risk

Foreign exchange risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to U.S. dollar deposits denominated in U.S. dollars. Foreign currency changes are continually monitored by the Investment Committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

21. Financial Instrument Risk Management (continued)

Risk Measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to members as well as currency purchase costs.

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to \$100,000 in U.S. funds.

For the years ended December 31, 2015 and 2014, the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

22. Capital Management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations under The Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Total members' capital as shown on the balance sheet shall not be less than 5% of the book value of all assets;
- Retained earnings shall not be less than 3% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

The Credit Union considers its capital to include membership shares (common shares and surplus shares), and retained earnings as noted below. There have been no changes in what the Credit Union considers to be its capital since the previous period.

	<u>2015</u>	<u>2014</u>
Members' shares	\$ 1,122,574	\$ 1,121,966
Provision for issue of common shares	35,000	40,000
Retained earnings	<u>9,912,554</u>	<u>9,654,932</u>
	<u>\$ 11,070,128</u>	<u>\$ 10,816,898</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2015

22. Capital Management (continued)

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Act which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2015 is \$59,542,123 (\$53,475,258 in 2014).

As at December 31, 2015, the Credit Union met the capital requirements of The Act with a calculated members' capital ratio of 6.49% (6.23% in 2014), a retained surplus ratio of 5.83% (5.56% in 2014) and a risk weighted asset ratio of 18.77% (20.56% in 2014).

All members shares are included in the calculation of members' capital regardless of being classified as a liability or equity on the balance sheet.

23. Commitments

Credit Facilities

The Credit Union has approved lines of credit with CUCM equal to 10% of its members' deposits and interest charged follows prime (effective rate of 2.5% at December 31, 2015). For the current year, this amounts to \$15.9 million. These accommodations are secured by an assignment of shares and deposits in CUCM and a general assignment of loans receivable from members. The balance outstanding at December 31, 2015 was \$NIL (2014 - \$Nil).

Loans to Members

The Credit Union has the following commitments to its members at the year end date on account of loans, unused lines of credit and letters of credit at December 31, 2015:

Unadvanced loans	\$ 2,250,379
Unused lines of credit	10,557,631
Letters of credit	NIL

Contractual Obligations

Premises and Equipment

The Credit Union has entered into operating leases for its premises and equipment. The following are the minimum lease payments for the next five years:

2016	\$ 72,166
2017	71,040
2018	71,040
2019	67,592
2020	50,348

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2015

23. Commitments (continued)

Other

Credit Union Central of Manitoba

The Credit Union is a member of CUCM, which provides banking and other services to Credit Unions in Manitoba. By nature of membership in CUCM, the Credit Union is obligated to pay affiliation dues which are based on membership and assets.

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (DGCM) is a deposit insurance corporation. By legal obligation under the Act, DGCM guarantees the deposits of all members of Manitoba credit unions/caisse. By legislation, the credit union/caisse pays a quarterly levy to DGCM based on a percentage of members' deposits.