# Belgian-Alliance Credit Union Ltd.

## Financial Statements

*For the year ended December 31, 2017*

MNP LLP

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*For the year ended December 31, 2017*

## Management's Responsibility

To the Members of Belgian-Alliance Credit Union Ltd.:

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

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

The Board of Directors and Audit and Risk Management Committee are composed of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit and Risk Management Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

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

March 20, 2018

*Signed "Martin Trudeau"*
Chief Executive Officer

## Independent Auditors' 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 statement of financial position as at December 31, 2017 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*

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 Belgian-Alliance Credit Union Ltd. as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Winnipeg, Manitoba

March 20, 2018

MNP LLP

Chartered Professional Accountants

# Belgian-Alliance Credit Union Ltd.
## Statement of Financial Position
*As at December 31, 2017*

| | **2017** | *2016* |
|---|---|---|
| **Assets** | | |
| Funds on hand and on deposit | **8,241,038** | 9,472,461 |
| Investments *(Note 4)* | **7,983,887** | 7,198,310 |
| Members' loans receivable *(Note 5)* | **175,001,139** | 166,447,997 |
| Prepaid expenses and other assets | **153,043** | 105,066 |
| Property, equipment and intangible assets *(Note 6)* | **1,615,796** | 1,664,801 |
| | **192,994,903** | 184,888,635 |
| **Liabilities** | | |
| Members' savings and deposits *(Note 7)* | **179,091,154** | 169,638,079 |
| Accounts payable | **1,141,922** | 1,297,618 |
| Loan payable *(Note 8)* | **750,000** | 2,500,000 |
| Income taxes payable | **21,154** | 21,810 |
| Deferred taxes *(Note 13)* | **15,000** | 12,000 |
| | **181,019,230** | 173,469,507 |
| **Members' equity** | | |
| Member shares *(Note 9)* | **1,108,977** | 1,096,342 |
| Provision for issue of surplus shares *(Note 9)* | **35,000** | 35,000 |
| Retained surplus | **10,831,696** | 10,287,786 |
| | **11,975,673** | 11,419,128 |
| | **192,994,903** | 184,888,635 |

**Approved on behalf of the Board of Directors**

*Signed "Remi Brengman"*

*Signed "Jim Beaulieu"*

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



MNP LLP

# Belgian-Alliance Credit Union Ltd.
## Statement of Comprehensive Income
*For the year ended December 31, 2017*

| | **2017** | *2016* |
|---|---|---|
| **Financial income** | | |
| Interest from members' loans | **5,578,943** | 5,314,162 |
| Investment income | **279,223** | 313,037 |
| | **5,858,166** | 5,627,199 |
| **Cost of funds** | **3,080,337** | 3,186,337 |
| **Financial margin** | **2,777,829** | 2,440,862 |
| **Operating expenses** | | |
| Administration | **609,095** | 576,663 |
| Member security | **168,555** | 159,538 |
| Occupancy | **374,120** | 379,263 |
| Organizational | **139,405** | 155,681 |
| Personnel | **1,548,689** | 1,500,831 |
| **Gross operating expenses** | **2,839,864** | 2,771,976 |
| **Other income** | **(823,363)** | (848,077) |
| **Net operating expenses** | **2,016,501** | 1,923,899 |
| **Income from operations before provision for loan losses, patronage refund and income taxes** | **761,328** | 516,963 |
| Provision for loan losses *(Note 5)* | **73,849** | 37,472 |
| **Income before patronage refund and income taxes** | **687,479** | 479,491 |
| Patronage refund *(Note 10)* | **35,000** | 35,000 |
| **Income before provision for income taxes** | **652,479** | 444,491 |
| **Provision for income taxes** *(Note 13)* | **83,079** | 47,372 |
| **Income and comprehensive income for the year** | **569,400** | 397,119 |

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

| | *Member shares* | *Provision for issue of surplus shares* | *Retained surplus* | *Total equity* |
|---|---|---|---|---|
| **Balance December 31, 2015** | **1,122,574** | **35,000** | **9,912,554** | **11,070,128** |
| Income and comprehensive income for the year | **-** | **-** | **397,119** | **397,119** |
| Patronage refund | **-** | **35,000** | **-** | **35,000** |
| Dividends on surplus shares, net of tax savings of $2,568 | **-** | **-** | **(21,887)** | **(21,887)** |
| Issuance of member shares | **61,260** | **(35,000)** | **-** | **26,260** |
| Redemption of member shares | **(87,492)** | **-** | **-** | **(87,492)** |
| **Balance December 31, 2016** | **1,096,342** | **35,000** | **10,287,786** | **11,419,128** |
| Income and comprehensive income for the year | **-** | **-** | **569,400** | **569,400** |
| Patronage refund | **-** | **35,000** | **-** | **35,000** |
| Dividends on surplus shares, net of tax savings of $2,990 | **-** | **-** | **(25,490)** | **(25,490)** |
| Issuance of member shares | **65,425** | **(35,000)** | **-** | **30,425** |
| Redemption of member shares | **(52,790)** | **-** | **-** | **(52,790)** |
| **Balance December 31, 2017** | **1,108,977** | **35,000** | **10,831,696** | **11,975,673** |

# Belgian-Alliance Credit Union Ltd.
## Statement of Cash Flows
*For the year ended December 31, 2017*

| | ***2017*** | *2016* |
|---|---|---|
| **Operating activities** | | |
| Interest received from members' loans | **5,556,278** | 5,308,483 |
| Interest received from investments | **275,151** | 323,841 |
| Other income received | **823,363** | 848,077 |
| Income taxes paid | **(77,745)** | (20,707) |
| Interest paid on borrowed money | **(3,002,480)** | (3,082,405) |
| Operating expenses paid | **(2,949,727)** | (2,011,404) |
| | **624,840** | 1,365,885 |
| **Financing activities** | | |
| Proceeds of loan payable | **750,000** | 2,500,000 |
| Repayment of loan payable | **(2,500,000)** | - |
| Net change in members' savings and deposits | **9,375,218** | 10,790,942 |
| Issuance of member shares | **1,945** | 1,805 |
| Redemption of member shares | **(52,790)** | (87,492) |
| | **7,574,373** | 13,205,255 |
| **Investing activities** | | |
| Net change in investments | **(781,505)** | 616,290 |
| Net change in members' loans receivable | **(8,604,326)** | (11,753,058) |
| Purchases of property, equipment and intangible assets | **(44,805)** | (124,759) |
| | **(9,430,636)** | (11,261,527) |
| **Increase (decrease) in funds on hand and on deposit** | **(1,231,423)** | 3,309,613 |
| **Funds on hand and on deposit, beginning of year** | **9,472,461** | 6,162,848 |
| **Funds on hand and on deposit, end of year** | **8,241,038** | 9,472,461 |

## 1. Reporting entity

Belgian-Alliance Credit Union Ltd. (the “Credit Union”) was formed pursuant to the Credit Union and Caisses Populaires Act of Manitoba (the "Act”) and operates three Credit Union branches in Winnipeg. The address of the head office of the Credit Union is 1177 Portage Avenue, Winnipeg, Manitoba, R3G 0T2.

The Credit Union operates as one segment principally in personal and commercial banking in Manitoba.

The Credit Union conducts its principal operations through its branches, offering products and services including consumer and commercial loans and mortgages, chequing and savings accounts, term deposits, registered deposits, automated banking machines ("ABMs") and debit cards.

***Statement of compliance***

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

These financial statements for the year ended December 31, 2017 were approved by the Board of Directors on March 20, 2018.

## 2. Basis of preparation

***Basis of measurement***

The financial statements have been prepared on the historic cost basis except for the revaluation of available-for-sale financial assets.

***Functional and presentation currency***

These financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency. This is the currency of the primary economic environment in which the Credit Union operates.

***Significant accounting judgments, estimates and assumptions***

The preparation of the Credit Union’s financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

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

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

**2. Basis of preparation** *(Continued from previous page)*

***Allowance for impaired loans***

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

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

Members' loans receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on members' loans receivable is disclosed in more detail in Note 5.

***Financial instrument not traded on active markets***

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

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

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

***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 tax liability including the related interest and penalties in the current tax provision. Management believes that 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.

**3. Summary of significant accounting policies**

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

***Funds on hand and on deposit***

Funds on hand and on deposit consists of cash on hand and demand deposits.

***Investments***

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

**3. Summary of significant accounting policies** *(Continued from previous page)*

Term and contract deposits are accounted for as loans and receivables at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Shares 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 shares (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in income.

Purchases and sales of shares are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in other comprehensive income. On sale, the amount held in accumulated other comprehensive income associated with the shares is removed from members' equity and recognized in income.

***Members' loans receivable***

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

***Leases***

The Credit Union leases commercial property. The Credit Union, as a lessee, has determined, based on an evaluation of the terms and conditions of the arrangements, that it does not retain any of the significant risks and rewards of ownership of these properties and therefore accounts for them as operating leases. Payments made under operating leases are changed as an expense in the statement of comprehensive income on a straight line basis over the period of the lease.

**3. Summary of significant accounting policies** *(Continued from previous page)*

***Allowance for loan impairment***

Allowance for loan impairment represents specific and general provisions established as a result of reviews of individual loans and groups of loans. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Credit Union makes judgments about the credit worthiness of the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

Individual allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan. Collective allowances are established by reviewing specific arrears and current economic conditions.

Restructured loans are not considered impaired where reasonable assurance exists that the borrower will meet the terms of the modified debt agreement.

Loans are classified as impaired, and a provision for loss is established, when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Loans are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of the debt.

In such cases, a specific provision is established to write down the loan to the estimated future net cash flows from the loan discounted at the loans' original effective interest rate. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its fair value calculated based on an observable market price. Any previously accrued but unpaid interest on the loan is charged to the allowance for loan impairment. Interest income after the impairment is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Financial assets, together with the associated provision for impairment are reported as a credit loss when there is no realistic prospect of future recovery and when the Credit Union is in possession of the loan. Interest income is accrued until the financial asset becomes a credit loss.

***Property, equipment and intangible assets***

All property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, with the exception of land which is not depreciated. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

The methods of depreciation and useful life applicable for each class of asset during the current and comparative period are as follows:

| | ***Method*** | ***Rate*** |
|---|---|---|
| Buildings | straight-line | 40 years |
| Furniture and equipment | straight-line | 10 years |
| Computer equipment | straight-line | 2 to 5 years |
| Security equipment | straight-line | 5 to 20 years |
| Signage | straight-line | 10 years |
| Building improvements | straight-line | 10 years |

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

**3. Summary of significant accounting policies** *(Continued from previous page)*

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

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

Recoverable amount is the higher of fair value less costs to sell 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. An impairment loss is recognized immediately in income.

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

***Members' savings and deposits***

Members' savings and deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

***Accounts payable***

Accounts payable are initially recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

***Members' shares***

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

***Patronage refund***

Patronage refunds are recognized in income when the Credit Union has a constructive obligation that it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

***Revenue recognition***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognized in income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

## 3. Summary of significant accounting policies *(Continued from previous page)*

Interest penalties received as a result of loan prepayments by members are recognized as income in the year in which the prepayment is made, unless only minor modifications (based on a present value of future cash flows test) were made to the loan in which case they are deferred and amortized using the effective interest rate method.

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are recognized using the effective interest method over the estimated repayment term of the related loan.

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

Commission revenue is recognized net of broker commission expense as earned on the effective date of each policy.

Other revenue is recognized as services are provided to members.

***Income taxes***

Current tax and deferred tax are recognized in income except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

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

***Foreign currency translation***

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in income for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the initial transaction and are not subsequently restated. Translation gains and losses are included in income.

***Financial instruments***

***Classification and measurement***

All financial instruments are initially recognized at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below. During the year, there has been no reclassification of financial instruments.

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in income. The Credit Union's financial instruments classified as fair value through profit or loss include funds on hand and deposit.

**3. Summary of significant accounting policies** *(Continued from previous page)*

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union's shares in Credit Union Central of Manitoba have been classified as available for sale.

Financial assets classified as held-to-maturity are subsequently measured at amortized cost using the effective interest rate method. The Credit Union has no financial instruments classified as held-to-maturity.

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Credit Union's financial instruments classified as loans and receivables include members' loans receivable, Credit Union Central of Manitoba term and contract deposits and accrued interest.

Financial instruments classified as other financial liabilities include members' savings and deposits, loan payable and accounts payable. Other financial liabilities are subsequently carried at amortized cost.

***Derecognition of financial assets***

Derecognition of a financial asset occurs when:

- The Credit Union does not have rights to receive cash flows from the asset;
- The Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through" arrangement; and either:
- The Credit Union has transferred substantially all the risks and rewards of the asset, or
- The Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Credit Union’s continuing involvement in the asset. In that case, the Credit Union also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Credit Union has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income.

***Impairment of financial assets***

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial 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 for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in comprehensive income.

Financial assets, together with the associated provision for impairment are reported as a credit loss when there is no realistic prospect of future recovery. Interest income is accrued until the financial asset becomes a credit loss.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

**3. Summary of significant accounting policies** *(Continued from previous page)*

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 income.

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 the period.

***Standards issued but not yet effective***

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2017 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

***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 Credit Union is currently assessing the impact of the standard on its financial statements.

***IFRS 15 Revenue from contracts with customers***

IFRS 15, issued in May 2014, specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, 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*.

Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15.

IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. The Credit Union is currently assessing the impact of this standard on its financial statements.

***IFRS 16 Leases***

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently assessing the impact of this standard on its financial statements.

## 4. Investments

| | ***2017*** | *2016* |
|---|---|---|
| Credit Union Central of Manitoba | | |
| Term and contract deposits | **7,000,000** | 6,000,000 |
| Shares | **978,570** | 1,197,065 |
| Accrued interest | **5,027** | 955 |
| | **7,983,597** | 7,198,020 |
| Concentra Financial | | |
| Shares | **290** | 290 |
| Total | **7,983,887** | 7,198,310 |

Term and contract deposits consist of deposits earning interest between 1.18% and 1.30% (2016 - 0.77% and 0.84%). The term deposit maturities range from January 3, 2018 to February 13, 2018 (2016 - January 10, 2017 to February 7, 2017).

The shares in Credit Union Central of Manitoba are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Credit Union Central of Manitoba.

There is no separately quoted market value for these shares and the fair value could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, fair value has been estimated at cost.

Pursuant to Regulations, Credit Union Central of Manitoba requires that the Credit Union maintain 8% of its total members' savings and deposits in specified liquidity deposits. The provincial regulator for Credit Unions, Deposit Guarantee Corporation of Manitoba, requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2017 the Credit Union has a liquidity ratio of 8.20% and therefore has met the liquidity requirement.

## 5. Members' loans receivable

Member loans can have either a variable or fixed rate of interest.

Variable rate loans are based on a "prime rate" formula, and as at December 31, 2017 range from prime less 3.35% to prime plus 10.00% (2016 - prime less 3.00% to prime plus 10.50%). The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2017 was 3.35% (2016 - 3.00%).

The interest rates on fixed rate loans outstanding as at December 31, 2017 range from 1.59% to 12.90% (2016 - 1.75% to 12.90%). The rate offered to a member varies with the type of security offered and the member's credit worthiness.

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.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by personal property or investments.

Residential mortgages are secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Principal and allowance by loan type:

| | | | | | ***2017*** |
|---|---|---|---|---|---|
| | **Principal performing** | **Principal impaired** | **Allowance specific** | **Allowance collective** | **Net carrying value** |
| Commercial loans | 14,545,360 | - | - | - | **14,545,360** |
| Personal loans | 15,384,514 | 67,647 | 48,273 | 73,583 | **15,330,305** |
| Residential mortgages | 137,800,721 | 1,315,397 | 76,876 | - | **139,039,242** |
| Syndicated loans | 6,086,232 | - | - | - | **6,086,232** |
| | 173,816,827 | 1,383,044 | 125,149 | 73,583 | **175,001,139** |

| | | | | | ***2016*** |
|---|---|---|---|---|---|
| | **Principal performing** | **Principal impaired** | **Allowance specific** | **Allowance collective** | **Net carrying value** |
| Commercial loans | 15,622,271 | - | - | - | 15,622,271 |
| Personal loans | 14,302,783 | 112,623 | 54,919 | 78,391 | 14,282,096 |
| Residential mortgages | 126,789,387 | 1,367,565 | 23,733 | - | 128,133,219 |
| Syndicated loans | 8,410,411 | - | - | - | 8,410,411 |
| | 165,124,852 | 1,480,188 | 78,652 | 78,391 | 166,447,997 |

**5. Members' loans receivable** *(Continued from previous page)*

The allowance for loan impairment changed as follows:

| | ***2017*** | *2016* |
|---|---|---|
| Balance, beginning of year | **157,043** | 152,560 |
| Provision for loan losses | **73,849** | 37,472 |
| | **230,892** | 190,032 |
| Less: accounts written off, net of recoveries | **32,160** | 32,989 |
| Balance, end of year | **198,732** | 157,043 |

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.

| | **1-30 days** | **31-60 days** | **61-90 days** | **91 days and greater** | **2017** |
|---|---|---|---|---|---|
| Commercial loans | 363,538 | - | - | - | **363,538** |
| Personal loans | 230,823 | 33,579 | - | - | **264,402** |
| Residential mortgages | 3,100,775 | 1,021,317 | - | 100,916 | **4,223,008** |
| Total | 3,695,136 | 1,054,896 | - | 100,916 | **4,850,948** |

| | 1-30 days | 31-60 days | 61-90 days | 91 days and greater | 2016 |
|---|---|---|---|---|---|
| Commercial loans | 15,666 | - | - | - | 15,666 |
| Personal loans | 149,298 | 9,936 | - | 1,614 | 160,848 |
| Residential mortgages | 2,680,975 | 573,531 | - | 603,272 | 3,857,778 |
| Total | 2,845,939 | 583,467 | - | 604,886 | 4,034,292 |

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

## 6. Property, equipment and intangible assets

| | *Land* | *Buildings* | *Furniture and equipment* | *Computer equipment* | *Security equipment* | *Signage* | *Building improve ments* | *Total* |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at December 31, 2015 | **541,267** | **1,403,164** | **352,883** | **375,396** | **176,692** | **35,341** | **207,227** | **3,091,970** |
| Additions | **-** | **23,594** | **48,115** | **50,886** | **2,164** | **-** | **-** | **124,759** |
| Balance at December 31, 2016 | **541,267** | **1,426,758** | **400,998** | **426,282** | **178,856** | **35,341** | **207,227** | **3,216,729** |
| Additions | **-** | **-** | **1,634** | **28,981** | **692** | **-** | **13,498** | **44,805** |
| Balance at December 31, 2017 | **541,267** | **1,426,758** | **402,632** | **455,263** | **179,548** | **35,341** | **220,725** | **3,261,534** |
| **Depreciation and impairment losses** | | | | | | | | |
| Balance at December 31, 2015 | **-** | **464,024** | **318,358** | **327,424** | **109,243** | **27,071** | **205,413** | **1,451,533** |
| Additions | **-** | **35,679** | **25,092** | **28,280** | **8,856** | **2,003** | **485** | **100,395** |
| Balance at December 31, 2016 | **-** | **499,703** | **343,450** | **355,704** | **118,099** | **29,074** | **205,898** | **1,551,928** |
| Additions | **-** | **36,075** | **21,395** | **25,865** | **8,294** | **1,106** | **1,075** | **93,810** |
| Balance at December 31, 2017 | **-** | **535,778** | **364,845** | **381,569** | **126,393** | **30,180** | **206,973** | **1,645,738** |
| **Net book value** | | | | | | | | |
| At December 31, 2016 | 541,267 | 927,055 | 57,548 | 70,578 | 60,757 | 6,267 | 1,329 | 1,664,801 |
| **At December 31, 2017** | **541,267** | **890,980** | **37,787** | **73,694** | **53,155** | **5,161** | **13,752** | **1,615,796** |

### 6. Property, equipment and intangible assets *(Continued from previous page)*

The gross amount of fully depreciated items still in use is $920,990 (2016 - $816,538). Depreciation of $93,810 is included in occupancy on the statement of comprehensive income.

### 7. Members' savings and deposits

| | ***2017*** | *2016* |
|---|---|---|
| Chequing | **18,929,279** | 15,564,895 |
| Savings | **19,218,480** | 19,209,311 |
| Term deposits | **77,274,282** | 74,614,997 |
| Registered savings plans | **62,155,568** | 58,807,566 |
| Unclaimed and inactive accounts | **21,735** | 27,357 |
| Accrued interest | **1,491,810** | 1,413,953 |
| **Total** | **179,091,154** | 169,638,079 |

| | ***2017*** | *2016* |
|---|---|---|
| Balance, beginning of year | **169,638,079** | 158,743,205 |
| Net cash increase in members' savings and deposits | **9,375,218** | 10,790,942 |
| Non-cash change in accrued interest | **77,857** | 103,932 |
| Balance, end of year | **179,091,154** | 169,638,079 |

Total deposits include $545,193 (2016 - $553,305) denominated in United States dollars. Members' savings and deposits are subject to the following terms:

- Chequing and savings products are due on demand and bear interest at rates up to 1.60% (2016 - 1.25%)
- Term deposits are subject to fixed and variable rates of interest ranging from 1.00% to 3.10% (2016 - 1.00% to 3.40%), with interest payments due monthly, annually or on maturity.
- Registered savings plans are subject to fixed and variable rates of interest from 0.25% to 3.10% (2016 - 0.25% to 3.40%), with interest payments due monthly, annually or on maturity.

Members' savings and deposits are primarily located in and around Winnipeg, Manitoba.

### 8. Loan payable

The Credit Union has an approved borrowing limit of 10.00% of members' savings and deposits. Borrowings are payable to Credit Union Central of Manitoba at an interest rate tied to the banker's acceptance rates and are secured by an assignment of term and contract deposits, with no fixed terms of repayment. At December 31, 2017 the balance was $750,000 (2016 - $2,500,000), with interest at a rate of 1.04% (2016 - 1.07%) per annum.

## 9. Members' shares

Authorized:

Unlimited number of Common shares, at an issue price of $5
Unlimited number of Surplus shares, at an issue price of $1

Issued:

| | ***2017*** | *2016* |
|---|---|---|
| **Share capital** | | |
| 4,995 Common shares (2016 - 4,972) | **24,975** | 24,860 |
| 1,084,002 Surplus shares (2016 - 1,071,482) | **1,084,002** | 1,071,482 |
| | **1,108,977** | 1,096,342 |
| Provision for issuance of surplus shares | **35,000** | 35,000 |
| **Total** | **1,143,977** | 1,131,342 |

During the year, the Credit Union issued 389 and redeemed 366 common shares (2016 - 361 issued and 573 redeemed), and also issued 63,480 and redeemed 50,960 surplus shares (2016 - 59,455 issued and 84,627 redeemed).

When an individual becomes a member of the Credit Union, they are issued a common share at $5 per share. Each member of the Credit Union has one vote, regardless of the number of shares held. These membership shares are redeemable at par only when a membership is withdrawn. Since shares are redeemable only at the discretion of the Credit Union Board of Directors, they are classified as equity.

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The articles of incorporation for the Credit Union disclose the conditions concerning surplus shares. Dividends are at the discretion of the Board of Directors. These shares are redeemable at the discretion of the Board of Directors and as such are recorded as equity.

## 10. Patronage refund

The Board of Directors has declared a patronage refund based on the amount of business conducted at the Credit Union by members during the year in the amount of $35,000 (2016 - $35,000). The patronage refund has been reflected in the income statement with the related tax savings of approximately $3,675 (2016 - $3,675), being reflected in the current year provision for income taxes. The patronage refund is intended to be used for the purchase of additional surplus shares, and this has been reflected in members' shares (Note 9).

## 11. Dividend on surplus shares

The Board of Directors has declared and paid a dividend of 2.70% on the surplus shares held during the year in the amount of $28,480 (2016 - $24,455). The dividend of $28,480 (2016 - $24,455), net of tax savings of $2,990 (2016 - $2,568), has been reflected as a charge to retained surplus.

## 12. Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The Credit Union matches employee contributions at a rate of 6% to 8% (2016 - 6% to 8%) of the employee's salary up to the maximum allowed under pension legislation.

The expense and payments for the year ended December 31, 2017 are $64,041 (2016 - $66,392) and are recorded as personnel expenses. As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

## 13. Income taxes

| | **2017** | 2016 |
|---|---|---|
| **Current tax expense** | | |
| Current year | **80,079** | 56,372 |
| **Deferred tax expense** | | |
| Relating to the origination and reversal of temporary differences | **3,000** | (9,000) |
| Total income tax expense | **83,079** | 47,372 |

The tax effect of temporary differences which give rise to the deferred taxes is from differences between accounts deducted for accounting and income tax purposes including property, equipment and intangibles and the allowance for impaired loans.

| | **2017** | 2016 |
|---|---|---|
| **Deferred tax liability** | | |
| Property, equipment and intangible assets | **26,000** | 21,200 |
| **Deferred tax asset** | | |
| Allowance for impaired loans | **(11,000)** | (9,200) |
| Net deferred tax liability | **15,000** | 12,000 |

All movements in deferred tax liabilities during the year ended December 31, 2017 were recognized in income.

***Reconciliation between average effective tax rate and the actual tax rate***

| | **2017** | 2016 |
|---|---|---|
| Applicable tax rate | **38.00 %** | 38.00 % |
| Federal abatement | **(10.00)%** | (10.00)% |
| Small business deduction | **(17.50)%** | (17.50)% |
| Provincial tax rate | **0.30 %** | 0.16 % |
| Other | **1.93 %** | - % |
| Income tax rate as reported | **12.73 %** | 10.66 % |

## 14. Related party transactions

***Key management personnel ("KMP") of the Credit Union***

Key management of the Credit Union are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director.

| | **2017** | 2016 |
|---|---|---|
| Salaries, and other short-term employee benefits | **614,335** | 502,438 |
| Total pension | **33,318** | 30,341 |
| Other long-term benefits | **14,604** | 12,094 |
| | **662,257** | 544,873 |

**14. Related party transactions** *(Continued from previous page)*

***Transactions with Key Management Personnel***

Loans made to KMP are approved under the same lending criteria applicable to members. Employees of the Credit Union may receive concessional rates of interest on their loans and facilities. Directors and their spouses are not eligible for concessional rates of interest on their loans and facilities.

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.

| | ***2017*** | *2016* |
|---|---|---|
| Aggregate value of loans advanced | **1,331,086** | 963,301 |
| Total value of lines of credit advanced | **151,420** | 124,836 |
| Unused value of lines of credit | **360,380** | 307,964 |

| | ***2017*** | *2016* |
|---|---|---|
| During the year the aggregate value of loans disbursed to KMP amounted to: | | |
| Lines of credit | **100,000** | 35,000 |
| Mortgages | **31,689** | 290,167 |
| Loans | **36,109** | - |
| | **167,798** | 325,167 |

| | ***2017*** | *2016* |
|---|---|---|
| Interest and other revenue earned on loans to KMP | **38,258** | 26,005 |
| Interest paid on deposits to KMP | **26,656** | 25,860 |
| Patronage refund paid to KMP | **429** | 342 |

| | ***2017*** | *2016* |
|---|---|---|
| The total value of members' savings and deposits from KMP as at the year-end: | | |
| Chequing and demand deposits | **353,754** | 375,001 |
| Term deposits | **672,438** | 421,859 |
| Registered plans | **583,867** | 639,344 |
| | **1,610,059** | 1,436,204 |

***Directors, committee members, management and staff***

Transactions with Directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Loans to Directors and staff as at year end amounted to 0.77% (2016 - 0.76%) of total assets of the Credit Union.

Payments made for honoraria and per diems amount to $26,075 (2016 - $23,545) and meeting, training and conference costs amounts to $10,881 (2016 - $7,850).

***Credit Union Central of Manitoba***

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

**14. Related party transactions** *(Continued from previous page)*

Interest and dividends earned on investments during the year ended December 31, 2017 amounted to $279,223 (2016 - $313,037).

Interest and charges paid on borrowings during the year ended December 31, 2017 amounted to $1,862 (2016 - $2,388).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended December 31, 2017 amounted to $121,180 (2016 - $155,270).

***Deposit Guarantee Corporation of Manitoba***

The Deposit Guarantee Corporation of Manitoba (the "Corporation") was created under the Credit Unions and Caisses Populaires Act for the purposes of guaranteeing deposits in Manitoba credit unions, and promoting sound business practices in credit unions. All transactions with the Corporation are recorded at the exchange amount which is the amount agreed upon by the two parties.

The payments made to the Corporation during the year ended December 31, 2017 represent the net statutory annual assessment in the amount of $142,260 (2016 - $133,508).

***Celero Solutions***

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Financial Services and Credit Union Electronic Transaction Services. Payments made to Celero Solutions during the year ended December 31, 2017 for these services totalled $56,127 (2016 - $52,194).

**15. Capital management**

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Unions and Caisses Populaires Act of Manitoba (the "Act").

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 assets.
- 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 Regulations to the Act require that the Credit Union establish and maintain a level of capital as follows:

| | ***2017*** | *2016* |
|---|---|---|
| Members' equity not less than 5% of assets | **6.21 %** | 6.18 % |
| Retained surplus not less than 3% of assets | **5.61 %** | 5.56 % |
| Members' equity not less than 8% of the risk weighted value of assets | **17.37 %** | 17.23 % |

**15. Capital management** (Continued from previous page)

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 Deposit Guarantee Corporation of Manitoba on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

During the year ended December 31, 2017, the Credit Union has complied with the capital requirements. There have been no changes to what the Credit Union considers capital during the year.

The Credit Union manages its capital as calculated below:

| | ***2017*** | *2016* |
|---|---|---|
| Members' shares | **1,108,977** | 1,096,342 |
| Provision for issue of surplus shares | **35,000** | 35,000 |
| Retained surplus | **10,831,696** | 10,287,786 |
| **Capital** | **11,975,673** | 11,419,128 |

**16. Fair value measurements**

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1: Unadjusted quoted prices in an active market for identical assets and liabilities. Loan payable is disclosed at fair value based on a Level 1 classification.

- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e derived from prices). Level 2 inputs include quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include interest rate swaps. Members' loans receivable, term and contract deposits and members' savings and deposits are disclosed at fair value based on a level 2 classification.

- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities. Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

There were no transfers between fair value hierarchy levels for the year ended December 31, 2017.

**16. Fair value measurements** *(Continued from previous page)*

***Recurring fair value measurements***

The Credit Union' s assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

| | ***2017 Fair Value (in 000's)*** | ***Level 1*** | ***Level 2*** | ***Level 3*** |
|---|---|---|---|---|
| **Assets** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Funds on hand and on deposit | **8,241** | **8,241** | **-** | **-** |
| **Available-for-sale financial assets** | | | | |
| Shares in Credit Union Central of Manitoba | **979** | **-** | **979** | **-** |
| **Total recurring fair value measurements** | **9,220** | **8,241** | **979** | **-** |

| | *2016 Fair Value (in 000's)* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| **Assets** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Funds on hand and on deposit | 9,472 | 9,472 | - | - |
| **Available-for-sale financial assets** | | | | |
| Shares in Credit Union Central of Manitoba | 1,197 | - | 1,197 | - |
| **Total recurring fair value measurements** | 10,669 | 9,472 | 1,197 | - |

## 16. Fair value measurements *(Continued from previous page)*

***Asset and liabilities for which fair value is only disclosed***

The Credit Union's assets and liabilities not measured at fair value but for which fair value is disclosed, have been categorized into the fair value hierarchy as follows:

| | ***2017 Fair Value (in 000's)*** | ***Level 1*** | ***Level 2*** | ***Level 3*** |
|---|---|---|---|---|
| **Assets** | | | | |
| Members' loans receivable | **173,551** | **-** | **173,551** | **-** |
| Term and contract deposits | **7,000** | **-** | **7,000** | **-** |
| Total assets | **180,551** | **-** | **180,551** | **-** |
| **Liabilities** | | | | |
| Members' savings and deposits | **178,259** | **-** | **178,259** | **-** |
| Accounts payable | **1,142** | **-** | **1,142** | **-** |
| Loan payable | **750** | **750** | **-** | **-** |
| Total liabilities | **180,151** | **750** | **179,401** | **-** |

| | *2016 Fair Value (in 000's)* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| **Assets** | | | | |
| Members' loans receivable | 166,976 | - | 166,976 | - |
| Terms and contract deposits | 6,009 | - | 6,009 | - |
| Total assets | 172,985 | - | 172,985 | - |
| **Liabilities** | | | | |
| Members' savings and deposits | 170,044 | - | 170,044 | - |
| Accounts payable | 1,298 | - | 1,298 | - |
| Loan payable | 2,500 | 2,500 | - | - |
| Total liabilities | 173,842 | 2,500 | 171,342 | - |

The most significant assumption in the above fair value determinations relates to the discount rates utilized. If the discount rates would increase by 100 basis points then the fair value of assets would decrease by approximately $3,441,000 and the fair value of liabilities would decrease by approximately $2,015,000 . A corresponding decrease of 100 basis points would result in the fair value of assets increasing by approximately $3,558,000 and the fair value of liabilities would increase by approximately $2,136,000.

## 17. Financial instruments

The Credit Union as part of its operations carries a number of financial instruments. It is management's opinion that the Credit Union is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

***Risk management policy***

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

The Credit Union, as part of operations, has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union;
- Balance risk and return;
- Manage credit, market and liquidity risk through preventative and detective controls;
- Ensure credit quality is maintained;
- Ensure credit, market, and liquidity risk is maintained at acceptable levels;
- Diversify risk in transactions, member relationships and loan portfolios;
- Price according to risk taken; and
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit and Risk Management Committee and Credit Committee.

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

***Credit risk***

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors review and update the credit risk policy bi-annually.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being Winnipeg and surrounding areas.

The Credit Union employs a risk measurement process for its loan portfolio which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

The Credit Union's maximum exposure to credit risk relating to members' loans receivable for the year is $175,199,871 (2016 – $166,605,040). It is not practical to value all collateral as at year end due to the variety of assets and conditions. Refer to Note 5 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

| | ***2017*** | *2016* |
|---|---:|---:|
| **Credit quality of loans** | | |
| Unsecured loans | **9,466,832** | 11,621,551 |
| Loans secured by member deposits | **827,940** | 492,305 |
| Loans secured by real estate and other tangible assets | **103,710,556** | 98,797,569 |
| Mortgages insured by government | **61,194,543** | 55,693,615 |
| | **175,199,871** | 166,605,040 |

**17. Financial instruments** *(Continued from previous page)*

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. There is also credit risk in unfunded loan commitments.

The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management;
- Credit risk mitigation includes credit restructuring, collateral, and guarantees;
- Credit risk approval limits include establishing credit limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and
- Credit risk monitoring and review.

The Credit Union's credit risk polices, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

***Market risk***

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member owner needs.

*Risk measurement*

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Credit Union's Board of Directors.

*Objectives, policies and processes*

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk. See Note 18 to additional information on the asset liability matching policy.

**17. Financial instruments** *(Continued from previous page)*

The following table illustrates the contractual repricing and maturity of all financial instruments (presented in $000's):

| *in thousands* | *Variable rate* | *Within one year* | *One to Five years* | *Greater than 5 years* | *Non-Interest Sensitive* | *Total 2017* | *Total 2016* |
|---|---|---|---|---|---|---|---|
| ***Assets*** | | | | | | | |
| Funds on hand and on deposit | 7,718 | - | - | - | 523 | 8,241 | 9,472 |
| *effective interest rate* | *0.69 %* | - | - | - | - | *0.65 %* | *0.36 %* |
| Investments | - | 7,000 | - | | 984 | 7,984 | 7,207 |
| *effective interest rate* | - | *1.24 %* | - | - | - | *1.09 %* | *0.68 %* |
| Members' loans receivable | 27,721 | 31,011 | 113,733 | 2,316 | 220 | 175,001 | 166,448 |
| *effective interest rate* | *4.35 %* | *2.93 %* | *3.05 %* | *3.66 %* | - | *3.07 %* | *3.02 %* |
| | **35,439** | **38,011** | **113,733** | **2,316** | **1,727** | **191,226** | **183,127** |
| ***Liabilities*** | | | | | | | |
| Members' savings and deposits | 26,374 | 66,258 | 67,526 | 2,265 | 16,668 | 179,091 | 169,638 |
| *effective interest rate* | *0.42 %* | *1.88 %* | *2.37 %* | *2.62 %* | - | *1.67 %* | *1.68 %* |
| Accounts payable | - | - | - | - | 1,142 | 1,142 | 1,298 |
| Loan payable | 750 | - | - | - | - | 750 | 2,500 |
| *effective interest rate* | *1.04 %* | - | - | - | - | *1.04 %* | *1.07 %* |
| | **27,124** | **66,258** | **67,526** | **2,265** | **17,810** | **180,983** | **173,436** |

The following provides the potential before tax impact on an immediate and sustained 1% increase or decrease in interest rates on the Credit Union's net interest income for a one year period. 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 our risk measurement initiatives.

Before tax impact of:

1% increase in rates: $102,768 increase in financial margin

1% decrease in rates: $124,627 decrease in financial margin

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union may utilize interest rate swaps to assist in managing this rate gap.

***Foreign currency risk***

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

The Credit Union’s foreign exchange risk is related to deposits and loans denominated in United States dollars. Foreign currency holdings are monitored by management and holdings are adjusted when deemed by management in accordance with the investment policy.

*Risk measurement*

The Credit Union's position is measured weekly. Measurement of risk is based on the mismatch of assets and liabilities denominated in United States dollars.

*Objectives, policies and processes*

The Credit Union limits its mismatch of assets and liabilities held to $100,000 USD.

## 17. Financial instruments *(Continued from previous page)*

For the years-ended 2017 and 2016, the Credit Union's exposure to foreign exchange risk complies with the 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.

***Liquidity risk***

Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union’s day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union uses different risk management processes to manage liquidity risk. The acceptable amount of risk is defined by policies approved by the Board of Directors and monitored by management, with regular reporting to the Board of Directors.

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

The Credit Union manages its liquidity position by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with Credit Union Central of Manitoba;
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits;
- Monitoring of term deposits.

## 18. Asset liability matching

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match re-pricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between members' loans receivable and investments and members' savings and deposits for those particular maturity dates. Certain items on the statement of financial position, such as non interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union.  These items are reported as non interest rate sensitive on the schedule.

Amounts with variable interest rates, or due on demand, are classified as variable.

## 18. Asset liability matching *(Continued from previous page)*

A significant amount of members' loans receivable and members' savings and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

| | **Assets** | **%** | **Liabilities and equity** | **%** | **2017 Differential** | 2016 Differential |
|---|---|---|---|---|---|---|
| Interest sensitive: | | | | | | |
| Variable | **35,439,659** | **2.51** | **27,124,424** | **0.41** | **8,315,235** | 18,087,839 |
| Less than 12 months | **38,011,187** | **2.71** | **66,258,121** | **1.88** | **(28,246,934)** | (27,426,443) |
| 1 year | **21,129,349** | **3.03** | **33,205,489** | **2.23** | **(12,076,140)** | (10,979,447) |
| 2 years | **32,943,166** | **3.10** | **14,028,122** | **2.31** | **18,915,044** | 3,401,521 |
| 3 years | **31,557,136** | **3.07** | **11,076,226** | **2.37** | **20,480,910** | 19,377,276 |
| 4 years | **28,103,145** | **2.98** | **9,215,733** | **2.56** | **18,887,412** | 19,297,757 |
| Over 5 years | **2,315,620** | **3.66** | **2,265,314** | **2.62** | **50,306** | 2,670,697 |
| Non interest rate sensitive | **3,495,641** | **-** | **29,821,474** | **-** | **(26,325,833)** | (24,429,200) |
| | **192,994,903** | | **192,994,903** | | - | - |

## 19. Commitments and guarantees

***Loans***

The Credit Union has authorized $19,401,967 (2016 - $18,600,262) in line of credit loans, of which $10,200,053 (2016 - $9,467,992) has not been advanced as of year end. In addition, $9,097,979 (2016 - $4,429,215) in members' loans receivable have been authorized but have not been advanced as of the year end.

***Director and officer indemnification***

The Credit Union indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law. The Credit Union has acquired and maintains liability insurance for its directors and officers.

***Leases***

The Credit Union is committed to the following minimum payments for equipment and premises under the terms of leases which expire between 2019 and 2022.

| | |
|---|---|
| Not later than one year | $ 59,577 |
| Later than one year but not later than five years | $125,121 |
| Later than five years | $ nil |