Belgian-Alliance Credit Union Ltd.
Financial Statements
For the year ended December 31, 2018

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For the year ended December 31, 2018

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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 18, 2019

Signed "Martin Trudeau"
Chief Executive Officer

MNP LLP

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Belgian-Alliance Credit Union Ltd. (the "Credit Union"), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Winnipeg, Manitoba

MNP LLP

March 18, 2019

Chartered Professional Accountants

Belgian-Alliance Credit Union Ltd.
Statement of Financial Position
As at December 31, 2018

	2018	*2017*
Assets		
Funds on hand and on deposit	**6,850,085**	8,241,038
Investments *(Note 5)*	**13,065,939**	7,983,887
Members' loans receivable *(Note 6)*	**186,077,625**	175,001,139
Prepaid expenses and other assets	**153,311**	153,043
Property, equipment and intangible assets *(Note 7)*	**1,776,089**	1,615,796
	207,923,049	192,994,903
Liabilities		
Members' savings and deposits *(Note 8)*	**194,654,333**	179,091,154
Accounts payable	**678,525**	1,141,922
Loan payable *(Note 9)*	**-**	750,000
Income taxes payable	**15,098**	21,154
Deferred taxes *(Note 14)*	**20,000**	15,000
	195,367,956	181,019,230
Members' equity		
Member shares *(Note 10)*	**1,095,921**	1,108,977
Provision for issue of surplus shares *(Note 10)*	**40,000**	35,000
Retained surplus	**11,419,172**	10,831,696
	12,555,093	11,975,673
	207,923,049	192,994,903

Approved on behalf of the Board of Directors

Signed "Remi Brengman"
Director

Signed "Jim Beaulieu"
Director

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, 2018

	2018	*2017*
Financial income		
Interest from members' loans	**6,055,695**	5,578,943
Investment income	**392,629**	279,223
	6,448,324	5,858,166
Cost of funds	**3,472,136**	3,080,337
Financial margin	**2,976,188**	2,777,829
Operating expenses		
Administration	**646,025**	609,095
Member security	**181,722**	168,555
Occupancy	**365,325**	374,120
Organizational	**131,375**	139,405
Personnel	**1,622,551**	1,548,689
Gross operating expenses	**2,946,998**	2,839,864
Other income	**(812,059)**	(823,363)
Net operating expenses	**2,134,939**	2,016,501
Income from operations before provision for loan losses, patronage refund and income taxes	**841,249**	761,328
Provision for loan losses *(Note 6)*	**82,919**	73,849
Income before patronage refund and income taxes	**758,330**	687,479
Patronage refund *(Note 11)*	**40,000**	35,000
Income before provision for income taxes	**718,330**	652,479
Provision for income taxes *(Note 14)*	**99,950**	83,079
Income and comprehensive income for the year	**618,380**	569,400

The accompanying notes are an integral part of these financial statements

Belgian-Alliance Credit Union Ltd.
Statement of Changes in Members' Equity
For the year ended December 31, 2018

	Member shares	Provision for issue of surplus shares	Retained surplus	Total equity
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**
Income and comprehensive income for the year	-	-	618,380	618,380
Patronage refund	-	40,000	-	40,000
Dividends on surplus shares, net of tax savings of $3,626	-	-	(30,904)	(30,904)
Issuance of member shares	72,015	(35,000)	-	37,015
Redemption of member shares	(85,071)	-	-	(85,071)
Balance December 31, 2018	**1,095,921**	**40,000**	**11,419,172**	**12,555,093**

	2018	*2017*
Operating activities		
Interest received from members' loans	**6,039,598**	5,556,278
Interest received from investments	**388,022**	275,151
Other income received	**812,059**	823,363
Income taxes paid	**(97,380)**	(77,745)
Interest paid on borrowed money	**(3,173,154)**	(3,002,480)
Operating expenses paid	**(3,323,374)**	(2,949,727)
	645,771	624,840
Financing activities		
Proceeds of loan payable	**-**	750,000
Repayment of loan payable	**(750,000)**	(2,500,000)
Net change in members' savings and deposits	**15,264,197**	9,375,218
Issuance of member shares	**2,485**	1,945
Redemption of member shares	**(85,071)**	(52,790)
	14,431,611	7,574,373
Investing activities		
Net change in investments	**(5,077,445)**	(781,505)
Net change in members' loans receivable	**(11,143,308)**	(8,604,326)
Purchases of property, equipment and intangible assets	**(249,082)**	(44,805)
Proceeds from disposal of property, equipment and intangible assets	**1,500**	-
	(16,468,335)	(9,430,636)
Decrease in funds on hand and on deposit	**(1,390,953)**	(1,231,423)
Funds on hand and on deposit, beginning of year	**8,241,038**	9,472,461
Funds on hand and on deposit, end of year	**6,850,085**	8,241,038

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).

The Credit Union presents its statement of financial position on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the year end date (current) and more than 12 months after the year end date (non-current). The Credit Union classified its expenses by the nature of expenses method.

These financial statements for the year ended December 31, 2018 were approved by the Board of Directors on March 18, 2019.

2. Change in accounting policies

The Credit Union adopted the following new and/or revised standards, effective January 1, 2018. As indicated, adoption of the following new and/or revised standards, had a material impact on the Credit Union’s financial statements.

IFRS 9 Financial instruments

Effective January 1, 2018 (hereafter referred to as the “initial date of application”), the Credit Union adopted IFRS 9 as issued in July 2014. The requirements of IFRS 9 are substantially different from those of IAS 39 *Financial instruments: recognition and measurement*. The new standard fundamentally alters the classification and measurement of financial assets subsequent to initial recognition, including impairment and incorporates a new hedge accounting model.

The key changes to the Credit Union’s accounting policies resulting from adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 requires financial assets be classified into one of three subsequent measurement categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss ("FVTPL"). Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. IFRS 9 eliminates the following IAS 39 classification categories: available-for-sale, held-to-maturity, and loans and receivables.

Derivatives embedded within host contracts that are financial assets in the scope of IFRS 9 are no longer separated from the host contract. Instead, the whole hybrid contract is assessed for classification in accordance with the above requirements.

The classification and measurement of financial liabilities is largely retained from IAS 39. However, under IAS 39, all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9, the amount of change in fair value attributable to the Credit Union’s own credit risk is generally required to be presented in other comprehensive income.

2. Change in accounting policies *(Continued from previous page)*

Impairment of financial assets

IFRS 9 replaces the methodology under IAS 39 and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* of recognizing impairment losses when incurred with a forward-looking expected credit loss model which requires a more timely recognition of losses expected to occur over the contractual life of the financial asset. IFRS 9 uses a single model for recognizing impairment losses on financial assets. This model also applies to certain loan commitments, financial guarantee contracts, trade receivables and contract assets. Application of the IFRS 9 model results in earlier recognition of impairment losses than under IAS 39. Equity investments are no longer assessed for impairment as all equity investments are measured at fair value.

Transition

In accordance with the transitional provisions provided in IFRS 9, the Credit Union has applied the changes in accounting policies resulting from the adoption of IFRS 9 retrospectively but has elected not to restate comparative figures. All comparative information presented and disclosed for the prior year reflects the requirements of IAS 39. There were no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 as at January 1, 2018. Additional transitional provisions applied are described below.

Classification and measurement

For the purposes of determining the classification of financial assets, the business model test has been applied on the basis of facts and circumstances existing at the date of initial application with the resulting classification applied retrospectively.

Impairment

The credit risk at the date that a financial asset was initially recognized or, for loan commitments and financial guarantee contracts, the date that the entity became a party to the irrevocable commitment, has been determined on the basis of reasonable and supportable information available without undue cost or effort. This has been compared to the credit risk at the date of initial application for the purpose of determining whether there has been a significant increase in credit risk.

Initial application of IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following tables present the measurement categories and carrying amounts under IAS 39 as at December 31, 2017 and the new measurement categories and carrying amounts under IFRS 9 for the Credit Union’s financial assets and financial liabilities as at January 1, 2018.

	Sub-note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets					
Funds on hand and on deposit		FVTPL (mandatory)	FVTPL (mandatory)	**8,241,038**	**8,241,038**
Members' loans receivable	1	Loans and receivables	Amortized cost	**175,001,139**	**175,001,139**
Credit Union Central of Manitoba term deposits	2	Loans and receivables	FVTPL (mandatory)	**7,000,000**	**7,000,000**
Shares in Credit Union Central of Manitoba	3	Available-for-sale	FVTPL (mandatory)	**978,570**	**978,570**
Total financial assets				**191,220,747**	**191,220,747**

2. Change in accounting policies *(Continued from previous page)*

	Sub-note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial liabilities					
Members' savings and deposits		Amortized cost	Amortized cost	**179,091,154**	**179,091,154**
Accounts payable		Amortized cost	Amortized cost	**1,141,922**	**1,141,922**
Total financial liabilities				**180,233,076**	**180,233,076**

Application of the accounting policies adopted on the date of initial application of IFRS 9 resulted in the reclassifications as set out in the table above and explained below:

Sub-note 1 – As a result of the adoption of IFRS 9, members' loans receivable were reclassified out of the loans and receivables category and into the amortized cost category. This reclassification occurred as the members' loans receivable consist solely of payments of principal and interest and the Credit Union has determined that they are held within a business model for which the objective is to hold assets for contractual cash flows.

Sub-note 2 – As a result of the adoption of IFRS 9, Credit Union Central of Manitoba term deposits were reclassified out of the loans and receivables category and into the fair value through profit and loss (mandatory) category. This reclassification occurred as the contractual cash flows of the term deposits do not represent unpaid amounts of principal and interest.

Sub-note 3 – As a result of the adoption of IFRS 9, Shares in Credit Union Central of Manitoba were reclassified out of the available-for-sale category and into the fair value through profit and loss (mandatory) category. This reclassification occurred since the contractual terms of the shares give rise to equity risk.

Any reclassification did not result in any change in measurement of their carrying amounts.

IFRS 15 Revenue from contracts with customers

Effective January 1, 2018 (hereafter referred to as the “initial date of application”), the Credit Union adopted IFRS 15 *Revenue from contracts with customers* as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard 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*.

Transition

In accordance with the transitional provisions provided by IFRS 15, the Credit Union applied the changes in the accounting policies resulting from IFRS 15 retrospectively. The transition to IFRS 15 had no impact on the results of operations for the year ended December 31, 2017.

3. Basis of preparation

Basis of measurement

The financial statements have been prepared on the historic cost basis except for the revaluation of certain financial instruments designated as FVTPL.

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

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. In the future, actual experience may differ from estimates and assumptions.

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.

Allowance for impaired loans – applicable to 2017

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 6.

Key assumptions in determining the allowance for impaired loans collective provision – applicable to 2017

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 to reduce any differences between loss estimates and actual loss experience.

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

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

Key assumptions in determining the allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates and relevant price indices
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to Value ratios

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

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.

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

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.

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

Impairment of financial assets

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets and determining whether there has been a significant increase in credit risk since initial recognition in accordance with IFRS 9 *Financial instruments*. For more information, refer to Note 18.

4. 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 – applicable to 2017

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.

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.

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

Members' loans receivable - applicable to 2017

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.

Allowance for loan impairment - applicable to 2017

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.

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

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.

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.

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

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.

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.

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.

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

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.

Financial instruments - applicable to 2017

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.

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.

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

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.

Financial instruments – applicable to 2018

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

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

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of members' loans receivable.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Credit Union does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of funds on hand and on deposit, term deposits and shares in Credit Union Central of Manitoba.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, the significance and frequency of sales in prior periods.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

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

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For members's loan receivable, the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial assets.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 18 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

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

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Where a derecognized financial asset is a part of a larger financial asset, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized on the basis of their relative fair values.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union’s policies.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset’s original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities measured at amortized cost include members' savings and deposits and accounts payables.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

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

Interest

Interest income and expense are recognized in profit or loss using the effective interest rate method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The "amortized cost" of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Impairment of financial assets - applicable to 2017

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.

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.

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

Standards issued but not yet effective

The Credit Union have not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2018 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 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.

5. Investments

	2018	*2017*
Credit Union Central of Manitoba		
Term and contract deposits	**12,000,000**	7,000,000
Shares	**1,056,015**	978,570
Accrued interest	**9,634**	5,027
	13,065,649	7,983,597
Concentra Financial		
Shares	**290**	290
Total	**13,065,939**	7,983,887

Term and contract deposits consist of deposits earning interest between 2.02% and 2.22% (2017 - 1.18% and 1.30%). The term deposit maturities range from January 8, 2019 to February 26, 2019 (2017 - January 3, 2018 to February 13, 2018).

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. 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 separatley 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.

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, 2018 the Credit Union has a liquidity ratio of 9.71% and therefore has met the liquidity requirement.

6. 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, 2018 range from prime less 4.05% to prime plus 10.00% (2017 - prime less 3.35% to prime plus 10.00%). The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2018 was 4.05% (2017 - 3.35%).

The interest rates on fixed rate loans outstanding as at December 31, 2018 range from 1.84% to 12.90% (2017 - 1.59% 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:

2018

	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Commercial loans	15,525,803	-	-	-	**15,525,803**
Personal loans	15,771,184	180,046	94,841	93,337	**15,763,052**
Residential mortgages	147,096,079	2,163,649	-	-	**149,259,728**
Syndicated loans	5,529,042	-	-	-	**5,529,042**
	183,922,108	2,343,695	94,841	93,337	**186,077,625**

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

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

The allowance for loan impairment changed as follows:

	2018	*2017*
Balance, beginning of year	**198,732**	157,043
Provision for loan losses	**82,919**	73,849
	281,651	230,892
Less: accounts written off, net of recoveries	**93,473**	32,160
Balance, end of year	**188,178**	198,732

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**	**2018**
Commercial loans	-	7,782	-	-	**7,782**
Personal loans	74,620	385,956	23,198	22,543	**506,317**
Residential mortgages	2,724,686	651,165	471,676	97,385	**3,944,912**
Total	2,799,306	1,044,903	494,874	119,928	**4,459,011**

	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

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.

7. Property, equipment and intangible assets

	Land	Buildings	Furniture and equipment	Computer equipment	Security equipment	Signage	Building improvements	Total
Cost								
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
Additions	-	-	104,147	100,620	-	4,339	39,976	249,082
Disposals	-	-	(166,343)	(3,729)	-	-	-	(170,072)
Balance at December 31, 2018	541,267	1,426,758	340,436	552,154	179,548	39,680	260,701	3,340,544
Depreciation and impairment losses								
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
Additions	-	36,075	13,693	24,129	8,329	1,142	3,921	87,289
Disposals	-	-	(166,343)	(2,229)	-	-	-	(168,572)
Balance at December 31, 2018	-	571,853	212,195	403,469	134,722	31,322	210,894	1,564,455
Net book value								
At December 31, 2017	541,267	890,980	37,787	73,694	53,155	5,161	13,752	1,615,796
At December 31, 2018	541,267	854,905	128,241	148,685	44,826	8,358	49,807	1,776,089

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

The gross amount of fully depreciated items still in use is $775,438 (2017 - $920,990). Depreciation of $87,289 is included in occupancy on the statement of comprehensive income.

8. Members' savings and deposits

	2018	*2017*
Chequing	**19,266,845**	18,929,279
Savings	**19,347,177**	19,218,480
Term deposits	**94,571,710**	77,274,282
Registered savings plans	**59,658,116**	62,155,568
Unclaimed and inactive accounts	**19,693**	21,735
Accrued interest	**1,790,792**	1,491,810
Total	**194,654,333**	179,091,154

	2018	*2017*
Balance, beginning of year	**179,091,154**	169,638,079
Net cash increase in members' savings and deposits	**15,264,197**	9,375,218
Non-cash change in accrued interest	**298,982**	77,857
Balance, end of year	**194,654,333**	179,091,154

Total deposits include $588,314 (2017 - $545,193) 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 2.30% (2017 - 1.60%)
- Term deposits are subject to fixed rates of interest ranging from 1.00% to 3.50% (2017 - 1.00% to 3.10%), 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 3.45% (2017 - 0.25% to 3.10%), with interest payments due monthly, annually or on maturity.

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

9. 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, 2018 the balance was $nil (2017 - $750,000, bearing interest at a rate of 1.04% per annum).

10. 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:

	2018	*2017*
Share capital		
4,816 Common shares (2017 - 4,995)	**24,080**	24,975
1,071,841 Surplus shares (2017 - 1,084,002)	**1,071,841**	1,084,002
	1,095,921	1,108,977
Provision for issuance of surplus shares	**40,000**	35,000
Total	**1,135,921**	1,143,977

During the year, the Credit Union issued 497 and redeemed 676 common shares (2017 - 389 issued and 366 redeemed), and also issued 69,530 and redeemed 81,691 surplus shares (2017 - 63,480 issued and 50,960 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.

11. 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 $40,000 (2017 - $35,000). The patronage refund has been reflected in the income statement with the related tax savings of approximately $5,600 (2017 - $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 10).

12. Dividend on surplus shares

The Board of Directors has declared and paid a dividend of 3.35% on the surplus shares held during the year in the amount of $34,530 (2017 - $28,480). The dividend of $34,530 (2017 - $28,480), net of tax savings of $3,626 (2017 - $2,990), has been reflected as a charge to retained surplus.

13. 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% (2017 - 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, 2018 are $75,594 (2017 - $64,041) 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.

14. Income taxes

	2018	2017
Current tax expense		
Current year	**94,950**	80,079
Deferred tax expense		
Relating to the origination and reversal of temporary differences	**5,000**	3,000
Total income tax expense	**99,950**	83,079

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.

	2018	2017
Deferred tax liability		
Property, equipment and intangible assets	**36,000**	26,000
Deferred tax asset		
Allowance for impaired loans	**(16,000)**	(11,000)
Net deferred tax liability	**20,000**	15,000

All movements in deferred tax liabilities during the year ended December 31, 2018 were recognized in income.

Reconciliation between average effective tax rate and the actual tax rate

	2018	2017
Applicable tax rate	**38.00 %**	38.00 %
Federal abatement	**(10.00)%**	(10.00)%
Small business deduction	**(17.50)%**	(17.50)%
Provincial tax rate	**0.33 %**	0.30 %
Other	**3.08 %**	1.93 %
Income tax rate as reported	**13.91 %**	12.73 %

15. 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.

	2018	2017
Salaries, and other short-term employee benefits	**592,830**	614,335
Total pension	**36,093**	33,318
Other long-term benefits	**16,386**	14,604
	645,309	662,257

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.

	2018	2017
Aggregate value of loans advanced	**1,287,589**	1,331,086
Total value of lines of credit advanced	**80,249**	151,420
Unused value of lines of credit	**431,551**	360,380

	2018	2017
During the year the aggregate value of loans disbursed to KMP amounted to:		
Lines of credit	**-**	100,000
Mortgages	**48,150**	31,689
Loans	**20,024**	36,109
	68,174	167,798

	2018	2017
Interest and other revenue earned on loans to KMP	**40,429**	38,258
Interest paid on deposits to KMP	**31,782**	26,656
Patronage refund paid to KMP	**556**	429

	2018	2017
The total value of members' savings and deposits from KMP as at the year-end:		
Chequing and demand deposits	**328,260**	353,754
Term deposits	**700,454**	672,438
Registered plans	**607,371**	583,867
	1,636,085	1,610,059

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

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 1.19% (2017 - 0.77%) of total assets of the Credit Union.

Payments made for honoraria and per diems amount to $24,275 (2017 - $26,075) and meeting, training and conference costs amounts to $10,268 (2017 - $10,881).

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.

Interest and dividends earned on investments during the year ended December 31, 2018 amounted to $392,629 (2017 - $279,223).

Interest and charges paid on borrowings during the year ended December 31, 2018 amounted to $6,439 (2017 - $1,862).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended December 31, 2018 amounted to $121,970 (2017 - $121,180).

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, 2018 represent the net statutory annual assessment in the amount of $149,641 (2017 - $142,260).

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, 2018 for these services totaled $59,454 (2017 - $56,127).

16. 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:

	2018	*2017*
Members' equity not less than 5% of assets	**6.04 %**	6.21 %
Retained surplus not less than 3% of assets	**5.49 %**	5.61 %
Members' equity not less than 8% of the risk weighted value of assets	**17.39 %**	17.37 %

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, 2018, 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:

	2018	*2017*
Members' shares	**1,095,921**	1,108,977
Provision for issue of surplus shares	**40,000**	35,000
Retained surplus	**11,419,172**	10,831,696
Capital	**12,555,093**	11,975,673

17. 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, 2018.

Assets and liabilities measured at fair value

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:

	2018 Fair Value (in 000's)	***Level 1***	***Level 2***	***Level 3***
Financial assets				
Funds on hand and on deposit	**6,850**	**6,850**	**-**	**-**
Shares in Credit Union Central of Manitoba	**1,056**	**-**	**1,056**	**-**
Term and contract deposits	**12,000**	**-**	**12,000**	**-**
Total financial assets	**19,906**	**6,850**	**13,056**	**-**

	2017 Fair Value (in 000's)	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Funds on hand and on deposit	8,241	8,241	-	-
Shares in Credit Union Central of Manitoba	979	-	979	-
Term and contract deposits	7,000	-	7,000	-
Total financial assets	16,220	8,241	7,979	-

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

Non-recurring fair value measurements

The Credit Union's non-recurring fair value measurements have been categorized into the fair value hierarchy as follows:

	2018 Fair Value (in 000's)	***Level 1***	***Level 2***	***Level 3***
Financial assets				
Members' loans receivable	**183,959**	**-**	**183,959**	**-**
Total financial assets	**183,959**	**-**	**183,959**	**-**
Financial liabilities				
Members' savings and deposits	**193,570**	**-**	**193,570**	**-**
Accounts payable	**679**	**-**	**679**	**-**
Total financial liabilities	**194,249**	**-**	**194,249**	**-**

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

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 $3,355,000 and the fair value of liabilities would decrease by approximately $2,058,000. A corresponding decrease of 100 basis points would result in the fair value of assets increasing by approximately $3,843,000 and the fair value of liabilities would increase by approximately $2,148,000.

18. Financial instruments

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, foreign currency 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 financial 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 members' loans receivable.

Risk management process

Credit risk management is integral to the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due state. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements;
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
- Borrowing member capacity (repayment ability) requirements;
- Borrowing member character requirements;
- Limits on aggregate credit exposure per individual and related parties;
- Limits on concentration of credit risk by loan type, industry and economic sector;
- Limits on the types of credit facilities and services offered;
- Internal loan approval processes and loan documentation standards;
- Loan re-negotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes; and
- Loan syndication processes.

18. Financial Instruments *(Continued from previous page)*

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

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers members' loans receivables to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). When a financial instrument is considered to have low credit risk, it is assumed that there has not been a significant increase in credit risk since initial recognition.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for members' loans receivables on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non secured loans). Otherwise, expected credit losses are measured on an individual basis. When measuring 12 month and lifetime expected credit losses, the Credit Union considers items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, probabilities of default and other assumptions and inputs used in calculating the amount of cash shortfalls depending on the type or class of financial instrument. Forward looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12 month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

18. Financial Instruments *(Continued from previous page)*

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The gross carrying amount members' loans receivable and exposure amount of loan commitments and financial guarantee contracts represents the maximum exposure to credit risk for that class of financial asset.

		2018		
	12-month ECL	***Lifetime ECL (not credit impaired)***	***Lifetime ECL (credit impaired)***	***Total***
Members' loans receivable	**181,733,493**	**2,887,926**	**1,644,384**	**186,265,803**
Loan commitments	**9,905,175**	**-**	**-**	**9,905,175**
Total gross carrying amount	**191,638,668**	**2,887,926**	**1,644,384**	**196,170,978**
Less: loss allowance	**85,905**	**7,432**	**94,841**	**188,178**
Total carrying amount	**191,552,763**	**2,880,494**	**1,549,543**	**195,982,800**

		2017		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Members' loans receivables	173,108,908	1,257,475	833,488	175,199,871
Loan commitments	10,200,053	-	-	10,200,053
Total gross carrying amount	183,308,961	1,257,475	833,488	185,399,924
Less: loss allowance	63,008	2,263	133,461	198,732
Total carrying amount	183,245,953	1,255,212	700,027	185,201,192

Financial assets designated as measured at fair value through profit or loss

The Credit Union has designated investments as measured at fair value through profit or loss. As at December 31, 2018, the Credit Union's maximum exposure to credit risk arising from this financial asset is $13,065,939 (2017 – $7,983,887).

Concentrations of credit risk

Concentration of credit risk exists if a number of borrowers are exposed to similar economic risks by being engaged in similar economic activities or being 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, Manitoba and surrounding areas.

18. Financial Instruments *(Continued from previous page)*

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Members' loans receivable				
Balance at January 1, 2018	63,008	2,263	133,461	198,732
Transfer to 12-month ECL	22,897	5,169	(38,620)	(10,554)
Balance at December 31, 2018	85,905	7,432	94,841	188,178

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 19 for additional information on the asset liability matching policy.

18. Financial Instruments *(Continued from previous page)*

The following table illustrates the contractual repricing and maturity of all financial instruments:

in '000s	*Variable rate*	*Within one year*	*One to five years*	*Greater than 5 years*	*Non-interest sensitive*	*Total 2018*	*Total 2017*
Assets							
Funds on hand and on deposit	5,881	-	-	-	969	6,850	8,241
effective interest rate	*1.64 %*	-	-	-	-	*1.42 %*	*0.65 %*
Investments	-	12,000	-		1,066	13,066	7,984
effective interest rate	-	*2.15 %*	-	-	-	*1.97 %*	*1.09 %*
Members' loans receivable	27,963	28,104	128,317	1,428	266	186,078	175,001
effective interest rate	*5.03 %*	*3.18 %*	*3.22 %*	*4.00 %*	-	*3.49 %*	*3.07 %*
	33,844	**40,104**	**128,317**	**1,428**	**2,301**	**205,994**	**191,226**
Liabilities							
Members' savings and deposits	25,175	74,901	74,915	1,118	18,545	194,654	179,091
effective interest rate	*0.56 %*	*2.25 %*	*2.65 %*	*2.61 %*	-	*1.97 %*	*1.67 %*
Accounts payable	-	-	-	-	679	679	1,142
Loan Payable	-	-	-	-	-	-	750
effective interest rate	-	-	-	-	-	-	*1.04 %*
	25,175	**74,901**	**74,915**	**1,118**	**19,224**	**195,333**	**180,983**

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: $138,000 increase in financial margin

1% decrease in rates: $134,000 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.

18. Financial Instruments *(Continued from previous page)*

For the years-ended 2018 and 2017, 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 cash flows;
- 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.

19. 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.

19. 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*	*%*	*2018 Differential*	*2017 Differential*
Interest sensitive:						
Variable	**33,844,513**	**3.09**	25,175,018	0.56	8,571,457	8,315,235
Less than 12 months	**40,103,997**	**2.68**	74,900,985	2.25	(34,796,988)	(28,246,934)
1 year	**38,133,302**	**3.15**	36,132,607	2.54	2,000,695	(12,076,140)
2 years	**33,288,937**	**3.11**	18,904,569	2.54	14,384,368	18,915,044
3 years	**28,942,541**	**3.01**	12,733,885	2.77	16,208,656	20,480,910
4 years	**27,952,280**	**3.63**	7,144,250	3.21	20,808,030	18,887,412
Over 5 years	**1,428,362**	**4.00**	1,117,586	2.61	310,776	50,306
Non interest rate sensitive	**4,229,117**	**-**	31,814,149	-	(27,486,994)	(26,325,833)
	207,923,049		207,923,049		-	-

20. Commitments and guarantees

Loans

The Credit Union has authorized $19,798,456 (2017 - $19,401,967) in line of credit loans, of which $9,905,175 (2017 - $10,200,053) has not been advanced as of year end. In addition, $5,605,776 (2017 - $9,097,979) 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	$ 59,439
Later than one year but not later than five years	$ 67,061
Later than five years	$ nil