Swan Valley Credit Union Limited
Consolidated Financial Statements
For the year ended December 31, 2017

Management's Responsibility

To the Members of Swan Valley Credit Union Limited:

Management is responsible for the preparation and presentation of the accompanying consolidated 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 consolidated 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 consolidated 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 the consolidated financial statements.

The Board of Directors is composed entirely 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 Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external accountants. The Board is also responsible for recommending the appointment of the Credit Union's external auditor.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the consolidated 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 Board and management to discuss their audit findings.

March 28, 2018

Signed "Carrie Kruk-Lylyk"

Chief Financial Officer

Signed "Don Pratt"

Chief Executive Officer

Independent Auditors' Report

To the Members of Swan Valley Credit Union Limited:

We have audited the accompanying consolidated financial statements of Swan Valley Credit Union Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Swan Valley Credit Union Limited and its subsidiaries as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Brandon, Manitoba

March 28, 2018

MNP LLP
Chartered Professional Accountants

Swan Valley Credit Union Limited
Consolidated Statement of Financial Position
As at December 31, 2017

	2017	*2016*
Assets		
Cash and cash equivalents	**3,674,341**	6,084,633
Accounts receivable	**593,783**	486,590
Investments and accrued interest *(Note 5)*	**75,573,418**	74,387,022
Members' loans receivable and accrued interest *(Note 6)*	**183,240,424**	176,110,895
Income taxes recoverable	**-**	4,675
Prepaid and other assets	**162,583**	175,613
Property and equipment *(Note 7)*	**7,388,126**	7,689,652
Goodwill *(Note 8)*	**1,975,595**	2,023,472
	272,608,270	266,962,552
Liabilities		
Member deposits and accrued interest *(Note 10)*	**253,290,905**	248,680,667
Income taxes payable	**92,720**	-
Accounts payable	**1,261,758**	1,406,790
Deferred tax *(Note 11)*	**99,000**	84,000
	254,744,383	250,171,457
Members' equity		
Member shares *(Note 12)*	**3,699,806**	3,926,595
Retained earnings	**14,164,081**	12,864,500
	17,863,887	16,791,095
	272,608,270	266,962,552

Approved on behalf of the Board

Signed "Brian Cotton"
Director

Signed "Ferlin Abrahamson"
Director

The accompanying notes are an integral part of these financial statements

Swan Valley Credit Union Limited
Consolidated Income Statement
For the year ended December 31, 2017

	2017	*2016*
Interest income		
Member loans	**6,745,206**	7,051,339
Investments	**1,698,479**	1,436,924
	8,443,685	8,488,263
Interest expense		
Member deposits	**2,813,267**	3,134,498
Borrowing	**3,579**	-
	2,816,846	3,134,498
Gross financial margin	**5,626,839**	5,353,765
Operating expenses		
Administration	**1,460,367**	1,467,663
Amortization and impairment	**462,916**	491,078
Member security	**232,085**	228,388
Occupancy	**398,173**	380,501
Organizational	**215,370**	214,997
Personnel	**3,403,381**	3,447,948
	6,172,292	6,230,575
Net operating expenses	**(545,453)**	(876,810)
Other income	**2,306,665**	2,261,299
Income before provision for impaired loans and property held for resale and income taxes	**1,761,212**	1,384,489
Provision for		
Impaired loans *(Note 6)*	**151,505**	165,030
Property held for resale	**-**	206,775
	151,505	371,805
Income before income taxes	**1,609,707**	1,012,684
Provision for income taxes *(Note 11)*		
Current	**293,664**	198,842
Deferred	**15,000**	-
	308,664	198,842
Net income	**1,301,043**	813,842

The accompanying notes are an integral part of these financial statements

Swan Valley Credit Union Limited
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2017

	Member shares	*Retained earnings*	*Total equity*
Balance December 31, 2015	**3,990,447**	**12,052,120**	**16,042,567**
Net income	**-**	**813,842**	**813,842**
Issuance of member shares	**1,000**	**-**	**1,000**
Redemption member shares	**(64,852)**	**-**	**(64,852)**
Dividend on preference shares, net of tax recovery	**-**	**(1,462)**	**(1,462)**
Balance December 31, 2016	**3,926,595**	**12,864,500**	**16,791,095**
Net income	**-**	**1,301,043**	**1,301,043**
Issuance of member shares	**1,050**	**-**	**1,050**
Redemption of member shares	**(227,839)**	**-**	**(227,839)**
Dividend on preference shares, net of tax recovery	**-**	**(1,462)**	**(1,462)**
Balance December 31, 2017	**3,699,806**	**14,164,081**	**17,863,887**

The accompanying notes are an integral part of these financial statements

Swan Valley Credit Union Limited
Consolidated Statement of Cash Flows
For the year ended December 31, 2017

	2017	*2016*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**6,764,374**	7,088,648
Interest and dividends received from investments	**1,725,754**	1,403,852
Interest paid on deposits	**(2,972,286)**	(3,266,965)
Cash paid to suppliers and employees	**(5,842,840)**	(5,715,954)
Service charges and other income received	**2,199,472**	2,484,788
Interest paid on borrowed money	**(3,579)**	-
Income taxes paid	**(196,269)**	(257,361)
	1,674,626	1,737,008
Financing activities		
Net change in member deposits	**4,769,257**	5,836,152
Issuance of member shares	**1,050**	1,000
Redemption of member shares	**(227,839)**	(64,852)
	4,542,468	5,772,300
Investing activities		
Net change in members' loans receivable	**(7,300,202)**	2,372,392
Purchases of investments	**(1,213,671)**	(19,286,091)
Purchases of property and equipment	**(113,513)**	(54,835)
Proceeds on disposal of property held for resale	**-**	785,000
	(8,627,386)	(16,183,534)
Decrease in cash and cash equivalents	**(2,410,292)**	(8,674,226)
Cash and cash equivalents, beginning of year	**6,084,633**	14,758,859
Cash and cash equivalents, end of year	**3,674,341**	6,084,633

1. Reporting entity information

Swan Valley Credit Union Limited (the “Credit Union”) was formed pursuant to the Credit Unions and Caisses Populaires Act of Manitoba. The Credit Union serves members in Swan River and the surrounding communities.

The consolidated financial statements of the Credit Union, as at and for the year ended December 31, 2017 comprises the Credit Union and its wholly owned subsidiaries, Swan Valley Insurance Group Ltd and 101263219 Saskatchewan Ltd. Together, these entities are referred to as Swan Valley Credit Union Limited. The address of the Credit Union’s registered office is 913 Main Street East, Swan River, Manitoba Canada.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments at fair value through profit and loss and available for sale.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Credit Unions functional currency.

2. Statement of compliance

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

These consolidated financial statements for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors on February 27, 2018.

3. Significant accounting policies

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Credit Union and its subsidiaries Swan Valley Insurance Group Ltd. and 101263219 Saskatchewan Ltd. Asset and liability balances, unrealized gains and losses or income and expenses arising from inter-company transactions, are eliminated upon consolidation.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and demand deposits. Other investments (term deposits and certificates of deposit) purchased with a maturity date of three months or less are also reported as cash and equivalents.

3. Significant accounting policies *(Continued from previous page)*

Investments

Central term deposits and shares

Credit Union Central of Manitoba term deposits are accounted for as loans and receivables at amortized cost, adjusted to recognize impairment in the underlying value. Credit Union Central of Manitoba shares are classified as available for sale and initially recorded at fair value. As the shares are not traded on in a quoted market, fair value is consequentially estimated to equal cost.

Portfolio investments

Investments, including Concentra Financial debentures and others shares and investments, are valued initially at fair value, adjusted to recognize impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Investments in equity investments that do not have a quoted market price in an active market in which case fair value has been estimated at cost.

Members' loans receivable

Loans are initially recognized at their fair value and subsequently measured at amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest. Interest revenue is recorded on the accrual basis using the effective interest method. Loan administration fees are amortized over the term of the loan using the effective interest 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.

Impairment of financial assets

For financial assets carried at amortized cost, the Credit Union first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed loan, it then 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 the Income Statement.

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. Impaired financial assets become a credit loss when in arrears in excess of 90 days.

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.

For the purpose of the collective evaluation of loan impairment, financial assets are grouped on the basis of the Credit Union's internal system that considers credit risk, characteristics such as asset type, industry, geographical location, collateral, delinquency status and other relevant economic factors.

Future cash flows on the group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical credit loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical credit loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year such as changes in unemployment rates, inflation, borrowing rates, consumer fuel prices, vehicle auction values or other factors that are indicative of incurred losses in the group and their magnitude.

3. Significant accounting policies *(Continued from previous page)*

Property and equipment

Property and equipment are stated at cost less accumulated amortization and impairment losses. 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.

Amortization is provided using the following methods and rates intended to amortize the cost of the assets over their estimated useful lives:

	Method	***Rate***
Buildings	straight-line	2.5-6.67 %
Computer software	straight-line	10-50 %
Furniture and fixtures	straight-line	20-33 %
Parking lot	straight-line	8 %
Security equipment	straight-line	5-33 %

The useful lives of items of property and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the income statement as other operating income or other operating costs, respectively.

Investment Property

Investment property held by the Credit Union consists of foreclosed assets held for sale and other buildings. Investment property is initially recognized at cost, including transaction costs. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the asset. Subsequent to initial recognition, these assets are stated at fair value at each reporting date, with any gain or loss from a change in the fair value recognized in profit or loss in the period.

Goodwill and intangible assets

Goodwill

Amortization on limited life intangible assets is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in business combination. Goodwill is not amortized but is checked for impairment on an annual basis or more frequently if indicators of impairment are identified; other intangible assets are amortized from the date they are available for use.

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.

The amount recoverable 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 profit or loss.

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 profit or loss.

3. Significant accounting policies *(Continued from previous page)*

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Credit Union's CGU's expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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.

Member deposits

Member deposits are initially recognized at fair value net of transaction costs directly attributable to other issuance and are subsequently measured at amortized cost using the effective interest method.

Member 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 subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

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. The following specific recognition criteria must also be met before revenue is recognized:

Interest income is recognized on the income statement 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.

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

Loan fees are amortized over the term of the instrument using the effective interest rate method.

Loan syndication fees are included in other income on completion of the syndication arrangement. Incremental direct costs originating or acquiring a loan are netted against origination fees.

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

Income taxes

Current tax and deferred tax are recognized in profit or loss 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.

3. Significant accounting policies *(Continued from previous page)*

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

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

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the year end date. Translation gains and losses are recognized in profit or loss for the current period.

Financial instruments

All financial instruments are initially recognized on the statement of financial position at fair value. 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. During the year, there has been no reclassification of financial instruments.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net income. The Credit Union's financial instruments classified as fair value through profit or loss include cash and cash equivalents.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Credit Union's shares in Credit Union Central of Manitoba have been classified as available for sale.

The financial assets classified as loans and receivables are initially measured at fair value, then subsequently carried at amortized cost. The Credit Union's financial instruments classified as loans and receivables include all member loans receivable, accounts receivable, Credit Union Central of Manitoba term deposits and accrued interest.

Financial instruments classified as other financial liabilities include member deposits and accrued interest and accounts payable. Other financial liabilities are initially measured at fair value, then subsequently carried at amortized cost.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from change in fair value are recognized in profit upon derecognition or impairment.

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.

3. Significant accounting policies *(Continued from previous page)*

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 the income statement.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income (loss) is the total net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with International Financial Reporting Standards, require recognition, but are excluded from net income (loss). The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

Standards issued but not yet effective

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

IFRS 9 Financial instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Credit Union has determined the impact of the standard on its consolidated financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and SIC 31 *Revenue – barter transactions involving advertising services.*

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

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Credit Union is currently assessing the impact of this standard on its consolidated financial statements.

IFRS 16 Leases

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

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

4. Significant accounting judgements, estimates and assumptions

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.

Allowance for impaired loans

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

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

Member 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.

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. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income taxes

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

5. Investments and accrued interest

	2017	2016
Central term deposits and shares		
Term deposits	**29,000,000**	44,000,000
Shares	**3,030,700**	2,756,635
Other investments		
Mortgage pools	**40,785,846**	24,860,232
Concentra Financial shares and term deposits	**2,634,830**	2,620,838
Accrued interest	**122,042**	149,317
	75,573,418	74,387,022

Term deposits consist of twenty-three term deposits earning interest at rates between 1.31% and 2.35% (2016 - 0.76% and 2.35%), maturing from January, 2018 to March, 2023.

Mortgage pools consist of ten mortgage pools earning interest at rates between 2.10% and 2.60% (2.00% and 2.50%), maturing from September, 2018 to August, 2022.

Pursuant to Regulations, the Credit Union is required to maintain 8% of its member deposits in specified liquidity deposits. As of December 31, 2017 the Credit Union met this requirement with liquidity of 11.98% (2016 - 18.73%).

6. Members' loans receivable and accrued interest

Principal and allowance by loan type:

2017

	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Personal and other	14,469,600	44,124	59,646	21,598	**14,432,480**
Real estate secured	134,841,324	656,304	35,852	18,443	**135,443,333**
Commercial	11,767,021	249,491	128	174,480	**11,841,904**
Agricultural	21,310,567	229,985	1,664	16,181	**21,522,707**
	182,388,512	1,179,904	97,290	230,702	**183,240,424**
Total allowance	-	-	-	**327,992**	-

2016

	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Personal and other	14,236,343	168,132	45,994	52,552	**14,305,929**
Real estate secured	127,816,146	163,546	76,790	37,192	**127,865,710**
Commercial	18,382,814	83,544	101,740	182	**18,364,436**
Agricultural	15,480,417	105,447	9,152	1,892	**15,574,820**
	175,915,720	520,669	233,676	91,818	**176,110,895**
Total allowance	-	-	-	325,494	-

6. Members' loans receivable and accrued interest *(continued from previous page)*

Loan allowance details

	2017	*2016*
Balance, beginning of year	**325,494**	204,268
Provision for impaired loans	**151,505**	165,030
	476,999	369,298
Less: accounts written off	**149,007**	43,804
Balance, end of year	**327,992**	325,494

Loans past due but not impaired

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

	1-30 days	**31-60 days**	**61-90 days**	**91 days and greater**	**Total**
Personal and other	166,221	-	-	-	**166,221**
Real estate secured	526,264	226,896	-	-	**753,160**
Commercial	85,882	-	-	-	**85,882**
Agricultural	110,499	212,376	-	-	**322,875**
Total	888,866	439,272	-	-	**1,328,138**

	1-30 days	31-60 days	61-90 days	91 days and greater	Total
Personal and other	205,283	15,215	-	-	220,498
Real estate secured	865,312	-	198,559	-	1,063,871
Commercial	-	-	97,440	-	97,440
Agricultural	9,783	20,227	246,173	-	276,183
Total	1,080,378	35,442	542,172	-	1,657,992

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 and equipment

	Land	*Buildings*	*Computer software*	*Furniture and fixtures*	*Parking lot*	*Security equipment*	*Total*
Cost							
Balance at December 31, 2015	226,588	9,505,118	517,493	1,682,297	166,788	158,027	12,256,311
Additions	-	-	7,705	45,310	-	1,820	54,835
Disposals	-	-	-	(206,008)	-	(7,116)	(213,124)
Balance at December 31, 2016	226,588	9,505,118	525,198	1,521,599	166,788	152,731	12,098,022
Additions	-	-	433	107,588	-	5,492	113,513
Disposals	-	-	-	(132,112)	-	-	(132,112)
Balance at December 31, 2017	**226,588**	**9,505,118**	**525,631**	**1,497,075**	**166,788**	**158,223**	**12,079,423**
Amortization							
Balance at December 31, 2015	-	2,105,608	341,823	1,510,129	103,747	149,756	4,211,063
Additions	-	270,514	51,471	69,835	13,344	4,249	409,413
Disposals	-	-	-	(204,990)	-	(7,116)	(212,106)
Balance at December 31, 2016	-	2,376,122	393,294	1,374,974	117,091	146,889	4,408,370
Additions	-	269,853	48,915	78,364	13,344	4,563	415,039
Disposals	-	-	-	(132,112)	-	-	(132,112)
Balance at December 31, 2017	**-**	**2,645,975**	**442,209**	**1,321,226**	**130,435**	**151,452**	**4,691,297**
Net book value							
At December 31, 2016	226,588	7,128,996	131,904	146,625	49,697	5,842	7,689,652
At December 31, 2017	**226,588**	**6,859,143**	**83,422**	**175,849**	**36,353**	**6,771**	**7,388,126**

8. Goodwill

	2017	*2016*
Goodwill, cost	**2,304,474**	2,304,474
Impairment losses	**(328,879)**	(281,002)
	1,975,595	2,023,472

During the year, impairment of $47,877 (2016 - $81,665) was recognized through the consolidated income statement.

9. Line of credit

The Credit Union has an approved borrowing limit of 10% of member deposits held with Credit Union Central of Manitoba. Borrowings are secured by an assignment, hypothecation, charge and pledge of all book debts and accounts to Credit Union Central and bear an annual interest rate based on the Chartered Banks overnight funds rate, with no fixed repayment dates.

10. Member deposits and accrued interest

	2017	2016
Chequing	**79,193,467**	75,120,768
Savings	**49,036,072**	44,715,318
Registered plans	**42,673,460**	44,003,873
Tax free savings	**15,079,337**	13,700,737
Term deposits	**66,081,343**	69,753,726
Accrued interest	**1,227,226**	1,386,245
	253,290,905	248,680,667

Member deposits are subject to the following terms:

Chequing products and foreign currency deposits are due on demand and bear interest at rates up to 1.50% (2016 - 1.50%).

Registered plans are subject to fixed and variable rates of interest ranging from 0.40% to 2.55% (2016 - 0.40% to 2.15%) with interest payments due monthly, annually or on maturity.

Term deposits are subject to fixed and variable rates of interest ranging from 0.40% to 2.55% (2016 - 0.40% to 2.15%) with interest payments due monthly, annually, or on maturity.

11. Income tax

The tax effects of temporary differences which give rise to the deferred tax liability reported in the statement of financial position is from differences between accounts deducted for accounting and income tax purposes for property and equipment and the allowance for impaired loans, and goodwill.

Net deferred income tax liabilities are comprised of the following:

	2017	2016
Deferred tax asset		
Allowance for impaired loans	**18,000**	11,000
Deferred tax liability		
Property and equipment	**(19,000)**	(47,000)
Goodwill	**(98,000)**	(48,000)
Net balance	**(99,000)**	(84,000)

11. Income tax *(Continued from previous page)*

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

	2017	2016
Combined federal and provincial statutory income tax rates	**27.00 %**	27.00 %
Reduction for Credit Unions	**(17.00)%**	(17.00)%
Non-deductible and other items	**9.18 %**	9.55 %
Income tax as reported	**19.18 %**	19.55 %

12. Member shares

Authorized:

Common shares: Authorized common share capital consists on an unlimited number of common shares with an issue price of $25 per share and redeemable in the amount of consideration received for the share.

Preference shares: Authorized Class A non-cumulative preference share capital consists of 1,000,000 preference shares with an issue price per share of $10 with an aggregate consideration which shall not exceed $10,000,000 and redeemable in the amount of consideration received for the share. Dividends are payable at the discretion of the Board of Directors

Surplus shares: Authorized surplus share capital consists of an unlimited number of surplus shares, with an issue price per share of $1 and redeemable at $1 per share.

Issued:

	2017	2016
7,390 Common shares (2016 - 7,458)	**184,750**	186,450
4,300 Preference shares (2016 - 4,300)	**43,000**	43,000
3,472,056 Surplus shares (2016 - 3,697,145)	**3,472,056**	3,697,145
Total	**3,699,806**	3,926,595

During the year, the Credit Union issued 42 (2016 - 40) and redeemed 110 (2016 - 342) common shares, issued NIL (2016 - NIL) and redeemed 225,089 (2016 - 56,302) surplus shares, and issued NIL (2016 - NIL) and redeemed NIL (2016 - NIL) Class A preference shares.

13. Dividend

During the year, the Board of Directors declared a dividend on preference shares in the amount of $1,720 (2016 - $1,720). The amount net of tax savings of $258 (2016 - $258), has been reflected as a charge to retained earnings.

14. Related party transactions

Key management personnel (“KMP”) consists of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Chief Lending Officer and Directors.

Loans made to KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures below.

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.

Aggregate compensation of KMP during the year consisted of:

	2017	*2016*
Salary and short term benefits	**715,199**	661,535
Long term benefits	**23,794**	46,419
Post employment benefits	**46,593**	25,169
	785,586	733,123

The total value of loans outstanding to KMP at year end amount to:

	2017	*2016*
Aggregate of loans	**2,738,031**	3,194,478
The total value of revolving credit facilities	**552,700**	539,500
	3,290,731	3,733,978

During the year the aggregate value of loans disbursed to KMP amounted to:

	2017	*2016*
Lines of Credit	**12,500**	150,000
Mortgages	**692,086**	643,595
Loans	**904,903**	955,902
	1,609,489	1,749,497

During the year the interest earned on loans and interest paid on deposits for KMP amounted to:

	2017	*2016*
Interest and other revenue earned on loans	**93,221**	90,237
Interest paid on deposits	**9,871**	9,523

The total value of member deposits from KMP as at year end amounted to:

	2017	*2016*
Chequing and demand deposits	**390,129**	357,177
Term deposits	**165,301**	156,394
Registered plans	**334,827**	368,154
	890,257	881,725

14. Related party transaction *(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.

Payments made for honoraria and per diems paid to directors amounted to $39,440 (2016 - $39,069), reimbursement of expenses amounted to $17,548 (2016 - $14,412) and meeting, training and conference costs amounted to $12,902 (2016 - $11,176) for the year ended.

Loans to directors and staff as at year end amounted to 3.01% (2016 - 2.80%) of total assets of the Credit Union.

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 from, and makes loans 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. All transactions with Credit Union Central of Manitoba are recorded at the exchange amount, which is the amount agreed to by the two parties.

Interest earned on investments during the year ended amounted to $877,344 (2016 - $801,503). Dividends earned on investments amount to $66,430 (2016 - $71,484).

Interest and charges paid on borrowings during the year ended amounted to $3,579 (2016 - NIL).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended amounted to $196,387 (2016 - $204,905).

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (DGCM) is a deposit insurance corporation which guarantees the deposits of all members of Manitoba Credit Unions and Caisse Populaires.

The payments made to DGCM during the year represent the net statutory annual assessment in the amount of $202,234 (2016 - $196,896).

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the maintenance of the infrastructure needed to ensure uninterrupted delivery of such banking 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.

15. Director and officer indemnification

The Credit Union indemnified 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.

16. Capital management

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

The Act prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by The Act have been based on the Basel II framework, consistent with the financial industry in general. The Act also requires a risk-weighted asset calculation for credit and operational risk.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by the Act. Regulatory standards require Credit Unions to maintain a minimum total eligible capital to risk-weighted assets of 8%.

16. Capital Management *(Continued from previous page)*

Capital Disclosures requires the Credit Union to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

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;
• To comply at all times with the capital requirements set out in the Act.

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

• Total capital as a percent of total assets;
• 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 and by the Deposit Guarantee Corporation of Manitoba. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

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

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

Capital management is the process whereby the level of capital is determined to support operations, risks and growth. The Credit Union uses various management processes to manage capital risk. A capital management framework is included in policies and procedures established by the Board of Directors. In addition, the Act establishes standards to which the Credit Union must comply.

The primary capital policies and procedures include the following:

- Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk);
- Co-ordinate strategic risk management and capital management;
- Develop financial performance targets/budgets/goals;
- Administer a patronage program that is consistent with capital requirements;
- Administer an employee incentive program that is consistent with capital requirements;
- Develop a planned growth strategy that is coordinated with capital growth;
- Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors.

16. Capital Management *(Continued from previous page)*

During the year, the Credit Union complied with all internal and external capital requirements.The following table summarizes key capital information:

	2017	*2016*
Member shares	**3,699,806**	3,926,595
Retained earnings	**14,164,081**	12,864,500
Total eligible capital	**17,863,887**	16,791,095

Equity not less than 5% of assets, as calculated in accordance with the Act	**6.55 %**	6.29 %
Retained earnings not less than 3% of assets	**5.20 %**	4.82 %
Capital not less than 8% of risk-weighted value of assets	**10.89 %**	11.53 %

17. Financial instrument and risk management

Risk management policy

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

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

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

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

Various Board of Director committees are involved in financial instrument risk management oversight, including the Audit Committee and Finance Committee. The risk policies, procedures and objectives have not changed materially from the prior year.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members' loans receivable. Management and the Board of Directors review and update the credit risk policy annually. The Credit Union's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position. See note 6 for further information.

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

Credit risk management

The Credit Union uses a risk management process for its credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

17. Financial Instruments and risk management *(Continued from previous page)*

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; and
- 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 and borrowing member character requirements;
- Limits on aggregate credit exposure per individual and/or related parties;
- Limits on concentration to credit risk by loan type, industry and economic sector;
- Internal loan approval processes and loan documentation standards;
- Loan re-negotiation, extension and renewal processes and loan syndication 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, assess and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes.

Credit commitments

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

The Credit Union makes the following instruments available to its members:

(a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

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

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2017	*2016*
Unadvanced lines of credit	**44,218,855**	46,845,870
Guarantees and standby letters of credit	**235,000**	235,000
Commitments to extend credit	**3,756,136**	1,726,949

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its members' loans, term deposits and investments held. The Credit Union does not hedge its fair value risk.

17. Financial Instruments and risk management *(Continued from previous page)*

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

Contractual repricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual re-pricing date or maturity date. Management's expectations of future events or the impact of repayments that may occur prior to maturity are not factored into the interest rate re-pricing information provided.

Interest rate sensitive	Assets	Average yield %	Liabilities	Average costs %	2017 Differential	2016 Differential
Variable to 1 year	82,448,695	4.06 %	(55,848,498)	0.45 %	**26,600,197**	39,554,687
1 to 2 years	58,641,219	3.12 %	(46,002,932)	1.97 %	**12,638,287**	5,453,765
2 to 3 years	34,706,627	3.12 %	(9,330,672)	2.33 %	**25,375,955**	32,312,277
3 to 4 years	45,203,962	2.85 %	(6,306,837)	2.22 %	**38,897,125**	15,382,483
Over 4 years	42,112,308	2.96 %	(6,345,198)	2.13 %	**35,767,110**	37,891,225
Non-interest sensitive	9,495,459	- %	(148,774,133)	- %	**(139,278,674)**	(130,594,437)
	272,608,270		**(272,608,270)**		**-**	-

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase the financial margin by $174,000 (2016 - $367,000). A 1.0% decrease in the interest rate would decrease the financial margin by $198,000 (2016 - $309,000).

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 17 for further information about the Credit Union's regulatory requirement.

17. Financial Instruments and risk management *(Continued from previous page)*

The following table details the contractual maturities of financial instruments:

Financial assets	**Less than 1 year**	**1 to 2 years**	**After 2 years**	**Total**
Cash and cash equivalents	**3,674,341**	**-**	**-**	**3,674,341**
Investments and accrued interest	**13,228,550**	**7,553,800**	**54,791,068**	**75,573,418**
Members' loans receivable	**82,254,811**	**33,753,788**	**67,231,825**	**183,240,424**
Accounts receivable	**593,783**	-	-	**593,783**
Total	**99,751,485**	**41,307,588**	**122,022,893**	**263,081,966**

Financial liabilities	**Less than 1 year**	**1 to 2 years**	**After 2 years**	**Total**
Member deposits	**211,673,202**	**19,634,996**	**21,982,707**	**253,290,905**
Accounts payable	**1,261,758**	-	-	**1,261,758**
Total	**212,934,960**	**19,634,996**	**21,982,707**	**254,552,663**

Fair value of financial instruments

The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current market. However, many of the financial instruments lack an available trading market and therefore fair values are based on estimates. Fair values have not been determined for property and equipment or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, accounts receivable and accounts payable are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

Methods and assumptions:

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

a) the stated value for cash, accounts receivable and accounts payable approximate their fair value due to their short-term nature or are carried at fair value.
b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.
c) variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.
e) fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

17. Financial Instruments and risk management *(Continued from previous page)*

Estimated fair values of financial instruments are summarized as follows:

	Fair value	**Book value**	**2017 Fair value over (under) book value**	Fair value	Book value	2016 Fair value over (under) book value
Financial assets						
Cash and equivalents	**3,674,341**	**3,674,341**	**-**	6,084,633	6,084,633	-
Investments	**75,351,112**	**75,573,418**	**(222,306)**	74,497,823	74,387,022	110,801
Members' loans receivable and accrued interest	**181,606,584**	**183,240,424**	**(1,633,840)**	175,201,846	176,110,895	(909,049)
Accounts receivable	**593,783**	**593,783**	-	486,590	486,590	-
	261,225,820	**263,081,966**	**(1,856,146)**	256,270,892	257,069,140	(798,248)
Financial liabilities						
Member deposits	**253,177,943**	**253,290,905**	**(112,962)**	249,191,849	248,680,667	511,182
Accounts payable	**1,261,758**	**1,261,758**	**-**	1,406,790	1,406,790	-
	254,439,701	**254,552,663**	**(112,962)**	250,598,639	250,087,457	511,182

Fair value measurements

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

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities. Assets measured at fair value and classified as level 1 include cash and cash equivalents.
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly. Members loans receivable, accounts receivable, members deposits and accounts payable are disclosed at fair value based on a level 2 classification.
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions. There are no assets measured at fair value classified at level 3.
  Fair value measurements are classified in the fair value hierarchy base on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

18. Pension plan

The Credit Union has a defined contribution pension plan for full-time employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at rates ranging from 6% of the employee salary. The expense and payments for the year ended December 31, 2017 were $147,129 (2016 - $149,108). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.