Swan Valley Credit Union Limited

Consolidated Financial Statements

For the year ended December 31, 2018

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 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 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 fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board 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 shareholders 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.

February 26, 2019

Signed "Carrie Kruk-Lylyk"

Chief Financial Officer

Chief Executive Officer

Independent Auditor's Report

To the Members of Swan Valley Credit Union Limited:

Opinion

We have audited the financial statements of Swan Valley Credit Union Limited (the "Credit Union"), which comprise the statement of financial position as at December 31, 2018, and the 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.

In our opinion, the 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 Consolidated 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 for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 Consolidated 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Brandon, Manitoba

MNP LLP

February 26, 2019

Chartered Professional Accountants

Swan Valley Credit Union Limited
Consolidated Statement of Financial Position
As at December 31, 2018

	2018	2017
Assets		
Cash and cash equivalents	**6,343,420**	3,674,341
Accounts receivable	**1,126,312**	593,783
Investments and accrued interest *(Note 6)*	**65,557,680**	75,573,418
Members' loans receivable and accrued interest *(Note 7)*	**199,207,732**	183,240,424
Prepaid and other assets	**186,299**	162,583
Property and equipment *(Note 8)*	**7,111,225**	7,388,126
Goodwill *(Note 9)*	**1,975,595**	1,975,595
	281,508,263	272,608,270
Liabilities		
Member deposits and accrued interest *(Note 11)*	**260,935,319**	253,290,905
Income taxes payable	**15,196**	92,720
Accounts payable	**1,581,748**	1,261,758
Deferred tax *(Note 12)*	**99,000**	99,000
	262,631,263	254,744,383
Members' equity		
Member shares *(Note 13)*	**3,387,723**	3,699,806
Retained earnings	**15,489,277**	14,164,081
	18,877,000	17,863,887
	281,508,263	272,608,270

Approved on behalf of the Board

Signed "Brian Cotton"
Director

Signed "Ken Treasure"
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, 2018

	2018	*2017*
Interest income		
Member loans	**7,252,302**	6,745,206
Investments	**1,596,105**	1,698,479
	8,848,407	8,443,685
Interest expense		
Member deposits	**3,165,254**	2,813,267
Borrowing	**1,752**	3,579
	3,167,006	2,816,846
Net interest income	**5,681,401**	5,626,839
Operating expenses		
Administration	**1,514,622**	1,460,367
Amortization and impairment	**417,874**	462,916
Member security	**232,442**	232,085
Occupancy	**406,847**	398,173
Organizational	**241,796**	215,370
Personnel	**3,547,688**	3,403,381
	6,361,269	6,172,292
Net operating expenses	**(679,868)**	(545,453)
Other income	**2,444,030**	2,306,665
Income before provision for impaired loans and income taxes	**1,764,162**	1,761,212
Provision for impaired loans	**145,878**	151,505
Income before income taxes	**1,618,284**	1,609,707
Provision for income taxes *(Note 12)*		
Current	**291,626**	293,664
Deferred	**-**	15,000
	291,626	308,664
Net income	**1,326,658**	1,301,043

Swan Valley Credit Union Limited
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2018

	Member shares	*Retained earnings*	*Total equity*
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**
Net income	**-**	**1,326,658**	**1,326,658**
Issuance of member shares	**750**	**-**	**750**
Redemption of member shares	**(312,833)**	**-**	**(312,833)**
Dividend on preference shares, net of tax recovery	**-**	**(1,462)**	**(1,462)**
Balance December 31, 2018	**3,387,723**	**15,489,277**	**18,877,000**

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, 2018

	2018	*2017*
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	**7,173,844**	6,764,374
Interest and dividends received from investments	**1,618,817**	1,725,754
Other income received	**2,444,030**	2,199,472
Cash paid to suppliers and employees	**(5,646,935)**	(5,842,840)
Interest paid on deposits	**(2,909,567)**	(2,972,286)
Interest paid on borrowed money	**(1,752)**	(3,579)
Income taxes paid	**(369,150)**	(196,269)
	2,309,287	1,674,626
Financing activities		
Net change in member deposits	**7,388,727**	4,769,257
Issuance of member shares	**750**	1,050
Redemption of member shares	**(312,833)**	(227,839)
	7,076,644	4,542,468
Investing activities		
Net change in members' loans receivable	**(16,034,728)**	(7,300,202)
Purchases of investments	**-**	(1,213,671)
Proceeds on disposal investments and accrued interest	**9,458,849**	-
Purchases of property, plant and equipment	**(140,973)**	(113,513)
	(6,716,852)	(8,627,386)
Increase (decrease) in cash and cash equivalents	**2,669,079**	(2,410,292)
Cash and cash equivalents, beginning of year	**3,674,341**	6,084,633
Cash and cash equivalents, end of year	**6,343,420**	3,674,341

1. Reporting entity

Swan Valley Credit Union Limited (the "Credit Union") was formed pursuant to the Credit Unions and Caisses Populaires Act of Manitoba ("the Act"). 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, 2018 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 financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments at fair value through profit and loss.

Functional and presentation currency

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

2. Statement of compliance

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

These financial statements for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors on February 26, 2019.

3. Change in accounting policies

In addition, the Credit Union adopted the following new and/or revised standards, effective January 1, 2018.

IFRS 9 Financial instruments

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Credit Union adopted IFRS 9 *Financial instruments* as issued in July 2014. The requirements of IFRS 9 are substantially different from those of IAS 39. 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. 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.

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

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.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. Under IFRS 9 all financial instruments are initially measured at fair value which is consistent with IAS 39. Subsequent to initial recognition, all financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost. For financial liabilities, IFRS 9 is substantially the same as was previously included in IAS 39. Financial assets are reclassified between measurement categories only when the business model for managing them changes. All reclassifications are applied prospectively from the reclassification date.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a solely payment of principal and interest ("SPPI") test, including those that contain embedded derivatives, be classified at initial recognition as FVTPL. The SPPI test is conducted to identify whether the contractual cash flows of a financial instrument are solely payments of principal and interest such that any variability in the contractual cash flows is consistent with a basic lending arrangement. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity-linked payouts, are measured at FVTPL.

For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a held for trading or fair value basis are classified as FVTPL. Debt instruments that are managed on a hold to collect and for sale basis are classified as FVOCI. Debt instruments that are managed on a hold to collect basis are classified as amortized cost. All equity instrument financial assets are classified at initial recognition as FVTPL unless they are not held for short-term profit taking and an irrevocable designation is made to classify the instrument as FVOCI for equities.

As a result of the adoption of IFRS 9, the fair value through profit or loss, available-for-sale ("AFS"), held-to-maturity ("HTM"), and loans and receivables have been replaced with the following classifications:

Fair value through profit and loss (FVTPL)

Trading financial instruments are mandatorily measured at FVTPL. Non-trading financial assets are also mandatorily measured at fair value if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis.

Amortized cost

Financial assets measured at amortized cost are debt financial instruments with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses.

Fair value through other comprehensive income (FVOCI)

Debt financial instruments measured at FVOCI are non-derivative financial assets with contractual cash flows that meet the SPPI test and are managed on a hold to collect and for sale basis.

3. 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 ("ECL") 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.

The calculation of Expected Credit Loss ("ECL") impairment allowances is based on the expected value of probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flows that the Credit Union expects to receive.

Expected Credit Loss ("ECL") model has three stages:

12-month ECL (Stage 1)

Where credit risk is low or where there has been no significant increase in credit risk, a 12-month ECL allowance is calculated which represents the expected credit losses that result from default events on the financial instrument that are possible within the 12-month after the reporting date on otherwise performing, non-credit impaired financial instruments.

Lifetime ECL (not credit impaired) (Stage 2)

If credit risk increases significantly relative to initial recognition of the financial instrument, the allowance is increased to cover full lifetime ECL. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. The Credit Union's process for assessing credit risk and defining default is included in Note 18. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Credit Union places the financial instrument in the Stage 1 category and reverts to recognizing 12-month ECL.

Lifetime ECL (credit impaired) (Stage 3)

When a financial instrument is considered credit-impaired, the allowance continues to reflect lifetime expected credit losses and interest revenue is calculated based on the carrying amount of the asset, net of the allowance, rather than its gross carrying amount. The Credit Union's policy for assessing default resulting in credit impairment is described in Note 18. Any financial instruments where the borrower has filed for bankruptcy or consumer proposal will also be re-staged to Stage 3.

Changes in the allowance, including the movement between 12-month and lifetime expected credit losses, is recorded in the provision for impaired loans.

Reconciliation of allowances under IAS 39 to IFRS 9

The Credit Union’s financial instruments specific allowances for impaired loans to members recognized under IAS 39 have been replaced by Stage 3 allowances under IFRS 9, while the collective allowances for non-credit impaired loans to members have been replaced by either Stage 1 or Stage 2 allowances under IFRS 9.

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. The comparative information related to the carrying amounts of loans commitments and financial guarantee contracts reflects the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized directly in retained earnings and reserves as at January 1, 2018. Additional transitional provisions applied are described below.

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

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 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					
Cash and cash equivalents		FVTPL	FVTPL	**3,674,341**	**3,674,341**
Investments and accrued interest	1	Loans and receivables/ Available-for-sale	Amortized cost/FVTPL	**75,573,418**	**75,573,418**
Members' loans receivable and accrued interest	2	Loans and receivables	Amortized cost	**183,240,424**	**183,240,424**
Accounts receivable		Loans and receivables	Amortized cost	**593,783**	**593,783**
Total financial assets				**263,081,966**	**263,081,966**
Financial liabilities					
Member deposits and accrued interest		Amortized cost	Amortized cost	**253,290,905**	**253,290,905**
Accounts payable		Amortized cost	Amortized cost	**1,261,758**	**1,261,758**
Total financial liabilities				**254,552,663**	**254,552,663**

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 IFR 9, term deposits classified as loans and receivables under IAS 39 were reclassified as amortized cost. Central shares classified as AFS under IAS 39 were reclassified as FVTPL.

Sub-note 2 - As a result of the adoption of IFRS 9, members' loans receivable and accrued interest classified as loans and receivable under IAS 39 were reclassified as amortized cost.

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

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

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

The Credit Union applied the changes in accounting policies resulting from IFRS 15 retrospectively but has elected not to restate comparative figures.

4. Summary of 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.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

Basis of consolidation

The consolidated financial statements incorporate 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.

Investments - applicable to 2017

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.

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 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 - 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 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.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation 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.

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

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.

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 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.

4. Summary of 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 redeemable 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.

4. Summary of 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 - applicable to 2017

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.

4. Summary of 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, 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 consolidated financial statements.

5. 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.

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.

5. Significant accounting judgments, estimates and assumptions *(Continued from previous page)*

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 conditions. The impairment loss on members' loans receivable is disclosed in more detail in Note 7.

Financial instruments 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.

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 objective 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.

Key assumptions in determining the allowance for expected credit losses – applicable to 2018

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
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, 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.

5. Significant accounting judgments, estimates and assumptions *(Continued from previous page)*

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.

6. Investments and accrued interest

	2018	*2017*
Central term deposits and shares		
Term deposits	**28,000,000**	29,000,000
Shares	**2,085,190**	3,030,700
Other investments		
Concentra Financial shares and term deposits	**1,363,274**	2,634,830
Mortgage pools	**34,009,886**	40,785,846
Accrued interest	**99,330**	122,042
Total	**65,557,680**	75,573,418

Term deposits consist of twenty-three term deposits earning interest at rates between 1.45% and 2.18% (2017 - 1.31% and 2.35%), maturing from January 2019 to March 2022.

Mortgage pools consist of nine mortgage pools earning interest at rates between 2.05% and 2.62% (2.00% and 2.50%), maturing from January 2019 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, 2018 the Credit Union met this requirement with liquidity of 13.30% (2017 - 11.98%).

7. Members' loans receivable and accrued interest

Principal and allowance by loan type:

	Principal 12-month ECL (performing)	Principal Lifetime ECL (credit-impaired)	Allowance Stage 1 & 2 (not credit impaired)	Allowance Stage 3 (credit impaired)	Net carrying value
					2018
Personal and other	14,194,648	70,782	21,471	47,932	**14,196,027**
Real estate secured	149,538,750	408,237	-	-	**149,946,987**
Commercial	10,255,049	637,425	40,224	150,074	**10,702,176**
Agricultural	24,356,059	10,521	2,313	1,725	**24,362,542**
Subtotal	198,344,506	1,126,965	64,008	199,731	**199,207,732**
Total allowance				**263,739**	

	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
					2017
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	

Loan allowance details

	2018	*2017*
Balance, beginning of year	**327,992**	325,494
Provision for loan impairment	**145,878**	151,505
	473,870	476,999
Less: accounts written off	**210,131**	149,007
Balance, end of year	**263,739**	327,992

8. Property and equipment

	Land	Buildings	Computer software	Furniture and fixtures	Parking lot	Security equipment	Total
Cost							
Balance December 31, 2016	226,588	9,505,118	525,199	1,521,576	166,788	152,731	12,098,000
Additions	-	-	433	107,588	-	5,492	113,513
Disposals	-	-	-	(132,112)	-	-	(132,112)
Balance at December 31, 2017	226,588	9,505,118	525,632	1,497,052	166,788	158,223	12,079,401
Additions	-	84,301	-	56,672	-	-	140,973
Balance at December 31, 2018	**226,588**	**9,589,419**	**525,632**	**1,553,724**	**166,788**	**158,223**	**12,220,374**
Amortization							
Balance December 31, 2016	-	2,376,120	393,293	1,374,955	117,090	146,890	4,408,348
Additions	-	269,853	48,915	78,364	13,344	4,563	415,039
Disposals	-	-	-	(132,112)	-	-	(132,112)
Balance at December 31, 2017	-	2,645,973	442,208	1,321,207	130,434	151,453	4,691,275
Additions	-	269,852	49,000	82,775	13,344	2,903	417,874
Balance at December 31, 2018	**-**	**2,915,825**	**491,208**	**1,403,982**	**143,778**	**154,356**	**5,109,149**
Net book value							
At December 31, 2017	226,588	6,859,145	83,424	175,845	36,354	6,770	7,388,126
At December 31, 2018	**226,588**	**6,673,594**	**34,424**	**149,742**	**23,010**	**3,867**	**7,111,225**

9. Goodwill

	2018	*2017*
Goodwill, cost	**2,304,474**	2,304,474
Impairment losses	**(328,879)**	(328,879)
	1,975,595	1,975,595

During the year, the impairment of NIL (2017 - $47,877) was recognized through the consolidated income statement.

10. 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.

11. Member deposits and accrued interest

	2018	2017
Chequing	**73,581,214**	79,193,467
Savings	**51,070,282**	49,036,072
Registered plans	**42,419,358**	42,673,460
Tax free savings	**17,337,678**	15,079,337
Term deposits	**75,043,874**	66,081,343
Accrued interest savings and deposits	**1,482,913**	1,227,226
	260,935,319	253,290,905

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% (2017 - 1.50%).

Registered plans are subject to fixed and variable rates of interest ranging from 0.40% to 3.65% (2017 - 0.40% to 2.55%) 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 3.65% (2017 - 0.40% to 2.55%) with interest payments due monthly, annually, or on maturity.

12. 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:

	2018	2017
Deferred tax asset		
Allowance for impaired loans	**18,000**	18,000
Deferred tax liability		
Property and equipment	**(19,000)**	(19,000)
Goodwill	**(98,000)**	(98,000)
Net balance	**(99,000)**	(99,000)

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:

	2018	2017
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	**8.02 %**	9.18 %
Income tax as reported	**18.02 %**	19.18 %

13. 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:

	2018	*2017*
7,318 Common shares (2017 - 7,390)	**182,950**	184,750
4,300 Preference shares (2017 - 4,300)	**43,000**	43,000
3,161,773 Surplus shares (2017 - 3,472,056)	**3,161,773**	3,472,056
Total	**3,387,723**	3,699,806

During the year, the Credit Union issued 30 (2017 - 42) and redeemed 102 (2017 - 110) common shares, issued NIL (2017 - NIL) and redeemed 310,283 (2017 - 225,089) surplus shares, and issued NIL (2017 - NIL) and redeemed NIL (2017 - NIL) Class A preference shares.

14. Dividend

During the year, the Board of Directors declared a dividend on preference shares in the amount of $1,720 (2017 - $1,720). The amount net of tax savings of $258 (2017 - $258), has been reflected as a charge to retained earnings.

15. Related party transactions

Credit UnionKey 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:

	2018	*2017*
Salary and short term benefits	**735,658**	715,199
Long term benefits	**25,648**	23,794
Post employment benefits	**47,238**	46,593
	808,544	785,586

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

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

	2018	*2017*
Aggregate of loans	**2,662,368**	2,738,031
The total value of revolving credit facilities	**562,700**	552,700
	3,225,068	3,290,731

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

	2018	*2017*
Lines of Credit	**-**	12,500
Mortgages	**1,394,668**	692,086
Loans	**66,298**	904,903
	1,460,966	1,609,489

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

	2018	*2017*
Interest and other revenue earned on loans	**115,178**	93,221
Interest paid on deposits	**9,914**	9,871

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

	2018	*2017*
Chequing and demand deposits	**553,004**	390,129
Term deposits	**196,276**	165,301
Registered plans	**350,026**	334,827
	1,099,306	890,257

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 $41,057 (2017 - $39,440), reimbursement of expenses amounted to $15,517 (2017 - $17,548) and meeting, training and conference costs amounted to $11,119 (2017 - $12,902) for the year ended.

Loans to directors and staff as at year end amounted to 2.27% (2017 - 3.01%) 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 $678,590 (2017 - $877,344). Dividends earned on investments amount to $62,285 (2017 - $66,430).

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

Interest and charges paid on borrowings during the year ended amounted to $1,752 (2017 - $3,579).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended amounted to $182,531 (2017 - $196,387).

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 $207,243 (2017 - $202,234).

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.

16. 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.

17. 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%.

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.

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

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

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

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.

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

	2018	*2017*
Member shares	**3,387,723**	3,699,806
Retained earnings	**15,489,277**	14,164,081
Total eligible capital	**18,877,000**	17,863,887

Equity not less than 5% of assets, as calculated in accordance with the Act	**6.71 %**	6.55 %
Retained earnings not less than 3% of assets	**5.50 %**	5.20 %
Capital not less than 8% of risk-weighted value of assets	**10.97 %**	10.89 %

18. Financial instrument and risk management

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

18. Financial instrument and risk management *(Continued from previous page)*

- 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 7 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.

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/or related parties;
- Limits on concentration to credit risk by loan type, industry and economic sector;
- Limits on 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 instrument and risk management *(Continued from previous page)*

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:

	2018	*2017*
Unadvanced lines of credit	**46,455,097**	44,218,855
Guarantees and standby letters of credit	**220,000**	235,000
Commitments to extend credit	**3,491,776**	3,756,136

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 receivable 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.

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 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.

18. Financial instrument and risk management *(Continued from previous page)*

Measurement of expected credit losses

The Credit Union measures expected credit losses for members' loans receivable 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.

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.

Details of the Credit Union's exposure to credit risk, loss allowance and write-offs have been included in Note 7.

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.

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.

18. Financial instrument and risk management *(Continued from previous page)*

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 %	2018 Differential	2017 Differential
Variable to 1 year	109,610,105	4.42 %	(76,589,532)	0.44 %	**33,020,573**	26,600,197
1 to 2 years	38,705,996	2.71 %	(16,872,463)	2.14 %	**21,833,533**	12,638,287
2 to 3 years	47,960,407	3.26 %	(15,851,765)	2.32 %	**32,108,642**	25,375,955
3 to 4 years	41,210,418	2.97 %	(7,426,778)	2.84 %	**33,783,640**	38,897,125
Over 4 years	33,455,794	3.13 %	(18,060,370)	2.38 %	**15,395,424**	35,767,110
Non-interest sensitive	10,565,543	- %	(146,707,355)	- %	**(136,141,812)**	(139,278,674)
	281,508,263		**(281,508,263)**		**-**	-

Based on the current financial instruments, it is estimated that a 1.0% increase in the interest rate would increase the financial margin by $248,000 (2017 - $174,000). A 1.0% decrease in the interest rate would decrease the financial margin by $293,000 (2017 - $198,000).

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.

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	**6,343,420**	**-**	**-**	**6,343,420**
Investments and accrued interest	**14,744,575**	**34,352,652**	**16,460,453**	**65,557,680**
Members' loans receivable	**88,688,263**	**52,313,752**	**58,205,717**	**199,207,732**
Accounts receivable	**1,126,312**	**-**	**-**	**1,126,312**
Total	**110,902,570**	**86,666,404**	**74,666,170**	**272,235,144**

Financial liabilities	Less than 1 year	1 to 2 years	After 2 years	Total
Member deposits	**202,723,943**	**32,724,228**	**25,487,148**	**260,935,319**
Accounts payable	**1,581,748**	-	-	**1,581,748**
Total	**204,305,691**	**32,724,228**	**25,487,148**	**262,517,067**

18. Financial instrument and risk management *(Continued from previous page)*

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.

Estimated fair values of financial instruments are summarized as follows:

	Fair value	**Book value**	**2018 Fair value over (under) book value**	Fair value	Book value	2017 Fair value over (under) book value
Financial assets						
Cash and equivalents	**6,343,420**	**6,343,420**	**-**	3,674,341	3,674,341	-
Investments	**65,337,834**	**65,557,680**	**(219,846)**	75,351,112	75,573,418	(222,306)
Members' loans receivable and accrued interest	**196,390,950**	**199,207,732**	**(2,816,782)**	181,606,584	183,240,424	(1,633,840)
Accounts receivable	**1,126,312**	**1,126,312**	**-**	593,783	593,783	-
	269,198,516	**272,235,144**	**(3,036,628)**	261,225,820	263,081,966	(1,856,146)
Financial liabilities						
Member deposits	**260,222,495**	**260,935,319**	**(712,824)**	253,177,943	253,290,905	(112,962)
Accounts payable	**1,581,748**	**1,581,748**	**-**	1,261,758	1,261,758	-
	261,804,243	**262,517,067**	**(712,824)**	254,439,701	254,552,663	(112,962)

18. Financial instrument and risk management *(Continued from previous page)*

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.

19. 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, 2018 were $151,552 (2017 - $147,129). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.