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CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

Independent auditor's report

To the Members of Steinbach Credit Union Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Steinbach Credit Union Limited and its subsidiaries, (together, 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 (IFRS).

What we have audited
The Credit Union's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of net income and comprehensive income for the year then ended;
- the consolidated statement of retained earnings for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

Independence
We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 Credit Union 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
February 25, 2019

Steinbach Credit Union Limited

Consolidated Statement of Financial Position

As at December 31

	2018 $	2017 $
Assets		
Funds on hand and on deposit	25,775,484	61,475,143
Investments (note 7)	542,290,182	602,607,847
Loans to members (note 8)	5,243,677,449	4,682,169,390
Other assets (note 10)	5,302,203	7,069,200
Investments in associates (note 19)	17,515,887	17,939,910
Property, equipment and intangible assets (note 9)	77,877,450	80,630,246
Deferred income tax assets (note 16)	2,884,875	1,584,875
	5,915,323,530	5,453,476,611
Liabilities		
Members' deposits (note 12)	5,348,441,092	4,939,828,929
Accounts payable (note 13)	20,175,470	22,201,884
Income tax payable	760,638	1,810,250
Secured borrowing (note 22)	149,682,034	125,628,151
	5,519,059,234	5,089,469,214
Equity (note 14)		
Members' shares (note 15)	457,620	441,790
Retained surplus	395,806,676	363,565,607
	396,264,296	364,007,397
	5,915,323,530	5,453,476,611

Approved by the Board of Directors

_______________________ Director _______________________ Director

The accompanying notes are an integral part of these consolidated financial statements.

Steinbach Credit Union Limited

Consolidated Statement of Net Income and Comprehensive Income

For the year ended December 31

	2018 $	2017 $
Income		
Interest from loans to members	177,876,520	145,064,432
Investment income	14,014,980	11,882,685
	191,891,500	156,947,117
Cost of funds		
Interest paid to members	104,683,847	77,197,815
Interest paid - other	2,048,976	1,865,138
	106,732,823	79,062,953
Net interest income	85,158,677	77,884,164
Credit impairment losses	(4,468,053)	(1,758,991)
Other income and fees	22,826,472	22,707,999
Net other operating income	103,517,096	98,833,172
Operating expenses		
Administrative	16,134,539	15,470,051
Member security	4,533,186	4,222,781
Occupancy	5,446,908	5,445,138
Organizational	2,243,976	2,215,640
Personnel	28,119,014	27,441,117
	56,477,623	54,794,727
Net income before patronage refund and income taxes	47,039,473	44,038,445
Patronage refund	7,516,082	7,524,303
Net income before income taxes	39,523,391	36,514,142
Provision for income taxes (note 16)	7,530,000	4,250,000
Net income and comprehensive income for the year	31,993,391	32,264,142

The accompanying notes are an integral part of these consolidated financial statements.

Steinbach Credit Union Limited

Consolidated Statement of Retained Earnings

For the year ended December 31

	Members' shares $	Retained surplus $	Total members' equity $
Balance at January 1, 2017	430,725	331,301,465	331,732,190
Net income and comprehensive income for the year	-	32,264,142	32,264,142
Common shares issued - net of redemptions (note 15)	11,065	-	11,065
Balance at December 31, 2017	441,790	363,565,607	364,007,397
Balance at January 1, 2018	441,790	363,565,607	364,007,397
Changes on initial application of IFRS 9 (note 3)	-	247,678	247,678
Restated balance at January 1, 2018	441,790	363,813,285	364,255,075
Net income and comprehensive income for the year	-	31,993,391	31,993,391
Common shares issued - net of redemptions (note 15)	15,830	-	15,830
Balance at December 31, 2018	457,620	395,806,676	396,264,296

The accompanying notes are an integral part of these consolidated financial statements.

Steinbach Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	31,993,391	32,264,142
Items not affecting cash		
Depreciation and amortization expense	3,484,082	3,417,752
Deferred income taxes	(1,300,000)	(1,500,000)
Credit impairment losses	4,468,053	1,758,991
Investment in associates equity (gain) loss (note 19)	(153,449)	56,726
Loss on disposal of property and equipment	-	6,505
	38,492,077	36,004,116
Change in non-cash working capital items (note 20)	(74,053,752)	9,730,197
	(35,561,675)	45,734,313
Investing activities		
Property and equipment acquisitions	(731,286)	(574,134)
Investment in associates (note 19)	-	(7,631,538)
Investment in associates return of capital (note 19)	577,472	325,800
	(153,814)	(7,879,872)
Financing activities		
Issue of members' shares - net	15,830	11,065
Net increase (decrease) in funds on hand and on deposit during the year	(35,699,659)	37,865,506
Funds on hand and on deposit - Beginning of year	61,475,143	23,609,637
Funds on hand and on deposit - End of year	25,775,484	61,475,143
Supplemental information		
Interest received	189,886,563	155,353,410
Interest paid	104,525,589	79,281,383
Income tax paid	9,879,612	3,363,629

The accompanying notes are an integral part of these consolidated financial statements.

1 General information

Steinbach Credit Union Limited (the Credit Union) is incorporated under the Credit Union Incorporation Act of Manitoba and its operations are subject to the Credit Unions and Caisses Populaires Act (Manitoba) (the Act). The Credit Union serves members in Manitoba and provides retail, commercial and investment banking services. Its wholly-owned subsidiary, 5621268 Manitoba Ltd., holds real estate and investments in real estate companies that are accounted for by the cost or equity methods, respectively. The Credit Union's registered office is 333 Main Street, Steinbach, Manitoba, Canada.

2 Basis of presentation

The Credit Union prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). References to IFRS are applied based on Canadian generally accepted accounting principles (GAAP) as defined in the Handbook of the Canadian Institute of Chartered Accountants - Part 1 ("CICA Handbook").

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and financial liabilities at fair value through profit or loss (FVTPL).

The consolidated financial statements' values are presented in Canadian dollars ($) which is the functional and presentation currency of the Credit Union unless otherwise indicated.

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

The following balances are generally classified as current: funds on hand and on deposit, investments, loans to members due within one year, income tax recoverable (payable), other assets, member deposits due on demand or within one year, accounts payable, and secured borrowings due on demand or within one year.

The following balances are generally classified as non-current: long-term portion of loans to members, property, equipment and intangible assets, investments in associates, deferred income taxes and non-current member deposits, and secured borrowings.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention and ability to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the consolidated statement of net income and comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Credit Union.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Credit Union's consolidated financial statements therefore present the financial position and results fairly.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are the provision for credit impairment losses, the measurement of income taxes, recognition of securitization arrangements and the fair value of financial instruments and are disclosed in note 6.

3 Changes in accounting policies

The Credit Union has adopted IFRS 9 - Financial Instruments (IFRS 9) as issued by the IASB in July 2014 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the consolidated financial statements. The Credit Union did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Credit Union elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained surplus of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 - Financial Instruments: Disclosures (IFRS 7) disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Credit Union's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Credit Union. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 - "Financial Instruments: Recognition and Measurement") (IAS 39) accounting policies applied in the comparative period) are described in more detail below.

a) *Classification and measurement of financial instruments*

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Funds on hand and on deposit	Amortized cost (Loans and receivables)	61,475,143	Amortized cost	61,475,143
Loans to members	Amortized cost (Loans and receivables)	4,682,169,390	Amortized cost	4,682,417,068
Investments	Available for sale	41,757,238	FVOCI	41,757,238
	Amortized cost (Loan and receivables)	560,850,609	FVTPL	560,850,609
Other assets	Amortized cost (Loans and receivables)	4,251,292	Amortized cost	4,251,292

There were no changes to the classification and measurement of financial liabilities.

b) *Reconciliation of the consolidated statement of financial position balances from IAS 39 to IFRS 9*

The Credit Union performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

See below for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortized cost					
Funds on hand and on deposit		61,475,143	-	-	61,475,143
Loans to members					
Opening balance under IAS 39		4,682,169,390	-	-	-
Remeasurement: ECL allowance		-	-	247,678	-
Closing balance under IFRS 9		-	-	-	4,682,417,068
Investments - amortized cost					
Opening balance under IAS 39		560,850,609	-	-	-
Subtraction: to FVTPL (IFRS 9)	(A)	-	560,850,609	-	-
Closing balance under IFRS 9		-	-	-	-
Other assets		4,251,292	-	-	4,251,292
Total financial assets measured at amortized cost					4,748,143,503

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Fair value through profit or loss (FVTPL)					
Investments					
Opening balance under IAS 39		-	-	-	-
Addition: From amortized cost (IAS 39) Remeasurement: from amortized cost to FV	(A)	-	560,850,609	-	-
Closing balance under IFRS 9		-	-	-	560,850,609
Total financial assets measured at FVTPL					560,850,609

	Ref	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Fair value through other comprehensive income (FVOCI)					
Investments					
Opening balance under IAS 39	(B)	41,757,238	(41,757,238)	-	-
Reclassified from AFS to FVOCI					
Closing balance under IFRS 9		-	41,757,238	-	41,757,238
Total financial assets measured at FVOCI					41,757,238

A remeasurement recovery of $247,678 was recognized in the opening allowance for doubtful loans at January 1, 2018.

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Credit Union as shown in the table above:

A) Term deposits within the liquidity portfolio

After assessing its business model for term deposits within the Credit Union's liquidity portfolio, which are mostly held to collect the contractual cash flows, the Credit Union has performed the solely payments of principal and interest (SPPI) test. As a result of this test, the Credit Union determined that due to certain features on early redemption, the term deposits held by the Credit Union do not meet the SPPI test, and as a result are classified as fair value through profit and loss (FVTPL). These term deposits, which amounted to $560,850,609 and which were previously classified as loans and receivables, were reclassified as FVTPL from the date of initial application.

B) Investments in shares of Credit Union Central of Manitoba and Concentra Bank

The Credit Union holds investments in shares of Credit Union Central of Manitoba (CUCM) and Concentra Bank of $41,757,238, which are not traded in an active market. These were accounted for previously as available for sale equity financial instruments. As required by CUCM by-laws for re-balancing shares, the Credit Union will redeem or acquire additional shares of CUCM at a price of $5.00 per share. Concentra shares are not subject to re-balancing. There are no other active markets for these shares and therefore the Credit Union had determined that this amount was indicative of fair value. Upon adoption of IFRS 9, the Credit Union has classified these equity financial instruments as fair value through other comprehensive income (FVOCI).

c) Reconciliation of allowance for doubtful accounts balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing allowance for doubtful accounts measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018:

Measurement category	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	Loan loss allowance under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9)				
Loans to members	8,415,868		(247,678)	8,168,190
Total	8,415,868	-	(247,678)	8,168,190

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9, which was effective for annual periods beginning on or after January 1, 2018. The amendments are effective on adoption of IFRS 9. The Credit Union adopted the new disclosures in the consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 was issued in May 2014 and is intended to replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related International Financial Reporting Interpretations Committee (IFRIC) rulings. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles. The standard provides a single, principles-based five-step model to be applied to all contracts with customers, and also introduces additional disclosure requirements. The standard has been adopted by the Credit Union on January 1, 2018 except where the scope exceptions have been met and the financial statement disclosures were not relevant. This excludes financial instruments within the scope of IFRS 9. Based on the Credit Union's assessment of revenues and costs within the scope of this standard, IFRS 15 does not have a material impact on its consolidated financial results.

IAS 40 "Investment Property"

In December 2016, IAS 40 was amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The Credit Union adopted these amendments on January 1, 2018 and has determined there was no impact on the consolidated financial instruments.

Annual Improvements 2014-2016 Cycle

Annual Improvements 2014-2016 Cycle was issued in December 2016 by the IASB and included minor amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards", and IAS 28 "Investments in associates and joint ventures". The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Credit Union adopted these amendments on January 1, 2018 and has determined there was no impact to the consolidated financial statements.

4 Accounting standards issued but not yet effective

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

IFRS 16 "Leases"

IFRS 16 was issued in January 2016 and is intended to replace IAS 17 "Leases", and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize right of use assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently evaluating the impact that this standard will have on its consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures"

IAS 28 was amended in October 2017 and it clarifies that an entity shall apply IFRS 9 to long-term interests in associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendment is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently evaluating the impact that this amendment will have on its consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 was issued in June 2017 and is intended to clarify the accounting for uncertainties in income taxes. The standard addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The standard is effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently evaluating the impact that this standard will have on its consolidated financial statements.

Annual improvements 2015-2017 cycle

Annual improvements 2015-2017 cycle was issued in December 2017 by the IASB, and included minor amendments to IFRS 3 "Business combination", IFRS 11 "Joint arrangements", IAS 12 "Income taxes", and IAS 23 "Borrowing costs". The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2019. The Credit Union is currently evaluating the impact that these amendments will have on its consolidated financial statements.

Conceptual Framework for Financial Reporting

In March 2018, the IASB revised its conceptual framework for financial reporting. The revised framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance, and clarifications on important topics (e.g. the roles of stewardship, prudence, and measurement uncertainty in financial reporting). The IASB has also issued amendments that update references to the framework in certain standards. The amendments are effective for annual periods beginning on or after January 1, 2020. The Credit Union is currently evaluating the impact these amendments will have on its consolidated financial statements.

5 Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary, 5621268 Manitoba Ltd. This wholly owned subsidiary is comprised of a number of investments in real estate and companies that own real estate that are accounted for by the cost and equity methods, respectively. The financial statements of the subsidiary and the related equity accounted investments are prepared at the same reporting date as the Credit Union, using consistent accounting policies.

All inter-company balances, transactions and profits and losses are eliminated.

Funds on hand and on deposit

Funds on hand and on deposit consist of cash and deposits with other financial institutions. Funds on hand and on deposit are carried at amortized cost.

Financial assets and liabilities

From January 1, 2018, the Credit Union has applied IFRS 9 and classifies its financial assets in the following measurement categories: FVTPL; FVOCI; or amortized cost. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions.

The accounting polices from January 1, 2018 related to these financial assets and liabilities are as follows:

Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any allowance for doubtful accounts) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When the Credit Union revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in net income.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Credit Union measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in net income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in net income when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Financial assets

Classification and subsequent measurement

From January 1, 2018, the Credit Union has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortized cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective and includes loans to members and term deposits held by the Credit Union.

Classification and subsequent measurement of debt instruments depend on:

(i) the business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Credit Union classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 8. Interest income from these financial assets is included in 'Interest from loans to members' using the effective interest rate method.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in net income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income and recognized in 'Net Investment income'. Interest income from these financial assets is included in “Investment income” using the effective interest rate method.

- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in net income and presented in the statement of net income and comprehensive income within “Investment income” in the period in which it arises. Interest income from these financial assets is included in “Investment income” using the effective interest rate method.

Business model

The business model reflects how the Credit Union manages the assets in order to generate cash flows. That is, whether the Credit Union's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Credit Union in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Credit Union assesses whether the financial instruments' cash flows represent 'SPPI. In making this assessment, the Credit Union considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Credit Union reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include the Credit Union's investment in shares of Credit Union Central.

The Credit Union subsequently measures all equity investments at FVTPL, except where the Credit Union's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Credit Union's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to net income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in net income as other income when the Credit Union's right to receive payments is established.

The Credit Union has designated all equity investments as FVOCI.

Impairment

The Credit Union assesses on a forward-looking basis the expected credit losses ('ECL') associated with its assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Credit Union recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 8 provides more detail of how the expected credit loss allowance is measured.

Modification of loans

The Credit Union sometimes renegotiates or otherwise modifies the contractual cash flows of loans to members. When this happens, the Credit Union assesses whether or not the new terms are substantially different to the original terms. The Credit Union does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate; or
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Credit Union derecognizes the original financial asset and recognizes a new asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Credit Union also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed upon payments. Differences in the carrying amount are also recognized in net income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Credit Union does not recalculate the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in net income.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Credit Union transfers substantially all the risks and rewards of ownership, or (ii) the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and the Credit Union has not retained control.

The Credit Union enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Credit Union:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Credit Union under standard securities lending and borrowing transactions are not derecognized because the Credit Union retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Credit Union retains a subordinated residual interest.

Financial liabilities

The Credit Union classifies members' deposits, accounts payable and secured borrowing as other financial liabilities. In both the current and prior period, other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of members to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Credit Union are measured as the amount of the loss allowance. The Credit Union has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a liability. However, for contracts that include both a loan and an undrawn commitment and the Credit Union cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

Derivatives and hedging activities

The Credit Union has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9. Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Credit Union designates certain derivatives as either:

(a) Hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges) or

(b) Hedges of highly probable future cash flows attributable to a recognized asset or liability (cash flow hedges)

The Credit Union documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Credit Union also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of net income and comprehensive income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to net income over the period to maturity and recorded as interest income

Cash flow hedge

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of net income and comprehensive income.

Amounts accumulated in equity are recycled to the consolidated statement of net income and comprehensive income in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedged instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognized hedged asset is disposed of), the cumulative gain or loss previously recognized in OCI is immediately reclassified to the consolidated statement of net income and comprehensive income.

Financial assets

For the period January 1, 2017 to December 31, 2017 and the year then ended, the Credit Union applied IAS 39 and classified its financial assets as follows: loans and receivables, held-to-maturity investments and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions.

The accounting policies from January 1, 2017 to December 31, 2017 and the year then ended related to these financial assets and liabilities was as follows:

Loans and receivables

Loans to members, contract deposits with Credit Union Central of Manitoba (Central) and accounts receivable are designated as loans and receivables (L&R). Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans to members

Loans are initially recognized at fair value and are subsequently recorded at amortized cost using the effective interest rate method. Loans are stated net of an allowance established to recognize estimated probable losses. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the consolidated statement of net income and comprehensive income as a provision for doubtful loans. Property held for resale is valued at the lower of cost and estimated net realizable value. At December 31, 2018, there was no property held for resale. Loans are written off when there is no realistic prospect of recovering the loan in full. Recoveries on loans previously written off are taken into income.

Held-to-maturity financial assets

Held-to-maturity (HTM) financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity and include debentures.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest rate method. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized as an impairment loss.

Available for sale financial assets

Available for sale (AFS) investments are financial assets that are intended to be held for an indefinite period of time and are not classified as loans and receivables, HTM or financial assets at fair value through profit or loss (FVTPL) and include shares in Central and Concentra Bank (Concentra).

AFS financial assets are initially recognized at fair value, which is the cash consideration, paid to acquire the asset. As the shares of Central and Concentra are not actively traded in a quoted market, fair value has been estimated to be equal to the par value, which is equal to the cost of the shares.

Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the market, economic or legal environment in which the issuer operates. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized in the consolidated statement of net income and comprehensive income.

Allowance for doubtful loans

The Credit Union maintains allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their estimated realizable amounts. A loan is considered impaired if the Credit Union no longer has reasonable assurance that the full amount of the principal and interest will be collected in accordance with the terms of the loan agreement. A loan is deemed to be impaired when the loan is greater than 90 days past due and collection efforts are not expected to result in repayment of the loan’s full carrying value. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting costs of realization, and by discounting the expected future cash flows at the financial asset’s original effective interest rate.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (on the basis of the Credit Union’s grading process that considers characteristics of each loan portfolio, industry, past-due status, historical write-off experience and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the member’s ability to pay all amounts due according to the contractual terms of the loans being evaluated.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Credit Union and historical loss experience for loans with credit risk characteristics similar to those in the Credit Union. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for doubtful loans. Such loans are written off after all the necessary collection efforts have been exhausted and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of net income and comprehensive income in the provision for doubtful loans as a recovery.

Financial liabilities

The Credit Union designates members' deposits, accounts payable and secured borrowing as other financial liabilities. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Interest income and expense

Interest income and expense for all interest-bearing loans and deposits is recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

The following accounting policies were applicable for the years ended December 31, 2018 and December 31, 2017:

Other income

Other income includes chequing service charges, non-sufficient funds and overdraft fees, prepayment penalties, commissions on credit cards, CUMIS profit sharing on the Credit Union's sale of insurance, commission revenue and other miscellaneous revenue.

Fees and commissions are recognized on an accrual basis when the service has been provided. Performance-linked fees or fee components are recognized when the performance criteria are fulfilled.

Property and equipment

Property and equipment are recorded at acquisition cost and depreciation is provided over the estimated useful life of the assets as follows:

Buildings	40 years straight-line
Furniture and equipment	5 - 10 years straight-line
Computer equipment	4 years straight-line

Land is not subject to depreciation and is carried at cost. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than the carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment is recognized in the consolidated statement of net income and comprehensive income, when there is an indication that an asset may be impaired. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the consolidated statement of net income and comprehensive income at that time. The recovery is limited to the original carrying amount at the time of impairment, net of any depreciation that would have been recorded had the asset not been impaired.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of net income and comprehensive income in the period the asset is derecognized.

Intangible assets

Intangible assets consist of certain acquired and internally developed banking software. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value an impairment loss is recognized.

Intangible assets available for use are amortized on a straight-line basis over their useful lives (which has been estimated to be nine years). Method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Research costs are recognized as an expense in the period incurred.

There are no indefinite life intangible assets.

Secured borrowing

The Credit Union has entered into asset transfer agreements with other third parties, which include the securitization of residential mortgages. These transfers do not qualify for derecognition principally because the Credit Union retains significant exposure to prepayment and other risks associated with the transferred mortgages. As such, these transactions are accounted for as financing activities and result in the recognition of a securitization liability at an amount equivalent to the securitization proceeds, inclusive of any premiums or discounts and net of eligible transaction costs. The securitization liabilities are subsequently measured at amortized cost using the effective interest method.

Income taxes

Tax expense for the period comprises current and deferred income tax.

Current income tax expense is calculated on the basis of the Canadian tax laws enacted or substantively enacted at the statement of financial position date.

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the carrying amounts and the income tax bases of the Credit Union's loans to members, property, equipment and intangible assets and accounts payable. Deferred income 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.

Patronage refund

Patronage refunds that allocate profit or loss to the members on the basis of services rendered or business generated are accounted for as transactions with members in their role as non-owners and are, accordingly, expensed in the statement of net income and comprehensive income.

Provisions and contingent liabilities

Provisions are recognized when the Credit Union has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Credit Union expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statement of net income and comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either, a payment is not probable or the amount cannot be reasonably estimated.

Translation of foreign currencies

Funds on hand and on deposit, investments and members' deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the statement of financial position date. Foreign exchange gains and losses are recorded in other income at the rates prevailing at the time of the transaction.

Leases

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

Derivative financial instruments

Derivative financial instruments, including embedded derivatives, which are required to be accounted for separately, are recorded on the consolidated statement of financial position at fair value. Changes in the value of the derivative instruments are recognized directly in the consolidated statement of net income and comprehensive income for the year. The Credit Union has no material derivative financial instruments.

Derecognition of financial instruments

Financial assets are derecognized when the Credit Union no longer has contractual rights to the cash flows from the asset, or when substantially all of the risks and rewards of ownership are transferred. If the Credit Union has not transferred or retained substantially all the risks and rewards of ownership, it assesses whether it has retained control over the transferred asset.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expired.

Investment in associates

Associates are entities over which the Credit Union has significant influence, but not control. The Credit Union accounts for all of its investments in associates using the equity method. The Credit Union's share of profits or losses of associates is recognized in the consolidated statement of net income and comprehensive income and its share of other comprehensive income (loss) of associates is included in other comprehensive income.

Unrealized gains on transactions between the Credit Union and an associate are eliminated to the extent of the Credit Union's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the consolidated statement of net income and comprehensive income.

6 Critical accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the periods covered by the consolidated financial statements.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

In the process of applying the Credit Union's accounting policies, management has made the following judgements, estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Critical accounting estimates

Measurement of the expected credit loss allowance

The Credit Union reviews its loan portfolio to assess the expected credit loss allowance for loans at least on a quarterly basis. The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of members defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for identifying a significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The judgements, inputs, methodology and assumptions used for estimating the expected credit loss allowance are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 17, which also sets out key sensitivities of the ECL to changes in these elements.

Measurement of income taxes

Management exercises judgement in estimating the provision for income taxes. The Credit Union is subject to income tax laws in the federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Credit Union and the relevant tax authority. To the extent that the Credit Union's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgement is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

Further details of the measurement of income taxes are disclosed in note 16.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by a service provider by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. To the extent practical, models used by the service provider use only observable data provided by management; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the disclosed fair value of financial instruments. The fair value of financial instruments is disclosed in note 18.

Critical accounting judgements

Recognition of securitization arrangements

As part of its program of liquidity, capital and interest rate risk management, the Credit Union enters into arrangements to fund growth by entering into mortgage securitization arrangements. As a result of these transactions and depending on the nature of the arrangement, the Credit Union may be subject to the recognition of the funds received as secured borrowings and the continued recognition of the securitized assets. The determination of the requirements for continued recognition requires significant judgement.
Further details of securitization arrangements are disclosed in note 22.

7 Investments

The carrying value of the Credit Union's investments by financial instrument categories are as follows:

			December 31, 2018
	FVOCI	**FVTPL**	**Total**
	$	**$**	**$**
Credit Union Central of Manitoba			
Shares	34,322,150	-	34,322,150
Term deposits	-	501,771,620	501,771,620
	34,322,150	501,771,620	536,093,770
Concentra Bank			
Shares	5,005,030	-	5,005,030
	39,327,180	501,771,620	541,098,800
Accrued interest receivable	38,334	1,153,048	1,191,382
	39,365,514	502,924,668	542,290,182

			December 31, 2017
	AFS	**L&R**	**Total**
	$	**$**	**$**
Credit Union Central of Manitoba			
Shares	36,713,875	-	36,713,875
Term deposits	-	559,820,700	559,820,700
	36,713,875	559,820,700	596,534,575
Concentra Bank			
Shares	5,043,363	-	5,043,363
	41,757,238	559,820,700	601,577,938
Accrued interest receivable	-	1,029,909	1,029,909
	41,757,238	560,850,609	602,607,847

Investment interest rates and maturities range as follows:

	2018		2017	
	Interest rates ranging from	**Maturity dates ranging from**	**Interest rates ranging from**	**Maturity dates ranging from**
Term deposits	1.91% - 2.55%	30-90 days	1.15% - 1.57%	30 - 90 days
Concentra Bank Class A shares	4.6%	2 years	-	-

8 Loans to members

At December 31, 2018, loans to members are presented net of allowances for expected credit losses totalling $11,564,335. The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Credit Union's maximum exposure to credit risk on these assets.

				2018
	Stage 1 12-month ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Consumer	2,640,488,702	362,880,976	4,209,276	3,007,578,954
Agriculture	329,360,427	81,540,518	-	410,900,945
Commercial	1,506,727,243	275,380,341	45,311,670	1,827,419,254
Gross carrying amount	4,476,576,372	719,801,835	49,520,946	5,245,899,153
Loss allowance	(4,164,508)	(128,297)	(7,271,530)	(11,564,335)
Accrued interest	7,910,456	1,341,961	90,214	9,342,631
	4,480,322,320	721,015,499	42,339,630	5,243,677,449
Current				1,162,130,617
Non-current				4,081,546,832

The following table further explains changes in the gross carrying amount of the portfolio to help explain their significance of the changes in the loss allowance for the same portfolio:

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Consumer				
Gross carrying amount as at January 1, 2018	2,384,336,833	312,431,954	4,577,485	2,701,346,272
Transfers and net changes to loans	(593,468,335)	(61,256,931)	72,102	(654,653,164)
New financial assets originated	849,620,204	112,331,201	-	961,951,405
Write-offs	-	(625,248)	(440,311)	(1,065,559)
Gross carrying amount as at December 31, 2018	2,640,488,702	362,880,976	4,209,276	3,007,578,954
Agriculture				
Gross carrying amount as at January 1, 2018	294,764,234	85,691,871	-	380,456,105
Transfers and net changes to loans	(135,772,966)	(51,469,068)	-	(187,242,034)
New financial assets originated	170,369,159	47,317,715	-	217,686,874
Gross carrying amount as at December 31, 2018	329,360,427	81,540,518	-	410,900,945
Commercial				
Gross carrying amount as at January 1, 2018	1,495,357,706	72,276,468	33,649,540	1,601,283,714
Transfers and net changes to loans	(408,387,066)	90,780,997	11,662,130	(305,943,939)
New financial assets originated	419,756,603	112,329,225	-	532,085,828
Write-offs	-	(6,349)	-	(6,349)
Gross carrying amount as at December 31, 2018	1,506,727,243	275,380,341	45,311,670	1,827,419,254
Total				
Gross carrying amount as at January 1, 2018	4,174,458,773	470,400,293	38,227,025	4,683,086,091
Transfers and net changes to loans	(1,137,628,367)	(21,945,002)	11,734,232	(1,147,839,137)
New financial assets originated	1,439,745,966	271,978,141	-	1,711,724,107
Write-offs	-	(631,597)	(440,311)	(1,071,908)
Gross carrying amount as at December 31, 2018	4,476,576,372	719,801,835	49,520,946	5,245,899,153

The following tables show the net change in the loss allowance for the year:

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Consumer				
Loss allowance as at January 1, 2018	1,775,614	397,927	1,911,380	4,084,921
Transfers	29,470	(32,010)	2,540	-
New financial assets originated	667,123	150,851	-	817,974
Write-offs	-	(625,248)	(440,311)	(1,065,559)
Changes to model assumptions and methodologies	(398,891)	595,798	130,265	327,172
Loss allowance as at December 31, 2018	2,073,316	487,318	1,603,874	4,164,508
Agriculture				
Loss allowance as at January 1, 2018	43,711	20,733	-	64,444
Transfers	5,237	(5,237)	-	-
New financial assets originated	51,689	16,464	-	68,153
Write-offs	-	-	-	-
Changes to model assumptions and methodologies	(711)	(3,589)	-	(4,300)
Loss allowance as at December 31, 2018	99,926	28,371	-	128,297
Commercial				
Loss allowance as at January 1, 2018	929,370	89,455	3,000,000	4,018,825
Transfers	(46,138)	45,086	1,052	-
New financial assets originated	159,554	75,966	-	235,520
Write-offs	-	(6,349)	-	(6,349)
Changes to model assumptions and methodologies	(470,062)	(17,923)	3,511,519	3,023,534
Loss allowance as at December 31, 2018	572,724	186,235	6,512,571	7,271,530
Total				
Loss allowance as at January 1, 2018	2,748,695	508,115	4,911,380	8,168,190
Transfers	(11,431)	7,839	3,592	-
New financial assets originated	878,366	243,281	-	1,121,647
Write-offs	-	(631,597)	(440,311)	(1,071,908)
Changes to model assumptions and methodologies	(869,664)	574,286	3,641,784	3,346,406
Loss allowance as at December 31, 2018	2,745,966	701,924	8,116,445	11,564,335

Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, such as:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in probably of default (PD), exposure at default (EAD) and loss given default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

Write-off policy

The Credit Union writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Credit Union's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Credit Union may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended December 31, 2018 was $1,017,908 (2017 - $1,534,447).

The Credit Union still seeks to recover amounts it is legally owed in full, but which have been partially or fully written off due to no reasonable expectation of full recovery.

The Credit Union closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Credit Union will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure $	Impairment allowance $	Carrying amount $
Credit-impaired assets			
Loans to members			
Consumer	4,209,276	(1,603,874)	2,605,402
Commercial	45,311,670	(6,512,571)	38,799,099
Agriculture	-	-	-
Total credit-impaired assets	49,520,946	(8,116,445)	41,404,501

At December 31, 2017, loans to members are presented net of allowances for doubtful loans totalling $8,415,868, consisting of individually significant allowances of $4,911,380 for loans considered impaired and $3,504,488 as collective allowances.

	December 31, 2017		
	Gross loan balance $	Allowances $	Net loan balance $
Consumer	2,701,346,272	(1,911,380)	2,699,434,892
Agricultural	380,456,105	-	380,456,105
Commercial	1,601,283,714	(3,000,000)	1,598,283,714
	4,683,086,091	(4,911,380)	4,678,174,711
Accrued interest	7,499,167	-	7,499,167
Collective allowances	-	(3,504,488)	(3,504,488)
	4,690,585,258	(8,415,868)	4,682,169,390
Current			1,027,631,306
Non-current			3,654,538,084

Loans individually impaired

The following schedule provides the amount of impaired loans in each of the major loan categories together with the individually significant loan allowances relating to these loans:

	December 31, 2017			
	Impaired loan balance $	Individually significant allowances $	Net impaired loan balance $	Fair value of collateral $
Consumer	4,481,015	(1,911,380)	2,569,635	2,465,080
Commercial	33,649,540	(3,000,000)	30,649,540	32,790,727
	38,130,555	(4,911,380)	33,219,175	35,255,807
Accrued interest	164,930	-	164,930	-
	38,295,485	(4,911,380)	33,384,105	35,255,807

The Credit Union has estimated the fair value of collateral based on an updated assessment of the security appraisal undertaken at the original funding assessment and management's knowledge of the market value of the security.

The total allowance for doubtful loans consists of:

	December 31, 2017			
	Consumer $	Agricultural $	Commercial $	Total $
Individually significant allowance	(1,911,380)	-	(3,000,000)	(4,911,380)
Collective allowance	(2,188,346)	-	(1,316,142)	(3,504,488)
	(4,099,726)	-	(4,316,142)	(8,415,868)

The change in the allowance for doubtful loans is as follows:

	2017					
	Consumer		Agricultural		Commercial	
	Individual significant allowance $	Collective allowance $	Individual significant allowance $	Collective allowance $	Individual significant allowance $	Collective allowance $
Balance - beginning of year	2,181,660	1,329,143	-	-	3,736,386	944,135
Reversal of impairment	(731,346)	-	-	-	(529,271)	-
Increase (decrease) in impairment provision	1,410,883	1,199,516	-	386	3,061	405,762
Loans written off in the year	(949,817)	(340,313)	-	(386)	(210,176)	(33,755)
Balance - end of year	1,911,380	2,188,346	-	-	3,000,000	1,316,142

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans at December 31 that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully-secured and collection efforts are reasonably expected to result in repayment.

	2017			
	1 - 30 days **$**	**31 - 60 days** **$**	**61 days and greater** **$**	**Total** **$**
Consumer	33,172,014	5,514,429	904,026	39,590,469
Agricultural	935,949	-	-	935,949
Commercial	3,231,022	143,574	-	3,374,596
	37,338,985	5,658,003	904,026	43,901,014

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance and title over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Upon initial recognition of loans to members, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

During the year ended December 31, 2017, the Credit Union did not acquire any assets in respect of delinquent loans.

9 Property, equipment and intangible asset

The movements in property, equipment and intangible asset were as follows:

	Property and equipment					Intangible asset	Total
	Land	Buildings	Furniture and equipment	Computer equipment	Total	Banking software	
	$	$	$	$	$	$	$
Year ended December 31, 2017							
Opening net book value	13,738,155	63,247,930	4,570,385	1,429,790	82,986,260	494,109	83,480,369
Additions	5,700	9,877	312,408	246,149	574,134	-	574,134
Disposals	-	-	(6,505)	-	(6,505)	-	(6,505)
Depreciation	-	(1,862,482)	(725,227)	(582,988)	(3,170,697)	(247,055)	(3,417,752)
Closing net book value	13,743,855	61,395,325	4,151,061	1,092,951	80,383,192	247,054	80,630,246
At December 31, 2017							
Acquisition cost	13,743,855	76,006,880	10,460,296	10,258,135	110,469,166	2,223,494	112,692,660
Accumulated depreciation	-	(14,611,555)	(6,309,235)	(9,165,184)	(30,085,974)	(1,976,440)	(32,062,414)
Net book value	13,743,855	61,395,325	4,151,061	1,092,951	80,383,192	247,054	80,630,246
Year ended December 31, 2018							
Opening net book value	13,743,885	61,395,325	4,151,061	1,092,951	80,383,192	247,054	80,630,246
Additions	-	-	39,641	724,633	764,274	-	764,274
Disposals	-	(32,988)	-	-	(32,988)	-	(32,988)
Depreciation	-	(1,866,526)	(724,933)	(645,569)	(3,237,028)	(247,054)	(3,484,082)
Closing net book value	13,743,885	59,495,811	3,465,769	1,172,015	77,877,450	-	77,877,450
At December 31, 2018							
Acquisition cost	13,743,855	75,973,892	10,499,937	10,982,768	111,200,452	2,223,494	113,423,946
Accumulated depreciation	-	(16,478,081)	(7,034,168)	(9,810,753)	(33,323,002)	(2,223,494)	(35,546,496)
Net book value	13,743,855	59,495,811	3,465,769	1,172,015	77,877,450	-	77,877,450

10 Other assets

	2018 $	2017 $
Accounts receivable	2,473,290	4,251,292
Prepaid expenses	2,792,076	2,817,908
Derivative financial asset	36,837	-
Total	5,302,203	7,069,200
Current	3,376,292	5,203,916
Non-current	1,925,911	1,865,284
	5,302,203	7,069,200

The carrying value above reasonably approximates fair value at the statement of financial position date.

11 Line of credit

The Credit Union has approved lines of credit equal to 10% of its members' deposits with Central ($534,844,109). The line of credit with Central is payable on demand with interest payable on a variable rate basis. As collateral for the line of credit, the Credit Union has pledged an assignment of shares and deposits in Central and a general assignment of loans receivable from members. At December 31, 2018, $nil of the line of credit was utilized (2017 - $nil).

12 Members' deposits

	2018 $	2017 $
Savings	3,081,791,095	2,746,321,957
Chequing	490,231,927	544,549,929
Term deposits	574,934,192	567,517,294
Registered products	1,185,582,039	1,067,794,012
Inactive accounts	432,012	383,144
	5,332,971,265	4,926,566,336
Accrued interest	15,469,827	13,262,593
	5,348,441,092	4,939,828,929
Current	4,650,509,333	4,304,486,694
Non-current	697,931,759	635,342,235
	5,348,441,092	4,939,828,929

At December 31, members' deposits amounting to $1,076,184,833 (2017 - $1,037,437,529) are at fixed interest rates and all other members' deposits, amounting to $4,272,256,259 (2017 - $3,902,391,400) are at variable rates.

13 Accounts payable

	2018 $	2017 $
The Deposit Guarantee Corporation of Manitoba assessment	1,056,920	974,296
Accrued expenses and payables	10,326,323	12,632,248
Certified cheques	1,292,227	1,095,340
Patronage refund	7,500,000	7,500,000
	20,175,470	22,201,884

Due to the short-term nature of these items, the carrying value above reasonably approximates fair value at the statement of financial position dates. All accounts payable are current.

14 Capital disclosures

Regulations to the Act establish the following requirements with respect to capital and liquidity reserves:

Capital requirements

The Credit Union shall maintain a level of capital, which is comprised of members' equity, that meets or exceeds the following requirements:

a) Total regulatory capital - its capital shall not be less than 5% of the book value of its assets;

b) Retained surplus - its retained surplus shall not be less than 3% of the book value of its assets; and

c) Risk weighted capital - a tiered level of capital shall not be less than 8% of the risk-weighted value of its assets as defined in the Regulations.

The capital calculations as at December 31 are as follows:

	2018 %	2017 %
Total regulatory capital	6.70	6.67
Retained surplus	6.69	6.67
Risk weighted capital	11.81	12.20

The Credit Union is in compliance with the capital requirements at December 31, 2018 and 2017.

Liquidity reserve

The Credit Union shall maintain in funds on hand and on deposit and investments in Central not less than 8% of its total members' deposits.

The liquidity requirements as at December 31 are as follows:

	2018 %	2017 %
Liquidity reserve	9.87	12.53

The Credit Union is in compliance with the liquidity reserve requirements at December 31, 2018 and 2017.

Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate.

15 Members' shares

Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

Each member must purchase one common share. No member may hold more than 10% of the issued shares in any class.

Authorized shares

Common shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than $5 and redeemable in the amount of consideration received for the share. The total amount of common shares purchased or redeemed by the Credit Union shall not reduce the Credit Union's equity below 5% of assets.

Issued shares

	2018 $	2017 $
Common shares	457,620	441,790

	Number of shares	
	2018	**2017**
Balance - beginning of year	88,358	86,145
Shares issued during the year	6,800	5,665
Shares redeemed during the year	(3,634)	(3,452)
Balance - end of year	91,524	88,358

16 Income taxes

The significant components of the provision for income taxes included in the consolidated statement of net income and comprehensive income are composed of:

	2018 $	2017 $
Current income taxes		
Based on current year taxable income	8,830,000	5,750,000
Deferred income taxes		
Origination and reversal of temporary differences	(1,300,000)	(1,500,000)
Provision for income taxes	7,530,000	4,250,000

The Credit Union provides for income taxes at statutory rates as determined below:

	2018 %	2017 %
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Additional deduction for credit unions	(13.01)	(13.01)
Net federal tax rate	14.99	14.99
Provincial tax rate	1.00	1.00
	15.99	15.99

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 15.99% (2017 - 15.99%) are as follows:

	2018 $	2017 $
Net income before income taxes	39,523,391	36,514,142
Expected provision for income taxes at statutory rates	6,319,790	5,838,611
Non-deductible portion of expenses	192,508	131,249
Realization of deferred tax asset	(1,300,000)	(1,500,000)
Other	2,317,702	(219,860)
Provision for income taxes	7,530,000	4,250,000

Based on the Income Tax Act, Credit Unions are entitled to a deduction from taxable income related to payments in respect of shares and therefore any dividends paid or payable by the Credit Union would result in tax savings of 12% or 27% depending on the level of taxable income of the Credit Union in the year.

Components of the deferred tax assets and liabilities are as follows:

	2018 $	2017 $
Deferred tax assets		
Loans to members	2,428,510	839,091
Accounts payable	956,668	868,155
Investments in associates	59,286	52,062
	3,444,464	1,759,308
Deferred tax liabilities		
Property, equipment and intangible assets	559,589	174,433
Total deferred taxes	2,884,875	1,584,875

The Credit Union has no material unrecognized temporary differences related to its wholly-owned subsidiary and associates.

	2018 $	2017 $
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	956,668	868,155
Deferred tax assets to be recovered after more than 12 months	2,487,796	891,153
	3,444,464	1,759,308
Deferred tax liabilities		
Deferred tax liabilities to be incurred after more than 12 months	559,589	174,433
Net deferred tax asset	2,884,875	1,584,875

17 Risk management

The Credit Union's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets and products.

Risk management is carried out by management who reports to the Board. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on the Credit Union's compliance with the risk management policies.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally loans and mortgages. The primary types of financial risk, which arise from this activity, are interest rate, credit, liquidity, foreign exchange and price risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods used in managing those risks.

Activity	Risks	Method of managing risks
Investments, funds on hand and on deposit	Sensitivity to changes in interest rates, liquidity, foreign exchange rates, and credit risk	Asset-liability matching, monitoring of investment restrictions and monitoring of counterparty risk
Loans to members	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Members' deposits	Sensitivity to changes in interest rates, liquidity and foreign exchange rates	Asset-liability matching, periodic use of derivatives

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the consolidated statement of net income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by management and reported to the Board.

In managing interest rate risk, the Credit Union relies primarily upon the use of asset-liability and interest rate sensitivity models. The Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by hedging the Credit Union's financial instruments. The Credit Union has entered into an interest rate swap in the current year. The Credit Union holds a long-term fixed rate mortgage and therefore is exposed to changes in fair value due to movements in market interest rates.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve-month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board. Based on current differences between financial assets and financial liabilities as at December 31, 2018, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $13,066,848 (2017 - $8,006,381) over the next twelve months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $13,066,848 (2017 - $8,006,381) over the next twelve months.

Other types of interest rate risk may involve basis risk, the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics (for example the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and are reported to the Board.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2018. Amounts with floating rates or due or payable on demand are classified as less than one year, regardless of maturity. Loans and deposits subject to fixed rates are based on contractual terms. Amounts that are not interest sensitive have been grouped together.

	Financial statement amounts		Interest rate swap agreement		
	Assets $	Liabilities $	Assets $	Liabilities $	Net asset/ liability gap $
Expected repricing or maturity date					
Less than one year	3,166,405,790	4,149,751,163	6,926,064	-	(976,419,309)
2 years	436,247,418	305,407,843	-	-	130,839,575
3 years	574,961,392	213,864,200	-	-	361,097,192
4 years	731,082,543	216,883,418	-	-	514,199,125
5 years	815,765,869	103,098,559	-	-	712,667,310
Over 5 years	49,283,012	-	-	6,926,064	42,356,948
	5,773,746,024	4,989,005,183	6,926,064	6,926,064	784,740,841
Not interest sensitive	141,577,506	926,318,347	-	-	(784,740,841)
	5,915,323,530	5,915,323,530	6,926,064	6,926,064	-

The average rate for interest bearing assets is 3.61% (2017 - 3.14%) and for interest bearing liabilities is 2.64% (2017 - 2.02%).

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

The Credit Union manages this risk exposure by entering into pay fixed/receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Credit Union. The interest rate risk component is determined as the change in fair market value of the long-term fixed rate mortgages arising solely from changes. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the loan attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swap.

The Credit Union establishes the hedging ratio by matching the notional value of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

(i) differences between the expected and actual volume of prepayments, as the Credit Union hedges to the expected repayment date taking into account expected prepayments based on past experience;

(ii) difference in the discounting between the hedged item and the hedging instrument;

(iii) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and

(iv) counterparty credit risk, which impacts the fair value of uncollateralized interest rate, swaps but not the hedged items.

The following table contains details of the hedging instruments used in the Credit Union's hedging strategies:

	Carrying amount		
	Notional $	**Liabilities $**	**Statement of financial position line items**
Fair value hedges			
Interest rate swaps	6,926,064	(36,837)	Accounts payable

The following table contains details of the hedged exposures covered by the Credit Union's hedging strategies:

	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Statement of financial position line item
	Assets **$**	**Assets** **$**	
Fixed rate mortgages	6,926,064		Loans to members
		36,837	Other assets

Credit risk

The measurement of ECL under IFRS 9 uses the information and approaches that the Credit Union uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed below.

Credit risk is the risk that a Credit Union member or counterparty fail to fulfil their contracted obligations to the Credit Union. Significant changes in the economy of Manitoba or deterioration in lending sectors, which represent a concentration within the Credit Union's loan portfolio, may result in losses that are different from those provided for at the date of the consolidated statement of financial position. Credit risk is the single largest risk for the Credit Union's business; management therefore carefully manages its exposure to credit risk. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in loans to members and investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is centralized in the Credit Risk Management department with regular reports to the Executive Team, Audit Committee and the Board of Directors.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member.

The Board is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and credit scoring system, and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member; an assessment of the credit quality of the member is made. The Credit Union emphasises responsible lending in its relationships with members and to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Credit Union uses internal credit risk gradings that reflect its assessment of the Probability of Default of individual counterparties. The Credit Union use internal rating models tailored to the various categories of the counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for consumer exposures; and turnover and industry type for commercial exposures) is fed into this rating model. This is supplemented with external data such as credit report scoring information on individual borrowers. In addition, the models enable expert judgement from the Executive Vice-President, Risk Management and the Executive Team to be fed into the final internal credit rating for each exposure. This allows for considerations, which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between satisfactory or acceptable risk rating grade is lower than the difference in the PD between a caution risk or a greater risk grade.

The Credit Union has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Credit Union considers three components: (i) the "probability of default" (PD) by the member or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Credit Union derives the "exposure at default" (EAD); and (iii) the likely recovery ratio on the defaulted obligations, "the loss given default" (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

The classes of financial instruments to which the Credit Union is most exposed are loans to members, funds on hand and on deposit and investments. The maximum exposure to credit risk from financial assets is as follows:

	December 31, 2018		
Credit risk exposure	**Outstanding $**	**Undrawn commitments $**	**Total exposure $**
Funds on hand and on deposit	25,775,484	-	25,775,484
Investments	542,290,182	-	542,290,182
Consumer loans	3,007,578,954	316,702,638	3,324,281,592
Agricultural loans	410,900,945	75,308,230	486,209,175
Commercial loans	1,827,419,254	200,883,770	2,028,303,024
Accrued interest	9,342,631	-	9,342,631
Total exposure	5,823,307,450	592,894,638	6,416,202,088

	December 31, 2017		
Credit risk exposure	**Outstanding $**	**Undrawn commitments $**	**Total exposure $**
Funds on hand and on deposit	61,475,143	-	61,475,143
Investments	602,607,847	-	602,607,847
Consumer loans	2,701,346,272	305,452,088	3,006,798,360
Agricultural loans	380,456,105	79,765,316	460,221,421
Commercial loans	1,601,283,714	208,429,538	1,809,713,252
Accrued interest	7,499,167	-	7,499,167
Total exposure	5,354,668,248	593,646,942	5,948,315,190

The above table represents a worst-case scenario of credit risk exposure to the Credit Union at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements attached.

a) Funds on hand and on deposit and investments

Credit risk related to funds on hand and on deposit and investments is considered insignificant as substantially all of these assets are invested with Central.

b) Consumer loans and lines of credit

Consumer loans primarily consist of personal loans and $2,710,818,378 (2017 - $2,427,253,516) of real estate mortgages which are fully secured by residential property. The Credit Union's policy is to not exceed a loan-to-value ratio of 80%.

After the date of initial recognition, for consumer business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower, which impacts their creditworthiness - such as unemployment and previous delinquency history, is also incorporated into the behavioural score. This score is mapped to a PD.

c) Agricultural and commercial loans and lines of credit

The Credit Union often takes security as collateral consistent with other lending institutions. The Credit Union maintains credit policy on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

For agriculture and commercial business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as financial statements. This will determine the updated internal credit rating and PD.

The Credit Union's commercial lending is diversified by industry type, as follows:

	2018 %	2017 %
Agricultural	17.8	19.9
Commercial rental	44.9	42.1
Construction	5.2	5.0
Hospitality	8.0	8.5
Industrial	8.8	12.2
Residential rental	13.7	10.4
Retail	1.6	1.9

The credit quality of the loan portfolio for those loans, which are neither past due or impaired can be assessed by reference to the Deposit Guarantee Corporation of Manitoba's (Deposit Guarantee Corporation) risk rating model. The Credit Union assesses the probability of a default using the below risk rating tools and taking into account statistical analysis as well as the experience and judgement of the Credit department.

	2018 %	2017 %
Excellent risk	1.8	2.6
Very good risk	3.6	5.3
Good risk	34.7	35.6
Acceptable risk	52.6	49.1
Caution risk	4.4	4.5
At risk	0.9	1.2
Impaired - no reserve	0.2	0.4
Impaired - reserve	1.8	1.3

Expected credit loss measurement

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Credit Union.

- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
Initial recognition	Significant increase in credit risk since initial recognition	Credit-impaired assets
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Credit Union in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

The Credit Union considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Quantitative criteria

Consumer loans

A consumer loan is considered to be a satisfactory credit risk (Stage 1) when the member has a beacon score equal to or greater than 650 and with a range of a minimum 650 and max 900 beacon score. A significant credit risk exists (Stage 2) when the members beacon score is less than 650 and with a range of a max of 649 and minimum of 300 beacon score. A members credit is also considered to have significant risk when there is a negative movement cumulatively since inception of 100 points or greater. A members credit is considered to be impaired based on individual review of the relationship. All credit relationships are reviewed at 90 days delinquency or prior when additional risk is identified including qualitative criteria.

Agricultural and Commercial loans

An agricultural or commercial loan is considered to be a satisfactory credit risk (Stage 1) when the member has a Manitoba Risk Rating Model (MRRM) score of equal to or better than 1 and with a range of a minimum 4 and max 1 score. A significant credit risk exists (Stage 2) when the members MRRM score is less than 4 with a range of a max of 5 and a minimum of 7. A members credit is also considered to have significant risk when there is a negative movement since inception of 1 basis point or greater. A members credit is considered to be impaired based on individual review of the relationship. All credit relationships are reviewed at 90 days delinquency or prior when additional risk is identified including qualitative criteria.

Qualitative criteria

Consumer loans

For consumer portfolios, if the borrower meets one or more of the following criteria:

- In short-term forbearance;
- Direct debit cancellation;
- Extension to the terms granted; or
- Previous arrears within the last 12 months

<u>Agricultural and Commercial loans</u>

For agriculture and commercial portfolios, if the borrower is on the watch list and/or the loan meets one or more of the following criteria:

- Significant increase in credit spread;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value which is expected to increase risk of default; and
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all instruments held by the Credit Union. A watchlist is used to monitor credit risk; this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 90 days past due on its contractual payments.

The Credit Union has not used the low credit risk exemption for any financial instruments in the year ended December 31, 2018.

Definition of default and credit-impaired assets

The Credit Union defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following:

Quantitative criteria

The borrower is more than 30 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- It is becoming probable that the borrower will enter bankruptcy; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Credit Union and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Credit Union's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis, which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default, Exposure at Default, and Loss Given Default, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation,
- EAD is based on the amounts the Credit Union expects to be owed at the time of default,
- Loss Given Default (LGD) represents the Credit Union's expectation of the extent of loss on a defaulted exposure.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate use in the ECL calculation is the original effective interest rate.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Credit Union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Credit Union's risk management team on a quarterly basis and provide the best estimate view of the economy.

In addition to the base economic scenario, the Credit Union's risk management team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At January 1, 2018 and December 31, 2018, the Credit Union concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. Following this assessment, the Credit Union measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Credit Union considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Credit Union's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at January 1, 2018 and December 31, 2018 are set out below:

Consumer
- Manitoba unemployment
- Manitoba gross domestic product (GDP)
- Manitoba residential housing price

Commercial
- Winnipeg multi family cap rates
- Winnipeg multi family vacancy rates
- New to Manitoba immigration

Agriculture
- Manitoba rural agricultural land values
- Changes to agricultural supply side managed industry
- Manitoba farm cash flows

The economic scenarios for Stages 1 and 2 as at January 1, 2018 and December 31, 2018 were as follows:

Consumer
- Stage 1
  - Scenario 1 - Drop in Manitoba residential housing prices
  - Scenario 2 - Expected
  - Scenario 3 - Increase in Manitoba unemployment
- Stage 2
  - Scenario 1 - Drop in Manitoba residential housing prices
  - Scenario 2 - Expected
  - Scenario 3 - Increase in Manitoba unemployment

Commercial
- Stage 1
  - Scenario 1 - Increase in Winnipeg multi family cap rates
  - Scenario 2 - Expected
  - Scenario 3 - Increase in Winnipeg multi family vacancy rates
- Stage 2
  - Scenario 1 - Increase in Winnipeg multi family cap rates
  - Scenario 2 - Expected
  - Scenario 3 - Increase in Winnipeg multi family vacancy rates

Agriculture
- Stage 1
  - Scenario 1 - Decrease in Manitoba rural agricultural land values
  - Scenario 2 - Expected
  - Scenario 3 - Negative changes to agriculture supply side managed industry
- Stage 2
  - Scenario 1 - Decrease in Manitoba rural agricultural land values
  - Scenario 2 - Expected
  - Scenario 3 - Negative changes to agriculture supply side managed industry

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows:

Consumer

(i) House price index, given the significant impact it has on mortgage collateral valuations; and
(ii) Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Agriculture

(i) Supply management disruption, given the significant impact on farm operations' performance; and
(ii) Land values, given its impact on farmers' collateral valuations and likelihood of default.

Commercial

(i) Vacancy increases, given the significant impact on performance and collateral valuations; and
(ii) CAP rates, given its impact on companies' likelihood of default.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Credit Union has considered benchmarking internal/external supplementary data to use for modelling purposes.

The following exposures are assessed individually:

Consumer
- Stage 3 loans;
- Loans that are 90 days in arrears or greater; and
- Any individual loan that is identified as higher risk

Commercial
- Stage 3 loans;
- Loans that are 90 days in arrears or greater; and
- Any individual loan that is identified as higher risk

Agriculture
- Stage 3 loans;
- Loans that are 90 days in arrears or greater; and
- Any individual loan that is identified as higher risk

The appropriateness of groupings is monitored and reviewed on a periodic based by the Credit Risk team.

Collateral and other credit enhancements

The Credit Union employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Credit Union has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Credit Union prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

The Credit Union's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Credit Union since the prior period.

Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in note 14. The Credit Union’s own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset-liability maturity management techniques. Management monitors rolling forecasts of the Credit Union’s liquidity requirements on the basis of expected cash flows as part of its liquidity management.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity.

The remaining contractual maturity of recognized financial instruments as at December 31, 2018 is as follows:

	Payable on demand	Payable on a fixed date			
		Less than 1 year	1 to 2 years	2 to 5 years	Total
	$	$	$	$	$
Financial assets					
Funds on hand and on deposit	25,775,484	-	-	-	25,775,484
Investments	35,454,082	501,836,100	-	5,000,000	542,290,182
Loans to members	1,622,854,940	400,776,181	535,769,682	2,695,840,981	5,255,241,784
Other financial assets	-	2,473,290	-	-	2,473,290
	1,684,084,506	905,085,571	535,769,682	2,700,840,981	5,825,780,740
Financial liabilities					
Members' deposits	4,287,781,391	363,917,969	264,558,974	432,182,758	5,348,441,092
Accounts payable	-	20,175,470	-	-	20,175,470
Secured borrowing	5,700,676	2,227,862	40,768,147	100,985,349	149,682,034
Non-financial liabilities	-	-	-	-	-
Operating lease commitments	-	21,426	4,945	-	26,371
	4,293,482,067	386,342,727	305,332,066	533,168,107	5,518,324,967

The remaining contractual maturity of recognized financial instruments as at December 31, 2017 is as follows:

	Payable on demand	Payable on a fixed date			
		Less than 1 year	1 to 2 years	2 to 5 years	Total
	$	$	$	$	$
Financial assets					
Funds on hand and on deposit	61,475,143	-	-	-	61,475,143
Investments	37,787,147	559,820,700	-	5,000,000	602,607,847
Loans to members	1,513,570,548	344,798,915	433,595,342	2,398,620,453	4,690,585,258
Other financial assets	-	4,251,292	-	-	4,251,292
	1,612,832,838	908,870,907	433,595,342	2,403,620,453	5,358,919,540
Financial liabilities					
Members' deposits	3,915,560,939	391,446,498	202,124,743	430,696,749	4,939,828,929
Accounts payable	-	24,012,134	-	-	24,012,134
Secured borrowing	6,378,146	-	2,323,075	116,926,930	125,628,151
Non-financial liabilities	-	-	-	-	-
Operating lease commitments	-	56,036	16,481	-	72,517
	3,921,939,085	415,514,668	204,464,299	547,623,679	5,089,541,731

Foreign exchange risk

Foreign exchange risk is the risk that arises when commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period.

As at December 31, 2018, the Credit Union had U.S. $nil (2017 - U.S. $nil) of notional principal in foreign exchange forward agreements to sell U.S. dollars, and U.S. $nil (2017 - U.S. $nil) of notional principal in foreign exchange forward agreements to buy U.S. dollars. These amounts are not indicative of the underlying credit risk. The credit risk is represented by the cost to replace the agreement with one of the counterparties at December 31, 2018. This cost would be incurred only in the event of failure by the counterparty to honour its contractual obligations. The counterparties for all agreements are restricted to the major chartered banks and members of the Credit Union, and it is management's assessment that an event of failure is remote and that the associated credit risk is insignificant.

Price risk

Price risk arises from changes in market risks, other than interest rate, credit, liquidity or foreign exchange risk, causing fluctuations in the fair value or future cash flows of a financial instrument. Price risk is not considered significant at this time.

18 Fair value of financial instruments

Differences between book value and fair value of investments, loans to members, member deposits and other financial assets and liabilities are caused by differences between the interest rate obtained at the time of the original investment, loan or deposit and the current rate for the same product. Loans to members and member deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the ultimate realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value of loans and member deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates, estimated rates of repayment with the future cash flows discounted using current market rates for equivalent groups of mortgages or loans. The future cash flows on fixed rate deposits and fixed rate borrowings are discounted to their estimated present value using a discount rate based on the Credit Union's posted interest rates curve, which is constructed using the forward yield curve of a closely correlated market rate. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium over Government of Canada rates. The significant assumptions included in the determination of fair value include estimates of credit losses, estimates of interest rates and the estimates of discount rates.

The most significant assumption relates to the discount rates utilized. It is estimated that a 10 basis point change in the discount rate would change the fair value of loans to members and investments by approximately $6,978,717 (2017 - $6,004,240), and the fair value of members' deposits and secured borrowing by approximately $2,238,947 (2017 - $2,148,493).

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment. The fair values also exclude accounts payable as the fair values of these financial instruments are estimated to approximate book values.

Fair value of financial assets and liabilities

As at December 31, 2018:

	FVOCI $	Financial assets/ liabilities at cost or amortized cost $	Estimated fair value $	Fair value greater (less) than carrying value $
Financial assets				
Funds on hand and on deposit	-	25,775,484	25,774,484	-
Investments	39,365,514	502,924,668	542,290,182	-
Loans to members	-	5,243,677,449	5,201,904,961	(41,772,487)
Total financial assets	39,365,514	5,772,377,601	5,769,969,627	(41,772,487)
Financial liabilities				
Members' deposits	-	5,348,441,092	5,341,484,891	(6,956,201)
Secured borrowing	-	149,682,034	147,034,811	(2,647,223)
Total financial liabilities	-	5,498,123,126	5,488,519,702	(9,603,424)

As at December 31, 2017:

	AFS $	Financial assets/ liabilities at cost or amortized cost $	Estimated fair value $	Fair value greater (less) than carrying value $
Financial assets				
Funds on hand and on deposit	-	61,475,143	61,475,143	-
Investments	41,757,238	560,850,609	603,424,098	816,251
Loans to members	-	4,682,169,390	4,670,419,945	(11,749,445)
Total financial assets	41,757,238	5,304,495,142	5,335,319,186	(10,933,194)
Financial liabilities				
Members' deposits	-	4,939,828,929	4,937,236,446	(2,592,483)
Secured borrowing	-	125,628,151	122,675,218	(2,952,933)
Total financial liabilities	-	5,065,457,080	5,059,911,664	(5,545,416)

Fair value hierarchy

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

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities*

  There are no assets measured at fair value classified as Level 1.

- *Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)*

  Level 2 inputs include quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include FVOCI investments and funds on deposit.

- *Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities*

  Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgement or estimation. There are no assets carried at fair value classified as Level 3.

  While not carried at fair value, fair values are disclosed for funds on hand and on deposit, investments, loans to members, member deposits and secured borrowings. These financial assets and liabilities would be classified as Level 3.

19 Investments in associates

	2018 $	2017 $
Beginning of year	17,939,910	10,690,898
Acquisitions	-	7,631,538
Investment in associates equity income (loss)	153,449	(56,726)
Return of capital	(577,472)	(325,800)
End of year	17,515,887	17,939,910

There were no published price quotations for any associates of the Credit Union. Furthermore, there are no significant restrictions on the ability of associates to transfer funds to the Credit Union in the form of cash dividends, or repayment of loans.

20 Net change in non-cash working capital items

	2018 $	2017 $
Loans to members - net of repayments	(565,728,434)	(460,333,452)
Members' deposits - net of withdrawals	408,612,163	370,553,282
Net increase in secured borrowing	24,053,883	13,186,415
Net decrease in investments	60,317,665	85,841,099
Net decrease in income taxes recoverable	(1,049,612)	2,386,371
Net decrease in accounts payable	(2,026,414)	(1,526,134)
Net increase in other assets	1,766,997	(377,384)
	(74,053,752)	9,730,197

21 Transactions with The Deposit Guarantee Corporation of Manitoba, Central and related parties

The Deposit Guarantee Corporation

The Deposit Guarantee Corporation was incorporated for the purpose of protecting the members of credit unions/Caisse from financial loss in respect of their deposits with credit unions/Caisse and to ensure credit unions/Caisse operate under sound business practice. The Deposit Guarantee Corporation guarantees all deposits of members of Manitoba credit unions/Caisse.

Transactions with the Deposit Guarantee Corporation included assessments of $4,074,834 (2017 - $3,766,576) and are recorded as member security expense.

Amounts payable at year end are disclosed in note 13.

Central

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

Transactions with Central included income earned on investments referred to in note 7 in the amount of $13,784,980 (2017 - $11,492,360) and fees assessed by Central which include annual affiliation dues in the amount of $1,065,302 (2017 - $1,042,808) recorded as organizational expenses.

Compensation of key management personnel

Key management personnel of the Credit Union include all directors and senior management. The summary of compensation for key management personnel is as follows:

	2018 $	2017 $
Salaries and other short-term employee benefits	3,846,152	3,737,030

As at December 31, 2018, outstanding loans to key management personnel totalled 0.25% (2017 - 0.26%), in aggregate, of the loans to members of the Credit Union. No provisions have been recognized in respect of loans issued to related parties in the current year. As at December 31, 2018, outstanding members' deposits to key management personnel totalled 0.54% (2017 - 0.40%), in aggregate, of the members' deposits of the Credit Union.

Transactions with directors are at terms and conditions as set out by the statutes, by-laws and policies of the Credit Union. Honouraria and per diems, fees and expenses paid by the Credit Union on behalf of the directors were $501,880 (2017 - $470,396).

Loans to directors, staff and investment in associates

All transactions with the Credit Union's directors, management and employees were in accordance with the statutes, by-laws and policies of the Credit Union.

As at December 31, 2018, outstanding loans to directors, management, staff and investments in associates totalled 2.11% (2017 - 2.21%), in aggregate, of the assets of the Credit Union.

22 Secured borrowing

The Credit Union has entered into asset transfer agreements with other third parties, which include securitization of residential mortgages. The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The Credit Union has determined that an amount of $149,682,034 (2017 - $125,628,151) raised from securitization transactions should be accounted for as a secured borrowing as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transaction. The carrying amount as at December 31, 2018, of the associated residential mortgages held as security is $150,844,282 (2017 - $126,230,894). As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings. The Credit Union did not enter into any securitization transactions during the year where all of the risks and rewards of ownership were transferred.

	2018 $	2017 $
Current	12,351,955	3,969,314
Non-current	137,330,079	121,658,837
	149,682,034	125,628,151

23 Director and officer indemnification

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

24 Contingencies

The Credit Union, in the course of its operations, is subject to lawsuits. As a policy, the Credit Union will accrue for losses in instances where it is more likely than not that liabilities have been incurred and where such liabilities can be reasonably estimated.

25 Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Co-operative Superannuation Society Limited and are not recorded in these consolidated financial statements. The Credit Union matches employee contributions, which range between 5% and 7% of the employee's salary. The expense and payments for the year ended December 31, 2018 were $1,030,419 (2017 - $1,022,615). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.