SCU

Consolidated Financial Statements

December 31, 2017

February 22, 2018

Independent Auditor's Report

To the Members of
Steinbach Credit Union Limited

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

Steinbach Credit Union Limited

Consolidated Statement of Financial Position

As at December 31

	2017 $	2016 $
Assets		
Funds on hand and on deposit	61,475,143	23,609,637
Investments (note 6)	602,607,847	688,448,946
Loans to members (note 7)	4,682,169,390	4,223,594,929
Income tax recoverable	-	576,121
Other assets (note 9)	7,069,200	6,691,816
Investments in associates (note 18)	17,939,910	10,690,898
Property, equipment and intangible assets (note 8)	80,630,246	83,480,369
Deferred income tax assets (note 15)	1,584,875	84,875
	5,453,476,611	5,037,177,591
Liabilities		
Members' deposits (note 11)	4,939,828,929	4,569,275,647
Accounts payable (note 12)	22,201,884	23,728,018
Income tax payable	1,810,250	-
Secured borrowing (note 21)	125,628,151	112,441,736
	5,089,469,214	4,705,445,401
Equity (note 13)		
Members' shares (note 14)	441,790	430,725
Retained surplus	363,565,607	331,301,465
	364,007,397	331,732,190
	5,453,476,611	5,037,177,591

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

	2017 $	2016 $
Income		
Interest from loans to members	145,064,432	132,101,625
Investment income	11,882,685	12,108,573
	156,947,117	144,210,198
Cost of funds		
Interest paid to members	77,197,815	71,020,272
Interest paid - other	1,865,138	1,365,384
	79,062,953	72,385,656
Financial margin	77,884,164	71,824,542
Operating expenses		
Administrative	15,470,051	14,352,873
Member security	4,222,781	4,060,149
Occupancy	5,445,138	5,304,891
Organizational	2,215,640	2,192,801
Personnel	27,441,117	26,605,394
	54,794,727	52,516,108
Less: Other income	22,707,999	21,334,352
	32,086,728	31,181,756
Net income before provision for doubtful loans, patronage refund and income taxes	45,797,436	40,642,786
Provision for doubtful loans	1,758,991	1,114,959
	44,038,445	39,527,827
Patronage refund	7,524,303	7,508,983
Net income before income taxes	36,514,142	32,018,844
Provision for income taxes (note 15)	4,250,000	5,075,000
Net income and comprehensive income for the year	32,264,142	26,943,844

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

Steinbach Credit Union Limited

Consolidated Statement of Changes in Equity

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 14)	11,065	-	11,065
Balance at December 31, 2017	441,790	363,565,607	364,007,397
Balance at January 1, 2016	422,745	304,357,621	304,780,366
Net income and comprehensive income for the year	-	26,943,844	26,943,844
Common shares issued - net of redemptions (note 14)	7,980	-	7,980
Balance at December 31, 2016	430,725	331,301,465	331,732,190

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

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	32,264,142	26,943,844
Items not affecting cash		
Depreciation and amortization expense	3,417,752	3,315,177
Deferred income taxes	(1,500,000)	800,000
Provision for doubtful loans	1,758,991	1,114,959
Investment in associate loss (note 18)	56,726	23,386
Loss on disposal of property and equipment	6,505	29,282
	36,004,116	32,226,648
Change in non-cash working capital items (note 19)	9,730,197	(53,078,861)
	45,734,313	(20,852,213)
Investing activities		
Property and equipment acquisitions	(574,134)	(1,706,345)
Investment in associates (note 18)	(7,631,538)	-
Investment in associates return of capital (note 18)	325,800	316,800
	(7,879,872)	(1,389,545)
Financing activities		
Issue of members' shares - net	11,065	7,980
Net increase (decrease) in funds on hand and on deposit during the year	37,865,506	(22,233,778)
Funds on hand and on deposit - Beginning of year	23,609,637	45,843,415
Funds on hand and on deposit - End of year	61,475,143	23,609,637
Supplemental information		
Interest received	155,353,410	144,124,619
Interest paid	79,281,383	72,514,577
Income tax paid	3,363,629	2,347,801

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 that are accounted for by the equity or cost methods. 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 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 allowance for doubtful loans, the measurement of income taxes, recognition of securitization arrangements and the fair value of financial instruments and are disclosed in note 4.

3 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 that are accounted for by the equity and cost methods. 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

The Credit Union designates 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.

Loans and receivables

Loans to members, contract deposits with Credit Union Central of Manitoba (Central), Canadian Mortgage and Housing Corporation (CMHC) mortgage pools 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, 2017, 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 financial instruments 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.

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 Company'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.

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.

4 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.

Significant accounting judgements, estimates and assumptions

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.

Allowance for doubtful loans

The Credit Union reviews its loan portfolio to assess the allowance for doubtful loans at least on a quarterly basis. In determining whether an allowance for doubtful loans should be recorded in the consolidated statement of net income and comprehensive income, the Credit Union makes judgements as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on assets in the Credit Union. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Further details of the allowance for doubtful loans are disclosed in note 7.

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 15.

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 21.

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 17.

5 Standards and interpretations issued but not yet effective

Adoption of new and amended accounting standards

Effective January 1, 2017, the Credit Union adopted the following new and amended accounting standards:

IAS 7 - "Statement of Cash Flows"

In January 2016, IAS 7 was amended to clarify guidance in the standard related to disclosures around financing activities and liquidity. These amendments require disclosures around changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The Credit Union has determined that there were no significant impacts to the consolidated financial statements.

IAS 12 - "Income Taxes"

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable profits, and the assessment of deferred tax assets in combination with other deferred tax assets. The Credit Union has determined that there were no significant impacts to the consolidated financial statements.

Annual improvement cycles

The annual improvement cycle for 2014 - 2016 was issued in December 2016 by the IASB and included minor amendments to IFRS 12 - "Disclosure of Interests in Other Entities". The Credit Union has determined that there were no significant impacts to the consolidated financial statements.

Future accounting changes

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.

i) *IFRS 7 – "Financial Instruments: Disclosures"*

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 – "Financial Instruments: Recognition and Measurement" (IAS 39) to IFRS 9 – "Financial Instruments" (IFRS 9) which is effective for annual periods beginning on or after January 1, 2018. The amendments are effective on adoption of IFRS 9. The amendments issued are permitted to be early adopted where IFRS 9 is also early adopted. The Credit Union is evaluating the impact this amendment will have on the consolidated financial statements.

ii) *IFRS 9 - "Financial Instruments"*

IFRS 9 is a three-part standard aimed at reducing complexity in reporting financial instruments by replacing the different rules in IAS 39, "Financial Instruments - Recognition and Measurement". The project has been divided into three phases: Phase 1 - Classification and Measurement, Phase 2 - Impairment, and Phase 3 - Hedge Accounting. Phase 1 - Classification and Measurement was issued in November 2009 and amended in October 2010. It requires financial assets to be recorded at amortized cost or fair value, depending on the entity's business model for managing the assets and their associated cash flow characteristics. All financial assets are to be measured at fair value on the balance sheet if they are not measured at amortized cost. At initial recognition, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss (FVTPL), if doing so eliminates or significantly reduces a measurement recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Phase 2 - Impairment was completed in July 2014, and introduced a new expected loss impairment methodology. This standard introduces an expected credit loss model, which applies to all financial assets unless designated as FVTPL. This impairment model requires a 12-month expected credit loss provision at initial recognition. Subsequently, a significant increase to credit risks of a financial asset will result in an increase of the impairment provision to the financial asset's lifetime expected credit loss. In the event that significant credit risks are reduced, the impairment model allows for the provision to return the financial asset's 12-month expected credit loss. Changes in the impairment loss will be recorded in the consolidated statement of net income and comprehensive income.

Phase 3 - Hedge Accounting was completed in November 2013. This phase replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities.

The complete standard was issued by the IASB in July 2014, and is effective for annual periods beginning on or after January 1, 2018. Early application is permitted.

The Credit Union is evaluating the impact this standard will have on the consolidated financial statements.

iii) *IFRS 15 – "Revenue from Contracts with Customers"*

IFRS 15 was issued in May 2014, and is intended to replace IAS 18, IAS 11 – "Construction Contracts", and related IFRICs. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. Generally Accepted Accounting Principles, and applies to revenue arising from contracts with customers, including service contracts. This standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Credit Union is evaluating the impact this standard will have on the consolidated financial statements.

iv) *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 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 evaluating the impact this standard will have on the consolidated financial statements.

v) *IFRIC 22 "Foreign currency transactions and advance consideration"*

IFRIC 22 was issued in December 2016 and addresses how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. In particular, IFRIC 22 addresses foreign currency transactions or parts of transactions where: there is consideration that is denominated or priced in a foreign currency; the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary. The standard is effective for annual periods beginning on or after January 1, 2018. The Credit Union does not expect this amendment to impact the consolidated financial statements.

vi) *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, unusual 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.

vii) Annual Improvements

The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects.

The annual improvement cycle for 2014-2016 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 amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The Credit Union does not expect these amendments to significantly impact the consolidated financial statements.

viii) 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 combinations", 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 Company is currently evaluating the impact that these amendments will have on its consolidated financial statements.

6 Investments

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

				December 31, 2017
	AFS $	L&R $	HTM $	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

	December 31, 2016			
	AFS **$**	**L&R** **$**	**HTM** **$**	**Total** **$**
Credit Union Central of Manitoba				
Shares	37,833,610	-	-	37,833,610
Term deposits	-	627,952,500	-	627,952,500
	37,833,610	627,952,500	-	665,786,110
Concentra Bank				
Shares	5,043,363	-	-	5,043,363
CMHC insured mortgage pools	-	16,937,547	-	16,937,547
City of Steinbach debentures	-	-	104,499	104,499
	42,876,973	644,890,047	104,499	687,871,519
Accrued interest receivable	-	577,427	-	577,427
	42,876,973	645,467,474	104,499	688,448,946

Investment interest rates and maturities range as follows:

	2017		2016	
	Interest rates ranging from	**Maturity dates ranging from**	**Interest rates ranging from**	**Maturity dates ranging from**
Term deposits	1.15% - 1.57%	30 - 90 days	0.55% - 0.95%	30 - 90 days
Debentures	-	-	2.25% - 4.60%	30 days - 5 years
CMHC insured mortgage pools	-	-	3.47% - 3.99%	1 year

7 Loans to members

At December 31, 2017, loans to members are presented net of allowances for doubtful loans totalling $8,415,868 (2016 - $8,191,324), consisting of individually significant allowances of $4,911,380 (2016 - $5,918,046) for loans considered impaired and $3,504,488 (2016 - $2,273,278) 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

			December 31, 2016
	Gross loan balance $	Allowances $	Net loan balance $
Consumer	2,418,820,183	(2,181,660)	2,416,638,523
Agricultural	343,785,556	-	343,785,556
Commercial	1,462,822,572	(3,736,386)	1,459,086,186
	4,225,428,311	(5,918,046)	4,219,510,265
Accrued interest	6,357,942	-	6,357,942
Collective allowances	-	(2,273,278)	(2,273,278)
	4,231,786,253	(8,191,324)	4,223,594,929
Current			907,614,833
Non-current			3,315,980,096

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

	December 31, 2016			
	Impaired loan balance $	Individually significant allowances $	Net impaired loan balance $	Fair value of collateral $
Consumer	5,350,278	(2,181,660)	3,168,618	3,437,186
Commercial	34,173,176	(3,736,386)	30,436,790	29,809,473
	39,523,454	(5,918,046)	33,605,408	33,246,659
Accrued interest	186,466	-	186,466	-
	39,709,920	(5,918,046)	33,791,874	33,246,659

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)

	December 31, 2016			
	Consumer $	**Agricultural $**	**Commercial $**	**Total $**
Individually significant allowance	(2,181,660)	-	(3,736,386)	(5,918,046)
Collective allowance	(1,329,143)	-	(944,135)	(2,273,278)
	(3,510,803)	-	(4,680,521)	(8,191,324)

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

	2016					
	Consumer		**Agricultural**		**Commercial**	
	Individual significant allowance $	**Collective allowance $**	**Individual significant allowance $**	**Collective allowance $**	**Individual significant allowance $**	**Collective allowance $**
Balance - beginning of year	3,016,353	2,252,398	-	-	1,027,243	2,337,287
Reversal of impairment	(989,999)	-	-	-	(228,082)	-
Increase (decrease) in impairment provision	656,854	(152,068)	-	3,906	3,157,514	(1,333,166)
Loans written off in the year	(501,548)	(771,187)	-	(3,906)	(220,289)	(59,986)
Balance - end of year	2,181,660	1,329,143	-	-	3,736,386	944,135

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

	2016			
	1 - 30 days $	**31 - 60 days $**	**61 days and greater $**	**Total $**
Consumer	36,153,067	6,177,024	1,402,208	43,732,299
Agricultural	432,194	10,000	-	442,194
Commercial	2,853,526	6,032,880	42,561	8,928,967
	39,438,787	12,219,904	1,444,769	53,103,460

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.

8 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, 2016							
Opening net book value	13,712,083	64,043,112	5,166,706	1,455,418	84,377,319	741,164	85,118,483
Additions	26,072	1,101,014	111,043	468,216	1,706,345	-	1,706,345
Disposals	-	(28,697)	-	(585)	(29,282)	-	(29,282)
Depreciation	-	(1,867,499)	(707,364)	(493,259)	(3,068,122)	(247,055)	(3,315,177)
Closing net book value	13,738,155	63,247,930	4,570,385	1,429,790	82,986,260	494,109	83,480,369
At December 31, 2016							
Acquisition cost	13,738,155	75,997,003	10,154,393	10,011,986	109,901,537	2,223,494	112,125,031
Accumulated depreciation	-	(12,749,073)	(5,584,008)	(8,582,196)	(26,915,277)	(1,729,385)	(28,644,662)
Net book value	13,738,155	63,247,930	4,570,385	1,429,790	82,986,260	494,109	83,480,369
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

9 Other assets

	2017 $	2016 $
Accounts receivable	4,251,292	3,935,660
Prepaid expenses	2,817,908	2,756,156
Total	7,069,200	6,691,816
Current	5,203,916	5,113,198
Non-current	1,865,284	1,578,618

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

10 Line of credit

The Credit Union has approved lines of credit equal to 10% of its members' deposits with Central ($493,982,893). 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, 2017, $nil of the line of credit was utilized (2016 - $nil).

11 Members' deposits

	2017 $	2016 $
Savings	2,746,321,957	2,500,959,116
Chequing	544,549,929	490,882,369
Term deposits	567,517,294	564,327,815
Registered products	1,067,794,012	999,041,805
Inactive accounts	383,144	583,519
	4,926,566,336	4,555,794,624
Accrued interest	13,262,593	13,481,023
	4,939,828,929	4,569,275,647
Current	4,304,486,694	4,032,030,582
Non-current	635,342,235	537,245,065

At December 31, members' deposits amounting to $1,037,437,529 (2016 - $1,022,994,356) are at fixed interest rates and all other members' deposits, amounting to $3,902,391,400 (2016 - $3,546,281,291) are at variable rates.

12 Accounts payable

	2017 $	2016 $
The Deposit Guarantee Corporation of Manitoba assessment	974,296	906,456
Accrued expenses and payables	12,632,248	14,265,085
Certified cheques	1,095,340	1,056,477
Patronage refund	7,500,000	7,500,000
	22,201,884	23,728,018

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.

13 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:

	2017 %	2016 %
Total regulatory capital	6.67	6.59
Retained surplus	6.67	6.58
Risk weighted capital	12.20	12.28

The Credit Union is in compliance with the capital requirements at December 31, 2017 and 2016.

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:

	2017 %	2016 %
Liquidity reserve	12.53	14.23

The Credit Union is in compliance with the liquidity reserve requirements at December 31, 2017 and 2016.

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.

14 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

	2017 $	2016 $
Common shares	441,790	430,725

	Number of shares	
	2017	2016
Balance - beginning of year	86,145	84,549
Shares issued during the year	5,665	4,817
Shares redeemed during the year	(3,452)	(3,221)
Balance - end of year	88,358	86,145

15 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:

	2017 $	2016 $
Current income taxes		
Based on current year taxable income	5,750,000	4,275,000
Deferred income taxes		
Origination and reversal of temporary differences	(1,500,000)	800,000
Provision for income taxes	4,250,000	5,075,000

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

	2017 %	2016 %
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Additional deduction for credit unions	(13.01)	(13.87)
Net federal tax rate	14.99	14.13
Provincial tax rate	1.00	1.00
	15.99	15.13

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 15.99% (2016 - 15.13%) are as follows:

	2017 $	2016 $
Net income before income taxes	36,514,142	32,018,844
Expected provision for income taxes at statutory rates	5,838,611	4,844,451
Non-deductible portion of expenses	131,249	72,576
Realization of deferred tax asset	(1,500,000)	-
Other	(219,860)	157,973
Provision for income taxes	4,250,000	5,075,000

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:

	2017 $	2016 $
Deferred tax assets		
Loans to members	839,091	601,667
Accounts payable	868,155	799,262
Investments in associates	52,062	-
	1,759,308	1,400,929
Deferred tax liabilities		
Property, equipment and intangible assets	174,433	1,316,054
Total deferred taxes	1,584,875	84,875

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

	2017 $	2016 $
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	868,155	799,262
Deferred tax assets to be recovered after more than 12 months	891,153	601,667
	1,759,308	1,400,929
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	174,433	1,316,054
Net deferred tax asset	1,584,875	84,875

16 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. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union's financial instruments. The Credit Union has not entered into any interest rate swaps in the current year.

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, 2017, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by $8,006,381 (2016 - $5,047,945) over the next twelve months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by $8,006,381 (2016 - $5,047,945) 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, 2017. 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.

	Assets $	Liabilities and members' equity $	Net asset/ liability gap $
Expected repricing or maturity date			
Less than one year	3,191,408,164	3,751,380,210	(559,972,046)
1 to 2 years	291,973,754	204,447,818	87,525,936
2 to 3 years	461,939,234	253,813,259	208,125,975
3 to 4 years	552,754,976	189,563,562	363,191,414
4 to 5 years	759,832,962	104,555,567	655,277,395
Over 5 years	43,940,196	-	43,940,196
Not interest sensitive	151,627,325	949,716,195	(798,088,870)
	5,453,476,611	5,453,476,611	-

The average rate for interest bearing assets is 3.14% (2016 - 2.85%) and for interest bearing liabilities is 2.02% (2016 - 1.76%).

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.

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the date of the consolidated statement of financial position. 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 reported to the Board.

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 is complex and requires the use of models, as the value 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 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" by the client 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"; and (iii) the likely recovery ratio on the defaulted obligations (the loss given default). 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, 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

	December 31, 2016		
Credit risk exposure	**Outstanding $**	**Undrawn commitments $**	**Total exposure $**
Funds on hand and on deposit	23,609,637	-	23,609,637
Investments	688,448,946	-	688,448,946
Consumer loans	2,418,820,183	284,800,159	2,703,620,342
Agricultural loans	343,785,556	81,019,696	424,805,252
Commercial loans	1,462,822,572	215,668,642	1,678,491,214
Accrued interest	6,357,942	-	6,357,942
Total exposure	4,943,844,836	581,488,497	5,525,333,333

The above table represents a worst-case scenario of credit risk exposure to the Credit Union at December 31, 2017 and 2016, 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

Consumer loans primarily consist of personal loans and $2,427,253,516 (2016 - $2,163,090,337) 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%.

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 guidelines 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.

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

	2017 %	2016 %
Agricultural	19.9	19.6
Commercial rental	42.1	43.5
Construction	5.0	5.1
Hospitality	8.5	8.7
Industrial	12.2	12.3
Residential rental	10.4	9.2
Retail	1.9	1.6

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.

	2017 %	2016 %
Excellent risk	2.6	2.5
Very good risk	5.3	6.7
Good risk	35.6	31.7
Acceptable risk	49.1	51.7
Caution risk	4.5	4.9
At risk	1.2	1.4
Impaired - no reserve	0.4	0.3
Impaired - reserve	1.3	0.8

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 13. 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, 2017 is as follows:

		Payable on a fixed date			
	Payable on demand $	**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

The remaining contractual maturity of recognized financial instruments as at December 31, 2016 is as follows:

		Payable on a fixed date			
	Payable on demand $	**Less than 1 year $**	**1 to 2 years $**	**2 to 5 years $**	**Total $**
Financial assets					
Funds on hand and on deposit	23,609,637	-	-	-	23,609,637
Investments	38,454,400	644,890,047	-	5,104,499	688,448,946
Loans to members	1,519,264,857	284,289,207	432,868,979	1,995,363,210	4,231,786,253
Other financial assets	-	3,935,660	-	-	3,935,660
	1,581,328,894	933,114,914	432,868,979	2,000,467,709	4,947,780,496
Financial liabilities					
Members' deposits	3,559,761,528	476,002,734	231,708,851	301,802,534	4,569,275,647
Accounts payable	-	23,728,018	-	-	23,728,018
Secured borrowing	7,940,260	-	-	104,501,476	112,441,736
Non-financial liabilities	-	-	-	-	-
Operating lease commitments	-	-	-	-	-
	3,567,701,788	499,730,752	231,708,851	406,304,010	4,705,445,401

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, 2017, the Credit Union had U.S. $nil (2016 - U.S. $nil) of notional principal in foreign exchange forward agreements to sell U.S. dollars, and U.S. $nil (2016 - 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, 2017. 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.

17 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 $6,004,240 (2016 - $4,736,496), and the fair value of members' deposits and secured borrowing by approximately $2,148,493 (2016 - $1,922,077).

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, 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)

As at December 31, 2016:

	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	-	23,609,637	23,609,637	-
Investments	42,876,973	645,571,973	687,749,204	(699,743)
Loans to members	-	4,223,594,929	4,245,035,947	21,441,018
Total financial assets	42,876,973	4,892,776,539	4,956,394,788	20,741,275
Financial liabilities				
Members' deposits	-	4,569,275,647	4,576,076,748	6,801,101
Secured borrowing	-	112,441,736	111,391,561	(1,050,175)
Total financial liabilities	-	4,681,717,383	4,687,468,309	5,750,926

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 AFS 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.

18 Investments in associates

	2017 $	2016 $
Beginning of year	10,690,898	11,031,084
Acquisitions	7,631,538	-
Investment in associates loss	(56,726)	(23,386)
Return of capital	(325,800)	(316,800)
End of year	17,939,910	10,690,898

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.

19 Net change in non-cash working capital items

	2017 $	2016 $
Loans to members - net of repayments	(460,333,452)	(240,991,910)
Members' deposits - net of withdrawals	370,553,282	206,322,581
Net increase in secured borrowing	13,186,415	46,265,965
Net (increase) decrease in investments	85,841,099	(70,086,250)
Net decrease in income taxes recoverable	2,386,371	1,927,199
Net increase (decrease) in accounts payable	(1,526,134)	3,646,754
Net increase in other assets	(377,384)	(163,200)
	9,730,197	(53,078,861)

20 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 $3,766,576 (2016 - $3,572,004) and are recorded as member security expense.

Amounts payable at year end are disclosed in note 12.

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 6 in the amount of $11,492,360 (2016 - $11,197,213) and fees assessed by Central which include annual affiliation dues in the amount of $1,042,808 (2016 - $1,124,230) 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:

	2017 $	2016 $
Salaries and other short-term employee benefits	3,737,030	3,402,200

As at December 31, 2017, outstanding loans to key management personnel totalled 0.26% (2016 - 0.32%), 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, 2017, outstanding members' deposits to key management personnel totalled 0.40% (2016 - 0.48%), 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 $470,396 (2016 - $378,068).

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, 2017, outstanding loans to directors, management, staff and investments in associates totalled 2.21% (2016 - 2.37%), in aggregate, of the assets of the Credit Union.

21 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 $125,628,151 (2016 - $112,441,736) 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, 2017, of the associated residential mortgages held as security is $126,230,894 (2016 - $112,992,472). 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.

	2017 $	**2016** $
Current	3,969,314	3,454,709
Non-current	121,658,837	108,987,027
	125,628,151	112,441,736

22 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.

23 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.

24 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, 2017 were $1,022,615 (2016 - $1,019,917). 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.