



Assiniboine Credit Union Limited
Consolidated Financial Statements
December 31, 2018

75 years
of money doing more.





Independent auditor's report

To the Members of Assiniboine Credit Union Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Assiniboine 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 changes in members' equity 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.

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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.

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
March 4, 2019

Assiniboine Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Assets		
Cash on hand and on deposit	98,890	73,391
Investments (note 6)	443,900	486,680
Loans to members (note 7)	4,129,357	3,882,805
Other assets (note 8)	18,434	19,444
Property, equipment and intangible assets (note 9)	14,514	15,754
Deferred income tax asset (note 13)	2,611	984
Total assets	<u>4,707,706</u>	<u>4,479,058</u>
Liabilities		
Members' deposits (note 10)	4,172,037	4,018,507
Accounts payable (note 11)	13,301	12,598
Mortgage securitization liabilities (note 12)	211,215	163,685
Income tax payable	885	1,275
Members' shares (note 15)	10,343	10,720
Shares to be issued (note 16)	140	120
Total liabilities	<u>4,407,921</u>	<u>4,206,905</u>
Members' Equity		
Members' shares (note 15)	15,712	16,221
Shares to be issued (note 16)	628	568
Contributed surplus	35,633	35,633
Retained surplus	247,812	219,731
Total equity	<u>299,785</u>	<u>272,153</u>
Total liabilities and equity	<u>4,707,706</u>	<u>4,479,058</u>

Approved by the Board of Directors



Director



Director

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

Assiniboine Credit Union Limited

Consolidated Statement of Net Income and Comprehensive Income

For the year ended December 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Revenues		
Interest from loans to members	137,788	123,222
Investment income	13,409	11,771
	<u>151,197</u>	<u>134,993</u>
Cost of funds		
Interest paid to members and other	76,223	66,708
	<u>76,223</u>	<u>66,708</u>
Financial margin	74,974	68,285
Other income	27,924	27,873
	<u>27,924</u>	<u>27,873</u>
Financial margin and other income	<u>102,898</u>	<u>96,158</u>
Operating expenses		
Administration	18,378	17,803
Member security	3,535	3,486
Occupancy	8,034	8,148
Organizational	2,027	2,184
Personnel	33,818	32,104
	<u>65,792</u>	<u>63,725</u>
Gross operating margin	37,106	32,433
Allowance for loan loss (note 7)	(2,811)	(1,798)
Dividends on surplus shares (note 16)	(140)	(120)
	<u>(2,951)</u>	<u>(1,918)</u>
Net income before income taxes	<u>34,155</u>	<u>30,515</u>
Provision for (recovery of) income taxes (note 13)		
Current	6,420	5,098
Deferred	(1,627)	(18)
	<u>4,793</u>	<u>5,080</u>
Net income and comprehensive income for the year	<u>29,362</u>	<u>25,435</u>

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

Assiniboine Credit Union Limited

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2018

(in thousands of dollars)

	Members' shares \$	Shares to be issued \$	Contributed surplus \$	Retained surplus \$	Total members' equity \$
Balance at January 1, 2018	16,221	568	35,633	219,731	272,153
Impact of adopting IFRS 9 at January 1, 2018 (see note 4)	-	-	-	(754)	(754)
Restated balance at January 1, 2018	16,221	568	35,633	218,977	271,399
Net income and comprehensive income for the year	-	-	-	29,362	29,362
Dividends on preference shares (note 16)	-	628	-	(527)	101
Members' shares Issued	568	(568)	-	-	-
Redeemed	(1,077)	-	-	-	(1,077)
Balance at December 31, 2018	15,712	628	35,633	247,812	299,785
	Members' shares \$	Shares to be issued \$	Contributed surplus \$	Retained surplus \$	Total members' equity \$
Balance at January 1, 2017	16,315	571	35,633	194,774	247,293
Net income and comprehensive income for the year	-	-	-	25,435	25,435
Dividends on preference shares (note 16)	-	568	-	(478)	90
Members' shares Issued	571	(571)	-	-	-
Redeemed	(665)	-	-	-	(665)
Balance at December 31, 2017	16,221	568	35,633	219,731	272,153

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

Assiniboine Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	29,362	25,435
Items not affecting cash		
Depreciation	2,562	2,648
Allowance for loan loss	2,811	1,798
Deferred income taxes	(1,627)	(18)
Dividends on surplus shares	140	120
Loss on disposal of property and equipment	4	-
	<u>33,252</u>	<u>29,983</u>
Net change in non-cash working capital items		
Investments - accrued interest	(325)	(320)
Loans to members - accrued interest	(1,455)	(624)
Other assets	1,010	(2,542)
Income taxes	(390)	389
Members' deposits - accrued interest	3,713	(1,527)
Accounts payable	703	(1,165)
	<u>3,256</u>	<u>(5,789)</u>
Loans to members - net of repayments	(248,662)	(164,482)
Members' deposits - net of withdrawals	149,817	89,424
Net change in investments	43,105	25,040
	<u>(55,740)</u>	<u>(50,018)</u>
	<u>(19,232)</u>	<u>(25,824)</u>
Investing activities		
Purchase of property and equipment and intangibles	(1,329)	(679)
Proceeds on disposal of property and equipment	3	-
	<u>(1,326)</u>	<u>(679)</u>
Financing activities		
Net increase in mortgage securitization	47,530	3,791
Net increase in common shares	5	70
Redemption of surplus shares	(502)	(475)
Redemption of preference shares, net of taxes	(976)	(575)
	<u>46,057</u>	<u>2,811</u>
Net decrease in cash on hand and on deposit	25,499	(23,692)
Cash on hand and on deposit - Beginning of year	73,391	97,083
Cash on hand and on deposit - End of year	<u>98,890</u>	<u>73,391</u>

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

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2018

(in thousands of dollars)

1 General information

Assiniboine 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 principally in Manitoba. Its wholly-owned subsidiaries include Assiniboine Credit Union Limited Holdings (“ACULH”), Winnipeg Insurance Brokers (“WIB”), 6173927 Manitoba Ltd. and 6169385 Manitoba Ltd. The Credit Union’s registered office is 200 Main Street, Winnipeg, Manitoba, Canada, R3C 2G1.

These consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) on March 4, 2019.

2 Basis of presentation and basis of measurement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. References to IFRS are based on Canadian generally accepted accounting principles (“GAAP”) as defined in Part 1 of the CPA Canada Handbook - Accounting (IFRS).

The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss (FVTPL), and fair value through other comprehensive income (FVOCI).

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Credit Union.

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 current: cash on hand and on deposit, investments due within one year, loans to members due within one year, other assets due within one year, members’ deposits due within one year, income taxes payable and receivable, accounts payable and mortgage securitization liabilities due within one year. The following balances are generally non-current: long-term portion of loans to members, long-term portion of investments, long-term portion of other assets, property, equipment and intangible assets, long-term portion of mortgage securitization liabilities, members’ shares classified as liabilities and long-term portion of members’ deposits.

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 judgment in the process of applying the Credit Union’s accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The area involving a higher degree of judgment or complexity, where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2018

(in thousands of dollars)

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

3 Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly owned and controlled subsidiaries. All intercompany transactions and balances have been eliminated.

The Credit Union controls an entity when it is exposed to, or has the rights to, variable returns from its investment with the entity and has the ability to effect those returns through its power over those entities. Subsidiaries are fully consolidated from the date on which control is obtained by the Credit Union and are de-consolidated from the date that control ceases.

Cash on hand and on deposit

Cash consists of cash on hand and deposits with other financial institutions. Cash is carried at amortized cost.

Financial instruments

Financial assets and liabilities

From January 1, 2018, the Credit Union has applied IFRS 9 - Financial Instruments (IFRS 9) and classifies its financial instruments 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 policies 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.

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

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(in thousands of dollars)

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 loan loss allowance) 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 (ECL) 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 FVTPL, 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 ECL allowance 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.

Classification and subsequent measurement

Debt instruments

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

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

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(in thousands of dollars)

Classification and subsequent measurement of debt instruments depend on:

- The business model for managing the asset; and
- The cash flow characteristics of the asset.

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

- **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 consolidated statement of net income and comprehensive income within “Investment income” in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in “Investment income”. Interest income from these financial assets is included in “Investment income” 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 solely payments of principal and interest (SPPI) and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income (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 “Investment income”. 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 an '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.

Solely payments of principal and interest

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.

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2018

(in thousands of dollars)

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 have 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. An example of equity instruments include the Credit Union's investment in shares of Credit Union Central of Manitoba (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. 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 Investment income when the Credit Union's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Investment income' line in the consolidated statement of net income and comprehensive income.

Impairment

The Credit Union assesses on a forward-looking basis 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 17 provides more detail of how the ECL allowance is measured.

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2018

(in thousands of dollars)

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 than 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;
- Change in the currency the loan is denominated in; 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, 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 recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in net income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

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:

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

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

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(in thousands of dollars)

Financial liabilities

The Credit Union designates 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 except for financial guarantee contracts and loan commitments (note 17).

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 - Revenues from Contracts with Customers.

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 provision. However, for contracts that include both a loan and an undrawn commitment and the Credit Union cannot separately identify the ECLs on the undrawn commitment component from those on the loan component, the ECLs 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 ECLs are recognized as a provision.

Derivatives and hedging activities

The Credit Union has elected to apply the hedge accounting requirements 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.

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

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(in thousands of dollars)

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:

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

Assiniboine Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2018

(in thousands of dollars)

Financial assets

For the period January 1, 2017 to December 31, 2017 and the year then ended, the Credit Union applied IAS 39 - Financial Instruments: Recognition and Measurement and classified its financial assets as follows: loans and receivables, FVTPL, held-to-maturity investments and available for sale (AFS) 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 Credit Union currently does not have any financial assets classified as held-to-maturity investments.

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, accounts receivable and contract deposits with Central are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available for sale financial assets

Shares in Central are classified as AFS. AFS investments are financial assets that are not classified as loans and receivables, FVTPL or held to maturity.

AFS financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in consolidated other comprehensive income. If an AFS financial asset is determined to be impaired, the cumulative gain or loss previously recognized in consolidated other comprehensive income is reclassified to consolidated net income.

Interest is calculated using the effective interest method, and dividends on AFS equity instruments are recognized in the consolidated statement of net income and comprehensive income in investment income when the right to receive payment is established.

Financial liabilities

The Credit Union classifies members' deposits, accounts payable, mortgage securitization liabilities, members' shares and shares to be issued as other financial liabilities. Other financial liabilities are initially recognized at fair value including transaction costs and subsequently measured at amortized cost using the effective interest rate method.

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Derivatives

Interest rate swap derivative instruments are used to hedge exposure to interest rate risk. Under interest rate swap contracts, the Credit Union agrees to exchange the difference between fixed and floating rate interest amounts calculated on the agreed notional principal amounts. Such contracts enable the Credit Union to mitigate the risk of changing interest rates. In a fair value hedging relationship, the change in the fair value of the derivative is recorded in the statement of net income and comprehensive income and is offset, to the extent the hedge is effective, by an adjustment to the hedged item based on the hedged risk. Any changes in the fair value of derivatives that do not qualify for hedge accounting are reported in the consolidated statement of net income and comprehensive income.

Allowance for loan loss

The Credit Union maintains allowances for loan losses that reduce the carrying value of loans identified as impaired to their estimated realizable amounts. A loan is considered impaired if there is objective evidence that the full amount of the principal and interest will not be collected in accordance with the terms of the loan agreement. 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 loan loss. Such loans are written off after all the necessary procedures have been completed 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 allowance for loan loss.

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

Loans to members

Loans and receivables are initially recognized at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortized cost using the effective interest rate method. Interest on loans is included in the consolidated statement of net income and comprehensive income and is reported as “interest from loans to members”. In the case of 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 “allowance for loan loss”.

Property held for resale is valued at the lower of cost and estimated net realizable value.

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. Recoveries on loans previously written off are taken into income.

Property and equipment

Property and equipment are carried at acquisition cost, less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	5% and 7%
Furniture, equipment and signs	20%
Computers	20% - 33%
Leasehold improvements	Shorter of the remaining term of the lease or estimated useful life

Land is not subject to depreciation and is carried at cost. Assets within construction in progress (“CIP”) are not depreciated until available for use and at which time become subject to depreciation. The residual value, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Depreciation is recognized in the consolidated statement of net income and comprehensive income within administration and occupancy expenses.

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 or cash generating unit's fair value less cost of disposal 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.

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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 de-recognition 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 computer systems and software. Intangible assets are carried at cost, less accumulated depreciation 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. The recoverable amount is determined as the higher of an asset's or cash generating unit's fair value less cost of disposal and value in use. When the recoverable amount is less than the net carrying value an impairment loss is recognized.

Intangible assets available for use are amortized over their useful lives on a straight-line basis at a rate of 10% - 33%. The method of amortization and useful lives of the intangible assets are reviewed annually and adjusted if appropriate.

There are no indefinite life intangible assets.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business unit over the amount allocated to assets acquired less liabilities assumed, based on their fair values. Assets are grouped at the lowest level for which there are separately identifiable cash inflows, cash generating units ("CGUs"). Goodwill is tested annually for impairment at the goodwill CGU level, which represents the lowest level at which management monitors goodwill; however, such level cannot be larger than an operating segment as defined by IFRS. Goodwill is determined to be impaired when the recoverable amount of the goodwill CGU is less than its carrying amount. The recoverable amount is determined as the higher of the goodwill CGU's fair value less cost of disposal and value in use. If impaired, the Credit Union would recognize an impairment loss in the consolidated statement of net income and comprehensive income.

Provisions

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. The expense of any provision is recognized in the consolidated statement of net income and comprehensive income. 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.

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Mortgage securitization

The Credit Union periodically securitizes mortgages by participating in the National Housing Authority Mortgage Backed Securities (“NHA MBS”) program and The Canada Mortgage Bond Program (“CMB”).

Participation in the CMB program involves the Credit Union packaging mortgage loan receivables into pools of NHA MBS mortgages and in turn selling the NHA MBS pools to Canada Housing Trust (“CHT”). The cash flows from the NHA MBS pools sold to CHT require reinvestment activities to meet the coupon requirements of the mortgage bond. As cash flows from the NHA MBS are variable, the Credit Union has engaged a chartered bank to act as a counterparty to interest rate swaps with CHT. The chartered bank assumes all reinvestment risk resulting from NHA MBS pools sold into the CMB program.

All costs incurred in the securitization of mortgages are amortized over the life of the issuance.

When assets have been transferred and substantially all of the risks and rewards of ownership of the assets have also been transferred to a third party during a securitization transaction, the transaction is recorded as a sale and the Credit Union removes the transferred assets from the consolidated balance sheet.

Members' shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

Members' shares are accounted for in accordance with IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* (“IFRIC 2”). In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

Dividends

Dividends are accounted for when they have been approved by the Board.

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 continues to be recognized using the original effective interest rate.

Other income

Fees and commissions are recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

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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 as at the date of the consolidated statement of financial position.

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 as at the date of the consolidated statement of financial position 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 outstanding and property, equipment and intangibles. 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.

Translation of foreign currencies

All balances denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the consolidated 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.

4 Changes in accounting policies

The Credit Union has adopted 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.

The amendments to IFRS 7 - Financial Instruments: Disclosures (IFRS 7) have been applied to the current period.

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 accounting policies applied in the comparative period) are described in more detail below.

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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:

Financial assets	Measurement category	IAS 39	Measurement category	IFRS 9
		Carrying amount		Carrying amount
Funds on hand and on deposit	Amortized cost (Loans and receivables)	73,391	Amortized cost	73,391
Loans to members	Amortized cost (Loans and receivables)	3,882,805	Amortized cost	3,882,051
Investments	(FVOCI) (Available for sale)	33,102	FVOCI	38,352
	Amortized cost (Loan and receivables)	453,578	FVTPL	448,328

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

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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.

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:

	IAS 39 carrying amount December 31, 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount January 1, 2018
Amortized Cost				
Funds on hand and on deposit	73,391	-	-	73,391
Loans to members	3,882,805	-	(754)	3,882,051
Investments	453,578	(453,578)	-	-
FVTPL				
Investments				
From amortized cost	-	448,328	-	448,328
FVOCI				
Investments - Available for sale financial assets				
From amortized cost	33,102	5,250	-	38,352

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) Contract deposits

After assessing its business model for term deposits and debentures, which are mostly held to collect the contractual cash flows, the Credit Union has performed the SPPI test. As the 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 FVTPL. These term deposits at January 1, 2018, amounted to \$447,548,000, excluding accrued interest, and were previously classified as loans and receivables. Upon adoption of IFRS 9, the Credit Union has classified these term deposits as FVTPL.

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(B) Investments

The Credit Union holds investments of shares of Central and Concentra Bank, which are not traded in an active market. As per Central by-laws for the re-balancing of shares, the Credit Union will redeem or acquire additional shares of Central at a price of \$5 per share. Concentra Bank shares are not subject to re-balancing. There are no other active markets for these shares and therefore the Credit Union has determined that this amount was indicative of fair value. These investments amounted to \$38,102,000 at January 1, 2018. Upon adoption of IFRS 9, the Credit Union has classified these equity instruments as FVOCI.

c) Reconciliation of loan loss allowance balance from IAS 39 to IFRS 9

The impact to opening equity at January 1, 2018 due to the remeasurement from 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 is \$754,000. The loan loss allowance under IAS 39 is \$5,426,000 while the allowance under IFRS 9 is \$6,180,000.

Further information on the measurement of the loss allowance under IFRS 9 can be found in note 1.

IFRS 7, Financial Instruments: Disclosures, 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 has determined that there were no significant impacts to the consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers issued in May 2014, establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five-step model for revenue recognition to be applied to all contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018. 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.

Standards and interpretations issued but not yet effective

Accounting standards that have been issued but are not yet effective are listed below.

- *IFRS 10*, Consolidated financial statements was amended in September 2014 and addresses the loss of control of a subsidiary in various circumstances. These amendments are to be applied prospectively to transactions occurring in annual periods beginning on or after a date to be determined by the IASB. The Credit Union does not believe this standard will have an impact on its consolidated financial statements, as it is not anticipated that the Credit Union will lose control of any of its subsidiaries in the foreseeable future.

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- IFRS 16, Leases was issued in January 2016, which will replace IAS 17, Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Under the new standard, all leases will be on the balance sheet of lessees except those that meet limited exception criteria. As the Credit Union has significant contractual obligations in the form of operating leases (note 20) under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard. 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.
- *IFRIC 23*, Uncertainty over Income Tax Treatments 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.

5 Critical accounting estimates and judgments

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 judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed.

Significant estimates made in the preparation of these consolidated financial statements include, but are not limited to the following areas, with further information contained in the applicable accounting policy note:

Measurement of the expected credit loss allowance

The Credit Union reviews its loan portfolio to assess the ECL allowance for loans at least on a quarterly basis. The measurement of the ECL 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). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 17.

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

- Determining criteria for 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.

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

Derecognition of financial assets

The Credit Union's securitization activities are complex arrangements which require the Credit Union to make significant judgments about the extent to which the rights to the cash flows of the transferred receivables and/or the obligation to pay cash flows have been transferred to third parties in order to determine whether the transfers should be accounted for as a sale for accounting purposes. In making such judgement, the Credit Union needs to assess the extent to which the exposure to the future variability of cash flows was transferred in assessing whether the risks and rewards of the financial assets have been substantially transferred or retained.

Depending on the nature of the transfer arrangements, the Credit Union may carry out quantitative as well as qualitative tests to support its conclusion as to whether the risks and rewards of a financial asset have been transferred to third parties.

The Credit Union determined that its current securitization activities did not meet the accounting requirements for derecognition and instead recorded a securitization liability for the initial consideration received (see note 12 for further details).

6 Investments

	2018 - IFRS 9		
	FVOCI \$	FVTPL \$	Total \$
Credit Union Central of Manitoba			
Shares	34,152	-	34,152
Contract deposits	-	403,643	403,643
Concentra Bank Class A preferred shares	5,000	-	5,000
	<hr/>	<hr/>	<hr/>
Accrued interest receivable	39,152	403,643	442,795
	58	1,047	1,105
	<hr/>	<hr/>	<hr/>
	39,210	404,690	443,900
	<hr/>	<hr/>	<hr/>

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	2017 - IAS 39		
	AFS \$	Loans and receivables \$	Total \$
Credit Union Central of Manitoba Shares	33,102	-	33,102
Contract deposits	-	447,548	447,548
Credential Securities Inc. debenture, non-interest bearing, maturing October 2020	-	250	250
Concentra Bank Class A preferred shares	-	5,000	5,000
	<hr/>	<hr/>	<hr/>
Accrued interest receivable	33,102	452,798	485,900
	-	780	780
	<hr/>	<hr/>	<hr/>
	33,102	453,578	486,680

The above contract deposits bear interest at rates ranging from 1.87% to 2.47% with maturity dates ranging from January 2019 to March 2019.

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7 Loans to members

At December 31, 2018, loans to members are presented net of allowances for ECLs totalling \$7,334,000. 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.

	Stage 1	Stage 2	Stage 3	2018
	\$	\$	\$	Total
				\$
Consumer				
Loan	207,208	14,482	769	222,459
Mortgage	2,380,991	145,475	6,304	2,532,770
Line of credit	174,473	6,327	478	181,278
Commercial				
Loan	48,130	1,550	5,025	54,705
Mortgage	1,092,354	15,603	1,293	1,109,250
Line of credit	27,532	565	995	29,092
Accrued interest	6,209	284	644	7,137
Gross carrying amount	3,936,897	184,286	15,508	4,136,691
Loss allowance	(1,267)	(1,143)	(4,924)	(7,334)
Carrying amount	3,935,630	183,143	10,584	4,129,357
Current				1,139,967
Non-current				2,989,390

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 probability 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.

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The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Consumer	Stage 1	Stage 2	Stage 3	2018
	12-month	Lifetime	Lifetime	Total
	ECL	ECL	ECL	
	\$	\$	\$	\$
Loss allowance as at January 1, 2018	894	726	1,310	2,930
Transfers	208	(137)	(71)	-
Net remeasurement of loss allowance	175	687	1,556	2,418
New financial assets originated	263	203	138	604
Financial assets derecognized during the period	(127)	(127)	(636)	(890)
Writeoffs	(607)	(427)	(501)	(1,535)
Loss allowance as at December 31, 2018	806	925	1,796	3,527

Commercial	Stage 1	Stage 2	Stage 3	2018
	12-month	Lifetime	Lifetime	Total
	ECL	ECL	ECL	
	\$	\$	\$	\$
Loss allowance as at January 1, 2018	482	50	2,717	3,249
Transfers	(28)	24	4	-
Net remeasurement of loss allowance	19	172	416	607
New financial assets originated	128	7	448	583
Financial assets derecognized during the period	(54)	(34)	(422)	(510)
Writeoffs	(86)	-	(36)	(122)
Loss allowance as at December 31, 2018	461	219	3,127	3,807

During the year ended December 31, 2018, the Credit Union did not acquire any assets in respect of delinquent loans.

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At December 31, 2017, loans to members are presented net of allowances for loan loss totalling \$5,426,000, consisting of individually significant allowances of \$3,998,000 for loans considered impaired and \$1,428,000 of collective allowances, as follows:

				2017
	Gross loan balance \$	Individually significant allowances \$	Collective allowances \$	Net loan balance \$
Consumer				
Loans	186,267	(539)	(243)	185,485
Mortgages	2,518,370	(226)	(382)	2,517,762
Lines of credit	188,095	(509)	(638)	186,948
Commercial				
Loans	60,238	(1,708)	(93)	58,437
Mortgages	905,786	-	-	905,786
Lines of credit	23,793	(733)	(72)	22,988
	3,882,549	(3,715)	(1,428)	3,877,406
Accrued interest	5,682	(283)	-	5,399
	3,888,231	(3,998)	(1,428)	3,882,805
Current				1,147,325
Non-current				2,735,480

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:

				2017
	Impaired loan balance \$	Individually significant allowances \$	Net impaired loan balance \$	
Consumer				
Loans	722	(539)	183	
Mortgages	659	(226)	433	
Lines of credit	509	(509)	-	
Commercial				
Loans	4,153	(1,708)	2,445	
Lines of credit	533	(733)	(200)	
	6,576	(3,715)	2,861	
Accrued interest	283	(283)	-	
	6,859	(3,998)	2,861	

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The change in the allowance for loan loss is as follows:

	2017				Total \$
	Consumer		Commercial		
	Individually significant allowances \$	Collective allowances \$	Individually significant allowances \$	Collective allowances \$	
Balance - beginning of year	1,996	1,247	2,527	391	6,161
Increase (decrease) in impairment provision	1,371	17	637	(227)	1,798
Loans written off in the year	(2,057)	-	(476)	-	(2,533)
Balance - end of year	1,310	1,264	2,688	164	5,426

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 that are past due one day and greater but not classified as impaired because they are either fully secured or collection efforts are reasonably expected to result in repayment.

	2017				Total \$
	1-30 days \$	31-60 days \$	61-89 days \$	90 days and greater \$	
Consumer	31,183	1,381	918	5,460	38,942
Commercial	22,555	435	-	811	23,801
	53,738	1,816	918	6,271	62,743

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the degree of concentration in the collateral supporting its credit exposure.

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8 Other assets

	2018 \$	2017 \$
Accounts receivable	7,745	8,851
Prepaid expenses	3,066	2,970
Goodwill	7,623	7,623
	<hr/>	<hr/>
	18,434	19,444
Current	7,515	6,870
Non-current	10,919	12,574

The Credit Union completed its annual impairment testing for goodwill as at December 31, 2018 using a value in use model, which applies forecasts based on management's best estimate considering historical and expected operating plans. No impairment charges have arisen as a result of the assessment performed. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

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9 Property, equipment and intangible assets

	Property and equipment					Intangible assets	Total
	Land	Buildings	Furniture, equipment and signs	Computers	Leaseholds	Software	Total
	\$	\$	\$	\$	\$	\$	\$
January 1, 2017							
Opening net book value	2,344	5,539	962	481	7,371	1,026	17,723
Additions	-	9	287	159	63	161	679
Depreciation	-	(434)	(358)	(233)	(1,031)	(592)	(2,648)
Net book value	2,344	5,114	891	407	6,403	595	15,754
December 31, 2017							
Cost	2,344	9,807	9,890	2,948	13,322	6,538	44,849
Accumulated depreciation	-	(4,693)	(8,999)	(2,541)	(6,919)	(5,943)	(29,095)
Net book value	2,344	5,114	891	407	6,403	595	15,754
January 1, 2018							
Opening net book value	2,344	5,114	891	407	6,403	595	15,754
Additions	-	10	250	609	-	460	1,329
Disposals	-	-	-	(5)	-	(2)	(7)
Depreciation	-	(421)	(310)	(243)	(1,025)	(563)	(2,562)
Net book value	2,344	4,703	831	768	5,378	490	14,514
December 31, 2018							
Cost	2,344	9,817	9,870	2,923	13,322	6,861	45,137
Accumulated depreciation	-	(5,114)	(9,039)	(2,155)	(7,944)	(6,371)	(30,623)
Net book value	2,344	4,703	831	768	5,378	490	14,514

During the year, fully depreciated furniture, equipment and signs, computers, and software with an initial cost of \$270,000, \$634,000 and \$137,000, respectively (2017 - \$148,000, \$33,000 and \$219,000) were disposed of for no consideration.

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10 Members' deposits

	2018 \$	2017 \$
Savings	1,432,378	1,365,913
Chequing	592,672	565,262
Term deposits	1,310,930	1,268,857
Registered deposits	808,839	794,952
Inactive accounts	263	281
Accrued interest payable	26,955	23,242
	<hr/> 4,172,037	<hr/> 4,018,507
Current	3,032,133	2,904,628
Non-current	1,139,904	1,113,879

11 Accounts payable

	2018 \$	2017 \$
Accounts payable and accrued liabilities	<hr/> 13,301	<hr/> 12,598
Current	11,956	11,693
Non-current	1,345	905

12 Mortgage securitization liabilities

Transfers of financial assets under MBS program

a) Securitized loans to members

The Credit Union securitizes insured residential mortgage loans by participating in the NHA MBS and CMB program. Through the program, the Credit Union issues securities backed by residential mortgage loans that are insured against the borrowers' default. Once the mortgage loans are securitized, the Credit Union assigns the underlying mortgages and/or related securities to the Canada Mortgage and Housing Corporation ("CMHC"). As an issuer of mortgage backed securities ("MBS"), the Credit Union is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether the amounts have been collected on the underlying transferred mortgages.

In these securitizations, the Credit Union retains certain prepayment risk, timely payment guarantee risk, and interest rate risk related to the transferred mortgages. Due to retention of these risks, transferred mortgages are not derecognized and the securitization proceeds are accounted for as secured borrowings. There are generally no ECLs on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of the Credit Union in the event of failure of mortgages to pay when due.

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The following is the Credit Union's net positions on its securitized assets and liabilities:

	2018 \$	2017 \$
Securitized consumer mortgages	211,215	163,685
Mortgage securitization liabilities	211,215	163,685
Net positions	<u>-</u>	<u>-</u>

b) Assets pledged as collateral

Mortgage loans are pledged against the MBS issuances. As a requirement of the NHA MBS and CMB programs, the Credit Union assigns and transfers to CMHC, all of its rights, title, and interest in existing mortgage pools. If the Credit Union fails to make timely payment under an NHA MBS security, CMHC may enforce the assignment to CMHC of the mortgages included in all the mortgage pools backing the securities issued. If CMHC enforces the assignments, all authority and power of the Credit Union under the terms of the NHA MBS guide, whether with respect to securities issued or mortgages pooled in the contract, shall pass to and be vested with CMHC.

c) Securitization liabilities

Securitization liabilities represent the funding secured by insured mortgages assigned under the NHA MBS and CMB programs. As the securitization of mortgages does not lead to derecognition of the mortgages under accounting standards, proceeds received through securitization of these mortgages are recorded as securitization liabilities on the consolidated balance sheet.

The breakdown of the securitization liabilities is as follows:

	2018 \$	2017 \$
Current		
Securitization liabilities	34,203	5,190
Accrued interest	300	188
Unamortized MBS program costs	543	474
Non-current		
Securitization liabilities	177,012	158,495
Unamortized MBS program costs	633	563

MBS securitization liabilities are reduced on a monthly basis based on principal repayments collected from securitized assets during the month. Interest accrued on MBS liabilities is based on the MBS coupon and is paid monthly to MBS investors.

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(in thousands of dollars)

13 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	6,420	5,098

	2018 \$	2017 \$
Deferred income taxes		
Origination and reversal of temporary differences	(1,627)	(18)

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	(13.00)	(13.00)
Net federal tax rate	15.00	15.00
Provincial tax rate	1.00	1.00
	16.00	16.00

The Province of Manitoba has eliminated the 1% profits tax subjected to credit unions with taxable income over \$400,000, effective January 1, 2019. Additionally, the Province has introduced a five-year phase-out of the special tax deduction that allows the Credit Union to pay a lower rate of tax on their income, also effective January 1, 2019.

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Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 16.00% (2017 - 16.00%) are as follows:

	2018 \$	2017 \$
Net income before income taxes for the year	34,155	30,515
Expected provision for income taxes at statutory rates	5,465	4,882
Higher tax rate applicable to subsidiary	157	176
Non-deductible portion of expenses	30	26
Other	(859)	(4)
Total provision for income taxes	4,793	5,080

Per 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 16.00% (2017 - 16.00%).

As a result, dividends charged against retained surplus are net of the foregoing related income tax savings of \$101,000 (2017 - \$90,000).

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

	2018 \$	2017 \$
Deferred tax assets		
Loans outstanding	387	292
Tax deduction on goodwill acquired	259	274
Depreciation in excess of capital cost allowance	1,915	418
Other	50	-
Total deferred taxes	2,611	984
Current	-	-
Non-current	2,611	984

14 Regulatory requirements

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. Capital is defined within the Act as members' equity, which includes members' shares, the provision for the issuance of preference shares and surplus shares, contributed surplus and retained surplus. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Board determines annually the extent of any dividend payments on eligible member shares, within the context of its overall capital management plan.

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

Capital requirements

For regulatory purposes, members' equity is defined as: all issued capital of the Credit Union regardless of classification on the consolidated statement of financial position; contributed surplus and retained surplus.

The Credit Union shall maintain a level of capital as follows:

- a) Members' equity not less than 5% of assets;
- b) Surplus not less than 3% of assets; and
- c) Capital as defined in the Regulations not less than 8% of the risk-weighted value of assets as defined in the Regulations.

The Credit Union has met these requirements as at December 31 as follows:

	2018	2017
	%	%
Members' equity	6.59	6.32
Surplus	6.02	5.70
Risk weighted capital	14.31	14.57

Liquidity reserve

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

The Credit Union has met this requirement as at December 31 as follows:

	2018	2017
	%	%
Liquidity reserve	12.07	12.98

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15 Members' shares

Each member must purchase one common share. No member may hold more than 10% of the issued shares of any class. Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

Authorized shares

Common shares

Authorized common share capital consists of an unlimited number of common shares, issued and redeemable at \$5 each. The total amount of common shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed the total amount of common shares issued in that year if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act as defined in note 14. Common shares are redeemable at the request of the member upon closing their accounts. All common shares are classified as a liability.

Surplus shares

Authorized surplus share capital consists of an unlimited number of surplus shares, issued and redeemable at \$1 each. Dividends are payable at the discretion of the Board. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed 5% of the amount of surplus shares outstanding at the last fiscal year-end of the Credit Union if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act as defined in note 14. The Board has approved in specific instances the redemption of surplus shares at the request of the member, or upon closing their accounts. All surplus shares are classified as a liability.

Preference shares

Authorized Class Assiniboine preference share capital consists of 3,000,000 non-voting Class Assiniboine preference shares, having a cumulative dividend rate, if and when declared, of not less than the first year rate of the latest issue of Canada Savings Bonds, issued and redeemable at \$10 each.

Authorized Class Astra preference share capital consists of 1,000,000 non-voting Class Astra preference shares, having a non-cumulative dividend rate, if and when declared, of not less than the annual interest rate of a one-year guaranteed investment certificate as offered by the five largest Canadian banks, issued and redeemable at \$5 each.

Dividends are payable at the discretion of the Board. The total amount of preference shares purchased or redeemed by the Credit Union in a fiscal year shall not exceed 20% of the amount of preference shares outstanding at the last fiscal year-end of the Credit Union if the Credit Union's equity is, or would by such purchase or redemption be, less than the level of capital as prescribed by the Act as defined in note 14. Preference shares are redeemable at the discretion of the Board. All preference shares are classified as equity.

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Members' shares - classified as liabilities

	2018 \$	2017 \$
Surplus shares		
Beginning of year	10,095	10,446
Issued during the year from dividends	120	124
Redemption of surplus shares	(502)	(475)
End of year	9,713	10,095
Common shares		
Beginning of year	625	555
Issued on application for membership	26	124
Redemption of common shares	(21)	(54)
End of year	630	625
Total members' shares - classified as liabilities	10,343	10,720

Members' shares - classified as equity

	2018			2017		
	Class Assiniboine \$	Class Astra \$	Total \$	Class Assiniboine \$	Class Astra \$	Total \$
Preference share capital - beginning of year	14,125	2,096	16,221	14,151	2,164	16,315
Issued during the year from dividends	495	73	568	495	76	571
Redemption of preference shares	(947)	(130)	(1,077)	(521)	(144)	(665)
Total members' shares - classified as equity	13,673	2,039	15,712	14,125	2,096	16,221

16 Dividends on surplus and preference shares

The Board has declared, and the Credit Union has accrued a 1.5% dividend totalling \$140,000 (2017 - \$120,000) on surplus shares. The dividends accrued on surplus shares have been included in the consolidated statement of net income and comprehensive income.

The Board also declared, and the Credit Union has accrued, a 4.0% dividend totalling \$628,000 (2017 - \$568,000) on Class Assiniboine and Class Astra preference shares. The dividends accrued on preference shares, net of the related tax savings of \$101,000 (2017 - \$90,000), have been reflected as a charge to retained surplus.

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17 Risk management

The Credit Union's risk management policies are designed to identify and analyze 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 with an overall objective of managing risk within acceptable thresholds. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Responsibility for monitoring the Credit Union's overall enterprise risk management framework is delegated by the Board to the Audit and Risk Committee. Oversight and monitoring of risk management is carried out by a number of delegated committees reporting to the Board. The Board provides written principles for risk tolerance and overall risk management, and management report to the committees and Board on compliance with the risk management policies of the Credit Union. In addition, the Credit Union maintains an Internal Audit function, which is responsible for independent review of risk management and the Credit Union's control environment.

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 and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally loans, lines of credit 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 method used in managing those risks.

Activity	Risks	Method in managing risks
Investments and cash on hand and on deposit	Sensitivity to changes in interest rates, 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 and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Members' deposits	Sensitivity to changes in interest rates and foreign exchange rates	Asset-liability matching, periodic use of derivatives
Mortgage securitization liabilities	Sensitivity to changes in interest rates, credit and liquidity risks	Monitoring of counterparty risk and maintaining a liquidity reserve

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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 fair 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 re-pricing that may be undertaken, which is monitored by the Credit Union's management and reported to the Board on a quarterly basis.

In managing interest rate risk, the Credit Union relies primarily upon the use of asset-liability matching and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to hedge exposure to interest rate risk. The Credit Union enters into interest rate swap agreements for the sole purpose of managing interest rate exposures in the balance sheet and not for speculative purposes.

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 market 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 market interest rates. Based on 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 market interest rates would decrease financial margin by \$3,200,000 over the next twelve months while an immediate and sustained 100 basis point decrease in market interest rates would increase financial margin by \$3,756,000 over the next twelve months.

Other types of interest rate risk may involve basis risk, which is 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, which is 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 by management.

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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 maturing within 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 agreements		Net asset/ liability gap \$
	Assets \$	Liabilities and members' equity \$	Assets \$	Liabilities \$	
Expected repricing or maturing date					
Less than one year	1,963,671	2,377,118	100,537	-	(312,910)
1 to 2 years	606,034	514,153	-	-	91,881
2 to 3 years	769,523	312,739	-	62,300	394,484
3 to 4 years	625,450	231,140	-	-	394,310
4 to 5 years	624,527	266,542	-	15,000	342,985
Over 5 years	78,921	46	-	23,237	55,638
Not interest sensitive	39,580	1,005,968	-	-	(966,388)
	4,707,706	4,707,706	100,537	100,537	-

The average rate for interest bearing assets is 3.53% and for interest bearing liabilities is 1.95%.

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

The Credit Union holds a portfolio of long-term fixed rate loans to members and therefore is exposed to changes in fair value due to movements in market interest rates. 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 loans to members arising solely from changes in 1-month CDOR (the benchmark rate of interest). 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 loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

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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:

- 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;
- Difference in the discounting between the hedged item and the hedging instrument;
- Hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and
- 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:

Fair value hedges	Notional \$	Carrying amount		Statement of financial position line items	Changes in fair value used for calculating hedge ineffectiveness
		Assets \$	Liabilities \$		
Interest rate swaps	100,537	1,941	427	Other assets 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	Change in fair value of hedged item for ineffectiveness assessment
	Assets \$	Liabilities \$	Assets \$	Liabilities \$		
Loans to members	99,023	-	(1,514)	-	Loans to members	-

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.

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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 balance sheet date. Significant changes in the economy of Manitoba or deteriorations 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 balance sheet date. Management of credit risk is an integral part of the Credit Union's activities. 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 cash on hand and on deposit and investments. 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 Audit and Risk Committee and 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 establishes the Credit Union's tolerance for credit exposures and the principles the Credit Union follows in managing credit risk. The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member, a credit quality assessment is made. The Credit Union emphasizes 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 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 EAD; and (iii) the likely recovery ratio on the defaulted obligations LGD. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimize their effectiveness.

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The classes of financial instrument to which the Credit Union is most exposed to credit risk are cash on hand and on deposit, accounts receivable, investments, consumer loans and commercial loans. The Credit Union does not hold any credit derivatives or similar instruments that mitigate the credit risk.

	2018		
	Outstanding	Undrawn	Total
	\$	commitments	exposure
		\$	\$
Credit risk exposure			
Cash on hand and on deposit	98,890	-	98,890
Accounts receivable	7,745	-	7,745
Investments	443,900	-	443,900
Consumer loans	2,936,507	349,271	3,285,778
Commercial loans	1,193,047	225,013	1,418,060
Accrued interest	7,137	-	7,137
	4,687,226	574,284	5,261,510
Total exposure			
	4,687,226	574,284	5,261,510
			2017
	Outstanding	Undrawn	Total
	\$	commitments	exposure
		\$	\$
Credit risk exposure			
Cash on hand and on deposit	73,391	-	73,391
Accounts receivable	8,851	-	8,851
Investments	486,680	-	486,680
Consumer loans	2,892,732	339,586	3,232,318
Commercial loans	989,817	302,940	1,292,757
Accrued interest	5,682	-	5,682
	4,457,153	642,526	5,099,679
Total exposure			
	4,457,153	642,526	5,099,679

Cash on hand and on deposit and investments

Credit risk arises from the investments in cash on hand and on deposit and investments held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by management who reports to the Board. All of the Credit Union's liquidity investments are held with Central. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. The investment policy requires that all investments are highly rated and that all of the assets are readily convertible to cash.

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Consumer loans

Consumer loans to members consist of consumer mortgages, loans and lines of credit. Consumer mortgages are fully secured by residential property with 42% in mortgages insured by CMHC and other mortgage insurance providers, and 58% in conventional mortgages with an ongoing maximum advance ratio to 80% of the appraised value. The balance of the consumer loan portfolio consists of loans and lines of credit, which are either secured by residential mortgages or chattels, or are unsecured.

Commercial loans

Commercial loans to members consist of commercial mortgages, loans and lines of credit. The Credit Union takes security as collateral and maintains guidelines on the acceptability of specific types of collateral. Collateral may include charges over business assets such as premises, inventory and accounts receivable, and mortgages over residential properties. 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 commercial business, the risk 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 diversification by industry type is as follows:

	2018 %	2017 %
Real estate, rental and leasing	54.2	47.1
Manufacturing and construction	16.2	19.3
Accommodation and food services	8.6	10.5
Health care and social assistance	8.5	9.6
Arts, entertainment and recreation	4.1	5.1
Business services	3.4	4.4
Retail and wholesale trade	2.5	2.5
Other industries	2.5	1.5

The credit quality of the commercial loan portfolio is assessed by the Credit Union in accordance with the Deposit Guarantee Corporation of Manitoba's risk rating model. The Credit Union assesses the PD using the risk rating model and taking into account statistical analysis as well as the experience and judgment of the commercial and credit risk management departments. Commercial loans to members are assigned a risk rating and are reviewed regularly and updated as appropriate.

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	2018 %	2017 %
Excellent risk	0.09	0.00
Very good risk	3.08	4.60
Good risk	26.58	41.48
Acceptable risk	64.29	46.99
Caution risk	4.61	6.50
At risk	0.96	0.01
Impaired		
No reserve	0.03	0.01
Reserve	0.36	0.41

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 ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis.

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

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 watch list 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 management.

The Credit Union considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

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For consumer loans:

- Contractual cash flow obligations are more than 30 days past due, and/or;
- An adverse change in the borrower's situation indicates that its ability to fulfill its contractual cash flow obligations have been reduced (e.g. significant deterioration in credit score);
- A significant change in collateral value which is expected to increase risk of default; and/or
- Forward-looking information indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced.

For commercial loans:

- Contractual cash flow obligations are more than 30 days past due, and/or;
- An adverse change in the borrower's situation indicates that its ability to fulfill its contractual cash flow obligations have been reduced (e.g. significant deterioration in risk rating, in short-term forbearance, early signs of cash flow/liquidity problems, adverse change in operating results, adverse changes in business, financial or economic conditions in which the business operates);
- A significant change in collateral value which is expected to increase risk of default; and/or
- Forward-looking information indicates that the ability of the borrower to fulfill its contractual cash flow obligations will be reduced.

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:

- The borrower is more than 90 days past due on its contractual payments;
- The borrower is in long-term forbearance;
- 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; and
- It is becoming probable that the borrower will enter bankruptcy.

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 ECL 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.

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Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD, and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Credit Union expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the Credit Union includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Credit Union's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be incurred if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the loan.

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 used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor, which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Credit Union's recent default data.

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The 12-month and lifetime LGDs are determined based on the factors, which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and expected recovery costs.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation — such as how the maturity profile of the PDs and how collateral values change etc. — are monitored and reviewed on a quarterly basis.

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, identified the key economic variables impacting credit risk, and ECLs 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 case scenario") are based on the consideration of a variety of external, actual and forecast information that allows the Credit Union to formulate a base case view of the future direction of relevant economic variables as well as representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by government bodies and the Bank of Canada, forecasts by Canadian banks and financial institutions and other selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Credit Union for other purposes such as budgeting and strategic planning. The other scenarios represent more optimistic and more pessimistic outcomes. 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 scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. 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).

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As with any economic forecast, 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.

Sensitivity analysis

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

Consumer

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

Commercial

- *Vacancy increases, given the significant impact on performance and collateral valuations; and*
- *Capitalization rates, given its impact on companies' likelihood of default.*

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 against chattels;
- 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 either secured or 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.

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Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash on hand and on deposit and investments, 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 and deposit portfolio, securitizations and asset-liability maturity management techniques. Management monitors forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains a borrowing facility with Central as an integral part of its liquidity management strategy as disclosed in note 19.

The remaining contractual maturity of recognized financial instruments is as follows:

Financial assets

	Receivable on demand \$	Less than 1 year \$	1 to 2 years \$	2 to 5 years \$	More than 5 years \$	Total \$
Cash on hand and on deposit	98,890	-	-	-	-	98,890
Investments	34,152	404,748	-	5,000	-	443,900
Loans to members	210,371	929,596	728,997	2,151,560	116,167	4,136,691
Other financial assets	-	5,804	-	1,941	-	7,745
	<u>343,413</u>	<u>1,340,148</u>	<u>728,997</u>	<u>2,158,501</u>	<u>116,167</u>	<u>4,687,226</u>

Financial liabilities

	Payable on demand \$	Less than 1 year \$	1 to 2 years \$	2 to 5 years \$	More than 5 years \$	Total \$
Members' deposits	2,121,164	910,969	467,767	672,091	46	4,172,037
Accounts payable	-	11,956	918	-	427	13,301
Mortgage securitization liabilities	-	34,203	51,238	125,774	-	211,215
	<u>2,121,164</u>	<u>957,128</u>	<u>519,923</u>	<u>797,865</u>	<u>473</u>	<u>4,396,553</u>

Foreign exchange risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant as at the date of the consolidated statement of financial position, as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financed investments for an extended period.

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Price risk

Price risk arises from changes in market risks, other than interest rate, credit, liquidity or foreign exchange risk, such as changes in equity and commodity prices, where these changes cause fluctuations in the fair value or future cash flows of a financial instrument. The Credit Union is not exposed to significant price risk at this time.

18 Fair value of financial assets and liabilities

Differences between carrying value and fair value of investments, loans to members, members' 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 and deposits that are priced with variable rates have a fair value equal to carrying value, as they are priced at current interest rates.

Fair value hierarchy

Assets and liabilities recorded at fair value in the balance sheet 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, and the level applied to a particular measurement depends on the level of the lowest ranking significant input.

The inputs used for fair value measurements, including their classification within the required three levels of the fair value hierarchy that prioritizes the inputs used for fair value measurement, are as follows:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs that are not based on observable market data (unobservable inputs).

The Credit Union's policy is to recognize transfers into and transfers out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2018, the Credit Union had no transfers between fair value hierarchy levels.

The following tables summarize the fair value measurements recognized in the consolidated statement of financial position or disclosed in the Credit Union's consolidated financial statements by class of asset or liability and categorized by level accordingly to the significance of the inputs used in making the measurements.

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Recurring fair value measurements

	Level 1 \$	Level 2 \$	2018 Total carrying amount \$
Financial assets - FVTPL or FVOCI			
Investments	-	443,900	443,900
Interest rate swap	-	1,941	1,941
Total financial assets	-	445,841	445,841
Financial liabilities - FVTPL			
Interest rate swap	-	427	427
Total financial liabilities	-	427	427

The Credit Union did not have any non-recurring measurements for the year ended December 31, 2018.

Fair values disclosed

	Level	Financial assets/ liabilities at cost or amortized cost \$	Estimated fair value \$	2018 Fair value greater (less) than carrying value \$
Financial assets				
Cash on hand and on deposit	1	98,890	98,890	-
Loans to members	2	4,129,357	4,089,335	(40,022)
Accounts receivable	2	5,804	5,804	-
Total financial assets		4,234,051	4,194,029	(40,022)
Financial liabilities				
Members' deposits	2	4,172,037	4,159,051	(12,986)
Accounts payable	2	12,874	12,874	-
Mortgage securitization liability	2	211,215	207,360	(3,855)
Members' shares	3	10,343	10,343	-
Shares to be issued	3	140	140	-
Total financial liabilities		4,406,609	4,389,768	(16,841)

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Recurring fair value measurements

	Level 1 \$	Level 2 \$	2017 Total carrying amount \$
Financial assets - Held for trading or FVTPL or AFS			
Investments	-	33,102	33,102
Interest rate swap	-	2,673	2,673
Total financial assets	-	35,775	35,775
Financial liabilities - Held for trading or FVTPL or AFS			
Interest rate swap	-	154	154
Total financial liabilities	-	154	154

The Credit Union did not have any non-recurring measurements for the year ended December 31, 2017.

Fair values disclosed

	Level	Financial assets/ liabilities at cost or amortized cost \$	Estimated fair value \$	2017 Fair value greater (less) than carrying value \$
Financial assets				
Cash on hand and on deposit	1	73,391	73,391	-
Investments	2	453,578	453,903	325
Loans to members	2	3,882,805	3,857,754	(25,051)
Accounts receivable	2	6,178	6,178	-
Total financial assets		4,415,952	4,391,226	(24,726)
Financial liabilities				
Members' deposits	2	4,018,507	4,013,249	(5,258)
Accounts payable	2	12,443	12,443	-
Mortgage securitization liability	2	163,685	160,009	(3,676)
Members' shares	3	10,720	10,720	-
Shares to be issued	3	120	120	-
Total financial liabilities		4,205,475	4,196,541	(8,934)

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The fair value measurement of derivative financial assets and liabilities categorized within level 2 of the fair value hierarchy is determined using observable market data inputs. These inputs include forward exchange and interest rates, as applicable, at the measurement date, with the resulting value discounted back to present values.

The fair value measurement of derivative financial liabilities categorized within level 3 of the fair value hierarchy is not based on observable market data. The fair value of these instruments approximate carrying value due to the demand nature of the instruments.

For fair value disclosures, the 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 net realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value of investments, loans and deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of financial instruments. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates and 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 are discounted to their estimated present value using current market rates for equivalent groups of fixed rate deposits. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium. The significant assumptions included in the determination of fair value include estimates of interest rates and discount rates.

The most significant assumption relates to the discount rates utilized. If the forward yield curve of such instruments would increase by 10 basis points then the fair value of financial assets would decrease by \$8,102,000 and the fair value of financial liabilities would decrease by \$3,598,000. A corresponding decrease of 10 basis points in the forward yield curve would result in a \$8,131,000 increase in the fair value of financial assets and a \$3,608,000 increase in the fair value of financial liabilities.

Offsetting of financial instruments

There are no significant financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2018 and 2017.

19 Related party transactions

Credit Union Central of Manitoba

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

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The Credit Union has in place a line of credit with Central in the amount of 10% of member deposits. The line of credit is secured by an assignment, hypothecation, charge and pledge of its loans to members outstanding, except for securitized loans to members. At December 31, 2018, the balance outstanding was \$nil (2017 - \$nil). The line of credit with Central is payable on demand with interest payable on a variable rate basis which at year-end was 3.75% (2017 - 3.00%). Interest paid on borrowings from CUCM during the year amounted to \$nil (2017 - \$nil).

Transactions with Central included income earned on cash on deposits and investments in the amount of \$13,179,000 (2017 - \$11,542,000) and fees assessed by Central which include annual affiliation dues in the amount of \$1,094,000 (2017 - \$1,085,000).

Deposit Guarantee Corporation of Manitoba

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

Transactions with the Corporation included assessments of \$3,282,000 (2017 - \$3,207,000) and are recorded as member security expense.

Compensation of key management personnel

Key management personnel is defined under IFRS as persons having authority and responsibility for planning, directing, and controlling the activities of the Credit Union, directly or indirectly, including any director (whether executive or otherwise) of the Credit Union. The key management personnel of the Credit Union includes executive management and the Board.

The summary of compensation for key management personnel is as follows:

	2018 \$	2017 \$
Salaries and other short-term employee benefits	1,674	1,562
Post-employment benefits	98	89
	<hr/> 1,772	<hr/> 1,651

Included in salaries and other short-term employee benefits is remuneration of \$277,000 (2017 - \$269,000) paid to directors during the year. Expenses paid by the Credit Union on behalf of the directors were \$32,000 (2017 - \$50,000).

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The outstanding balances at December 31 for key management personnel are as follows:

	2018 \$	2017 \$
Loans outstanding	553	939
Savings and deposits outstanding	2,763	1,704

No allowances have been recognized in respect of loans issued to related parties in the current year.

Loans to directors and staff

As at December 31, 2018, outstanding loans to directors, management, and staff totalled 0.75% (2017 - 0.84%), in aggregate, of the assets of the Credit Union.

20 Commitments and guarantees

Director and officer indemnification

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

Leases

Under the terms of various premise-operating leases, the Credit Union is committed to future aggregate lease payments as follows:

	\$
2019	2,311
2020	1,657
2021	1,024
2022	754
2023	655
Thereafter	4,775

21 Contingencies

The Credit Union, in the course of its operations, is subject to lawsuits. The Credit Union will accrue for losses in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated.

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22 Pension plan

The Credit Union has a defined contribution pension plan for qualifying employees. The contributions are held in trust by a third party, the Co-operative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions, which range between 5% and 7% of an employee's salary. The payments for the year ended December 31, 2018 were \$1,338,000 (2017 - \$1,314,000) and are recorded as an expense within the consolidated statement of net income and comprehensive income. 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.