Money doing more.
Assiniboine CREDIT UNION

Assiniboine Credit Union Limited

Consolidated Financial Statements
December 31, 2016

March 30, 2017

Independent Auditor's Report

To the Members of
Assiniboine Credit Union Limited

We have audited the accompanying consolidated financial statements of Assiniboine Credit Union Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of net income and comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Assiniboine Credit Union Limited and its subsidiaries as at December 31, 2016 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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Assiniboine Credit Union Limited

Consolidated Statement of Financial Position

As at December 31, 2016

(in thousands of dollars)

	2016 $	2015 $
Assets		
Cash on hand and on deposit	97,083	114,180
Investments (note 5)	511,400	573,117
Loans to members (note 6)	3,719,497	3,453,965
Other assets (note 7)	16,902	15,179
Property, equipment and intangible assets (note 8)	17,723	19,512
Deferred income tax asset (note 12)	966	825
Total assets	4,363,571	4,176,778
Liabilities		
Members' deposits (note 9)	3,930,610	3,832,555
Accounts payable (note 10)	13,763	11,563
Mortgage securitization liabilities (note 11)	159,894	93,421
Income tax payable	886	233
Members' shares (note 14)	11,001	11,392
Shares to be issued (note 15)	124	129
Total liabilities	4,116,278	3,949,293
Members' Equity		
Members' shares (note 14)	16,315	16,588
Shares to be issued (note 15)	571	581
Contributed surplus	35,633	35,633
Retained surplus	194,774	174,683
Total equity	247,293	227,485
Total liabilities and equity	4,363,571	4,176,778

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, 2016

(in thousands of dollars)

	2016 $	2015 $
Revenues		
Interest from loans to members	118,789	118,364
Investment income	10,670	8,818
	129,459	127,182
Cost of funds		
Interest paid to members and other	67,269	66,398
Financial margin	62,190	60,784
Other income	28,942	26,708
Financial margin and other income	91,132	87,492
Operating expenses		
Administration	17,268	19,268
Member security	3,389	3,227
Occupancy	8,512	8,906
Organizational	2,235	2,034
Personnel	33,019	31,814
	64,423	65,249
Gross operating margin	26,709	22,243
Allowance for loan loss (note 6)	(2,167)	(1,799)
Dividends on surplus shares (note 15)	(124)	(129)
Net income before income taxes	24,418	20,315
Provision for (recovery of) income taxes (note 12)		
Current	3,984	3,230
Deferred	(141)	(121)
	3,843	3,109
Net income and comprehensive income for the year	20,575	17,206

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, 2016

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(in thousands of dollars)

	Members' shares $	Shares to be issued $	Contributed surplus $	Retained surplus $	Total members' equity $
Balance at January 1, 2016	16,588	581	35,633	174,683	227,485
Net income and comprehensive income for the year	-	-	-	20,575	20,575
Dividends on preference shares (note 15)	-	571	-	(484)	87
Members' shares					
Issued	581	(581)	-	-	-
Redeemed	(854)	-	-	-	(854)
Balance at December 31, 2016	16,315	571	35,633	194,774	247,293

	Members' shares $	Shares to be issued $	Contributed surplus $	Retained surplus $	Total members' equity $
Balance at January 1, 2015	16,729	669	35,633	157,975	211,006
Net income and comprehensive income for the year	-	-	-	17,206	17,206
Dividends on preference shares (note 15)	-	581	-	(498)	83
Members' shares					
Issued	669	(669)	-	-	-
Redeemed	(810)	-	-	-	(810)
Balance at December 31, 2015	16,588	581	35,633	174,683	227,485

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, 2016

(in thousands of dollars)

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	20,575	17,206
Items not affecting cash		
Depreciation	2,746	3,124
Allowance for loan loss	2,167	1,799
Loss on disposal of property and equipment	-	101
Gain on disposal of property held for sale	-	(500)
Deferred income taxes	(141)	(121)
Dividends on surplus shares	124	129
Impairment of intangible asset	-	2,592
	25,471	24,330
Net change in non-cash working capital items		
Investments - accrued interest	34	(106)
Loans to members - accrued interest	(238)	222
Other assets	(1,723)	(1,853)
Income taxes	653	(428)
Members' deposits - accrued interest	(1,384)	335
Accounts payable	2,200	(867)
	(458)	(2,697)
Loans to members - net of repayments	(267,461)	(107,945)
Members' deposits - net of withdrawals	99,439	304,509
Net change in investments	61,683	(273,803)
	(106,339)	(77,239)
	(81,326)	(55,606)
Investing activities		
Purchase of property and equipment and intangibles	(957)	(549)
Proceeds on disposal of property held for sale	-	910
Proceeds on disposal of property and equipment	-	16
	(957)	377
Financing activities		
Net increase in mortgage securitization	66,473	62,097
Net increase (decrease) in common shares	(15)	6
Redemption of surplus shares	(505)	(513)
Redemption of preference shares, net of taxes	(767)	(727)
	65,186	60,863
Net increase (decrease) in cash on hand and on deposit	(17,097)	5,634
Cash on hand and on deposit - Beginning of year	114,180	108,546
Cash on hand and on deposit - End of year	97,083	114,180

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

1 General information

Assiniboine Credit United 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 30, 2016.

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.

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 4.

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 classified as loans and receivables and is carried at amortized cost.

Financial instruments

Financial assets

The Credit Union classifies financial assets as follows: loans and receivables, fair value through profit or loss (“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.

Loans and receivables

Loans to members, accounts receivable and contract deposits with Credit Union Central of Manitoba (“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.

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. Loans are written off when there is no realistic prospect of recovering the loan in full. Recoveries on loans previously written off are taken into income.

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.

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.

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.

When assets have been transferred but substantially all of the risks and rewards of ownership of the assets have been retained, the securitized assets are not removed from the balance sheet and the arrangement is accounted for as a secured financing transaction. The securitized assets are classified as loans to members on the consolidated balance sheet with an offsetting mortgage securitization liability. Securitized assets and liabilities are carried at amortized cost using the effective interest method.

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.

Impairment reviews are performed when there are indicators that the recoverable amount of an asset may be less than the carrying value. The recoverable amount is determined as the higher of an asset's fair value less cost 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.

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 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 an asset'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.

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.

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.

Standards and interpretations issued but not yet effective

IFRS 9, Financial Instruments, first issued in November 2009 with the final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at FVTPL, fair value through Other Comprehensive Income ("OCI") or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not carried at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15, Revenue from Contracts with Customers, was issued in May 2014, which 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, 2017.

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 standards, all leases will be on the balance sheet of lessees except those that meet limited exception criteria. As the Credit Union has contractual obligations in the form of operating leases under the existing standard, there will be a material increase to both assets and liabilities upon adoption of the new standard and material changes to the timing of recognition of expenses associated with the lease arrangements. The Credit Union is analyzing the new standard to determine its impact on the Credit Union's Statement of Financial Position and Statement of Income and Comprehensive Income.

4 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:

Allowance for loan loss

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

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 11 for further details).

5 Investments

(in thousands of dollars)	AFS $	Loans and receivables $	Total $
			2016
Credit Union Central of Manitoba			
Shares	38,965	-	38,965
Contract deposits	-	466,725	466,725
Credential Securities Inc. debenture, non-interest bearing, maturing October 2020	-	250	250
Concentra Financial Class D preferred shares	-	5,000	5,000
	38,965	471,975	510,940
Accrued interest receivable	-	460	460
	38,965	472,435	511,400

The above contract deposits bear interest at rates ranging from 0.76% to 3.09% with maturity dates ranging from January 2017 to August 2018.

(in thousands of dollars)	AFS $	Loans and receivables $	Total $
			2015
Credit Union Central of Manitoba			
Shares	33,498	-	33,498
Contract deposits	-	533,875	533,875
Credential Securities Inc. debenture, non-interest bearing, maturing October 2020	-	250	250
Concentra Financial Class D preferred shares	-	5,000	5,000
	33,498	539,125	572,623
Accrued interest receivable	-	494	494
	33,498	539,619	573,117

The above contract deposits bear interest at rates ranging from 0.50% to 3.09% with maturity dates ranging from January 2016 to August 2018.

6 Loans to members

Loans to members are presented net of allowances for loan loss totalling $6,161,000 (2015 - $5,581,000), consisting of individually significant allowances of $4,523,000 (2015 - $3,906,000) for loans considered impaired and $1,638,000 (2015 - $1,675,000) of collective allowances, as follows:

				2016
(in thousands of dollars)	Gross loan balance $	Individually significant allowances $	Collective allowances $	Net loan balance $
Consumer				
Loans	188,242	(660)	(241)	187,341
Mortgages	2,531,210	(468)	(384)	2,530,358
Lines of credit	190,369	(803)	(623)	188,943
Commercial				
Loans	59,475	(1,772)	(319)	57,384
Mortgages	728,388	-	-	728,388
Lines of credit	22,916	(590)	(71)	22,255
	3,720,600	(4,293)	(1,638)	3,714,669
Accrued interest	5,058	(230)	-	4,828
	3,725,658	(4,523)	(1,638)	3,719,497
Current				982,574
Non-current				2,736,923

				2015
(in thousands of dollars)	Gross loan balance $	Individually significant allowances $	Collective allowances $	Net loan balance $
Consumer				
Loans	193,508	(630)	(147)	192,731
Mortgages	2,428,411	(496)	(322)	2,427,593
Lines of credit	186,456	(446)	(672)	185,338
Commercial				
Loans	65,418	(1,802)	(421)	63,195
Mortgages	558,171	-	-	558,171
Lines of credit	22,762	(413)	(113)	22,236
	3,454,726	(3,787)	(1,675)	3,449,264
Accrued interest	4,820	(119)	-	4,701
	3,459,546	(3,906)	(1,675)	3,453,965
Current				955,633
Non-current				2,498,332

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

	December 31, 2016		
(in thousands of dollars)	**Impaired loan balance $**	**Individually significant allowances $**	**Net impaired loan balance $**
Consumer			
Loans	973	(660)	313
Mortgages	1,467	(468)	999
Lines of credit	817	(803)	14
Commercial			
Loans	4,266	(1,772)	2,494
Lines of credit	390	(590)	(200)
	7,913	(4,293)	3,620
Accrued interest	230	(230)	-
	8,143	(4,523)	3,620

	December 31, 2015		
(in thousands of dollars)	**Impaired loan balance $**	**Individually significant allowances $**	**Net impaired loan balance $**
Consumer			
Loans	768	(630)	138
Mortgages	1,803	(496)	1,307
Lines of credit	446	(446)	-
Commercial			
Loans	4,297	(1,802)	2,495
Lines of credit	296	(413)	(117)
	7,610	(3,787)	3,823
Accrued interest	119	(119)	-
	7,729	(3,906)	3,823

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

	2016				
	Consumer		Commercial		
(in thousands of dollars)	Individually significant allowances $	Collective allowances $	Individually significant allowances $	Collective allowances $	Total $
Balance - beginning of year	1,641	1,141	2,265	534	5,581
Increase (decrease) in impairment provision	1,660	106	544	(143)	2,167
Loans written off in the year	(1,305)	-	(282)	-	(1,587)
Balance - end of year	1,996	1,247	2,527	391	6,161

	2015				
	Consumer		Commercial		
(in thousands of dollars)	Individually significant allowances $	Collective allowances $	Individually significant allowances $	Collective allowances $	Total $
Balance - beginning of year	1,837	1,243	2,063	467	5,610
Increase (decrease) in impairment provision	1,515	(102)	319	67	1,799
Loans written off in the year	(1,711)	-	(117)	-	(1,828)
Balance - end of year	1,641	1,141	2,265	534	5,581

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.

	2016				
(in thousands of dollars)	1-30 days $	31-60 days $	61-89 days $	90 days and greater $	Total $
Consumer	29,151	1,520	693	4,896	36,260
Commercial	16,370	853	-	723	17,946
	45,521	2,373	693	5,619	54,206

					2015
(in thousands of dollars)	**1-30 days** $	**31-60 days** $	**61-89 days** $	**90 days and greater** $	**Total** $
Consumer	19,821	2,041	1,288	3,534	26,685
Commercial	1,540	721	70	1,202	3,532
	21,361	2,762	1,358	4,736	30,217

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.

During the year ended December 31, 2016, the Credit Union did not acquire any assets in respect of delinquent loans.

7 Other assets

(in thousands of dollars)	**2016** $	**2015** $
Accounts receivable	6,614	6,014
Prepaid expenses	2,665	1,542
Goodwill	7,623	7,623
	16,902	15,179
Current	7,252	6,772
Non-current	9,650	8,407

The Credit Union completed its annual impairment testing for goodwill as at December 31, 2016 using 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.

8 Property, equipment and intangible assets

					Property and equipment	Intangible assets	Total
(in thousands of dollars)	**Land $**	**Buildings $**	**Furniture, equipment and signs $**	**Computers $**	**Leaseholds $**	**Software $**	**Total $**
January 1, 2015							
Opening net book value	2,344	6,200	1,778	659	9,243	4,614	24,838
Additions	-	210	184	93	54	8	549
Disposals	-	-	(6)	-	(111)	(41)	(158)
Impairment	-	-	-	-	-	(2,592)	(2,592)
Depreciation	-	(446)	(766)	(277)	(1,038)	(598)	(3,125)
Net book value	2,344	5,964	1,190	475	8,148	1,391	19,512
December 31, 2015							
Cost	2,344	9,755	9,998	2,832	13,187	6,429	44,545
Accumulated depreciation	-	(3,791)	(8,808)	(2,357)	(5,039)	(5,038)	(25,033)
Net book value	2,344	5,964	1,190	475	8,148	1,391	19,512
January 1, 2016							
Opening net book value	2,344	5,964	1,190	475	8,148	1,391	19,512
Additions	-	43	217	229	270	198	957
Depreciation	-	(468)	(445)	(223)	(1,047)	(563)	(2,746)
Net book value	2,344	5,539	962	481	7,371	1,026	17,723
December 31, 2016							
Cost	2,344	9,798	9,751	2,822	13,259	6,596	44,570
Accumulated depreciation	-	(4,259)	(8,789)	(2,341)	(5,888)	(5,570)	(26,847)
Net book value	2,344	5,539	962	481	7,371	1,026	17,723

During the year, fully depreciated furniture, equipment and signs, computers, leaseholds and software with an initial cost of $464,000, $239,000, $198,000 and $31,000, respectively (2015 - $406,000, $27,000, $997,000 and $16,000) were disposed of for no consideration.

A software impairment loss of $2,592,000 has been recognized in 2015 administration expense. The impairment loss is based on the Credit Union ceasing implementation efforts on a planned software implementation. The impairment loss reflects costs incurred and capitalized as intangible assets up to the date of impairment.

9 Members' deposits

(in thousands of dollars)	2016 $	2015 $
Savings	1,292,190	1,203,663
Chequing	560,821	561,776
Term deposits	1,253,978	1,250,873
Registered deposits	798,548	789,749
Inactive accounts	304	341
Accrued interest payable	24,769	26,153
	3,930,610	3,832,555
Current	2,914,688	2,708,113
Non-current	1,015,922	1,124,442

10 Accounts payable

(in thousands of dollars)	2016 $	2015 $
Accounts payable and accrued liabilities	13,763	11,563
Current	12,217	9,073
Non-current	1,546	2,490

11 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 expected credit losses 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.

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

(in thousands of dollars)	**2016** **$**	**2015** **$**
Securitized consumer mortgages	159,894	93,421
Mortgage securitization liabilities	159,894	93,421
Net positions	-	-

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:

(in thousands of dollars)	**2016** **$**	**2015** **$**
Current		
Securitization liabilities	4,818	2,709
Accrued interest	182	118
Non-current		
Securitization liabilities	155,076	90,712
Unamortized MBS program costs	1,237	638

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.

12 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:

(in thousands of dollars)	2016 $	2015 $
Current income taxes		
Based on current year taxable income	3,984	3,230

(in thousands of dollars)	2016 $	2015 $
Deferred income taxes		
Origination and reversal of temporary differences	(141)	(121)

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

	2016 %	2015 %
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Additional deduction for credit unions	(13.80)	(14.60)
Net federal tax rate	14.20	13.40
Provincial tax rate	1.00	1.00
	15.20	14.40

The statutory tax rate change reflects the elimination of the available 4% Federal Small Business Deduction for credit unions by 20% per year effective March 21, 2013.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 15.20% (2015 - 14.40%) are as follows:

(in thousands of dollars)	2016 $	2015 $
Net income before income taxes for the year	24,418	20,315
Expected provision for income taxes at statutory rates	3,712	2,925
Higher tax rate applicable to subsidiary	152	219
Non-deductible portion of expenses	22	21
Change in tax rates	(37)	(32)
Non-taxable gains	-	(47)
Other	(6)	23
Total provision for income taxes	3,843	3,109

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 15.20% (2015 - 14.40%).

As a result, dividends charged against retained surplus are net of the foregoing related income tax savings of $87,000 (2015 - $83,000).

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

(in thousands of dollars)	**2016** **$**	**2015** **$**
Deferred tax assets		
Loans outstanding	334	314
Provisions for expenditure currently not deductible for income tax purposes	285	294
Depreciation in excess of capital cost allowance	347	217
Total deferred taxes	966	825

(in thousands of dollars)	**2016** **$**	**2015** **$**
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	966	825
Net deferred tax assets	966	825

13 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.

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:

	2016 %	2015 %
Members' equity	5.92	5.72
Surplus	5.28	5.04
Risk weighted capital	14.73	15.65

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:

	2016 %	2015 %
Liquidity reserve	14.36	16.92

14 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 13. 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 13. Surplus shares are redeemable at the request of the member 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 dividend 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 by such purchase or redemption would be, less than the level of capital as prescribed by the Act as defined in note 13. Preference shares are redeemable at the discretion of the Board. All preference shares are classified as equity.

Members' shares - classified as liabilities

(in thousands of dollars)	2016 $	2015 $
Surplus shares		
Beginning of year	10,822	11,174
Issued during the year from dividends	129	161
Redemption of surplus shares	(505)	(513)
End of year	10,446	10,822
Common shares		
Beginning of year	570	564
Issued on application for membership	27	31
Redemption of common shares	(42)	(25)
End of year	555	570
Total members' shares - classified as liabilities	11,001	11,392

Members' shares - classified as equity

	2016			2015		
(in thousands of dollars)	Class Assiniboine $	Class Astra $	Total $	Class Assiniboine $	Class Astra $	Total $
Preference share capital						
Beginning of year	14,326	2,262	16,588	14,418	2,311	16,729
Issued during the year from dividends	502	79	581	577	92	669
Redemption of preference shares	(677)	(177)	(854)	(669)	(141)	(810)
Total members' shares - classified as equity	14,151	2,164	16,315	14,326	2,262	16,588

15 Dividends on surplus and preference shares

The Board has declared, and the Credit Union has accrued a 1.25% dividend totalling $124,000 (2015 - $129,000) 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 3.5% dividend totalling $571,000 (2015 - $581,000) on Class Assiniboine and Class Astra preference shares. The dividends accrued on preference shares, net of the related tax savings of $87,000 (2015 - $83,000), have been reflected as a charge to retained surplus.

16 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

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the consolidated statement of net income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Credit Union's management and reported to the Board on a monthly 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, 2016, the Credit Union estimates that an immediate and sustained 100 basis point increase in market interest rates would increase financial margin by $3,110,000 over the next twelve months while an immediate and sustained 100 basis point decrease in market interest rates would decrease financial margin by $3,302,000 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.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2016. 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		
(in thousands of dollars)	Assets $	Liabilities and members' equity $	Assets $	Liabilities $	Net asset/ liability gap $
Expected repricing or maturing date					
Less than one year	1,907,537	2,397,146	103,040	-	(386,569)
1 to 2 years	615,193	419,334	-	38,340	157,519
2 to 3 years	527,590	303,934	-	-	223,656
3 to 4 years	562,447	214,549	-	-	347,898
4 to 5 years	673,047	228,840	-	64,700	379,507
Over 5 years	35,996	182	-	-	35,814
Not interest sensitive	41,761	799,586	-	-	(757,825)
	4,363,571	4,363,571	103,040	103,040	-

The average rate for interest bearing assets is 3.09% and for interest bearing liabilities is 1.62%.

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.

Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the 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, an assessment of the credit quality of the member 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 "probability of default" by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Credit Union derives the "exposure at default"; and (iii) the likely recovery ratio on the defaulted obligations (the "loss given default"). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimize their effectiveness.

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.

			2016
(in thousands of dollars)	**Outstanding** **$**	**Undrawn commitments** **$**	**Total exposure** **$**
Credit risk exposure			
Cash on hand and on deposit	97,083	-	97,083
Accounts receivable	6,614	-	6,614
Investments	511,400	-	511,400
Consumer loans	2,909,821	336,618	3,246,439
Commercial loans	810,779	316,389	1,127,168
Accrued interest	5,058	-	5,058
Total exposure	4,340,755	653,007	4,993,762

			2015
(in thousands of dollars)	**Outstanding $**	**Undrawn commitments $**	**Total exposure $**
Credit risk exposure			
Cash on hand and on deposit	114,180	-	114,180
Accounts receivable	6,014	-	6,014
Investments	573,117	-	573,117
Consumer loans	2,808,375	332,586	3,140,961
Commercial loans	646,351	164,131	810,482
Accrued interest	4,820	-	4,820
Total exposure	4,152,857	496,717	4,649,574

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. The managed assets consist of cash on hand and on deposit and investments held with Central. 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.

Consumer loans

Consumer loans to members consist of consumer mortgages, loans and lines of credit. Consumer mortgages are fully secured by residential property with 46% in mortgages insured by CMHC and other mortgage insurance providers, 53% in conventional mortgages with an ongoing maximum advance ratio to 80% of the appraised value, and 1% in mortgages with an original advance ratio to 85% 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 often takes security as collateral and maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

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

	2016 %	2015 %
Real estate, rental and leasing	42.6	39.1
Manufacturing and construction	20.1	15.8
Accommodation and food services	12.0	12.3
Health care and social assistance	9.7	11.1
Arts, entertainment and recreation	6.8	9.2
Business services	4.9	7.6
Retail and wholesale trade	1.9	1.9
Transportation and warehousing	0.9	1.8
Other industries	1.1	1.2

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 probability of a default 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 divided into eight segments and are reviewed regularly and updated as appropriate.

	2016 %	2015 %
Excellent risk	0.10	1.15
Very good risk	5.12	3.83
Good risk	45.68	60.89
Acceptable risk	45.05	32.63
Caution risk	3.44	0.59
At risk	0.11	0.25
Impaired		
No reserve	0.01	0.02
Reserve	0.49	0.64

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 13. The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan 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 18.

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

Financial assets

(in thousands of dollars)	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	97,083	-	-	-	-	97,083
Investments	38,965	462,185	5,000	5,250	-	511,400
Loans to members	213,285	769,289	743,939	1,920,563	78,582	3,725,658
Other financial assets	-	5,497	-	1,117	-	6,614
	349,333	1,236,971	748,939	1,926,930	78,582	4,340,755

Financial liabilities

(in thousands of dollars)	Payable on demand $	Less than 1 year $	1 to 2 years $	2 to 5 years $	More than 5 years $	Total $
Members' deposits	1,944,529	970,159	410,208	605,532	182	3,930,610
Accounts payable	-	12,217	929	617	-	13,763
Mortgage securitization liabilities	-	4,818	4,962	150,114	-	159,894
	1,944,529	987,194	416,099	756,263	182	4,104,267

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.

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.

17 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, 2016, 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.

Recurring fair value measurements

			2016
(in thousands of dollars)	**Level 1 $**	**Level 2 $**	**Total carrying amount $**
Financial assets - Held for trading or FVTPL or AFS			
Investments	-	38,965	38,965
Interest rate swap	-	1,117	1,117
Total financial assets	-	40,082	40,082
Financial liabilities - Held for trading or FVTPL or AFS			
Interest rate swap	-	618	618
Total financial liabilities	-	618	618

The Credit Union did not have any non-recurring measurements for the year ended December 31, 2016.

Fair values disclosed

(in thousands of dollars)	Level	Financial assets/ liabilities at cost or amortized cost $	Estimated fair value $	2016 Fair value greater than carrying value $
Financial assets				
Cash on hand and on deposit	1	97,083	97,083	-
Investments	2	472,435	473,053	618
Loans to members	2	3,719,497	3,743,998	24,501
Accounts receivable	2	5,497	5,497	-
Total financial assets		4,294,512	4,319,631	25,119
Financial liabilities				
Members' deposits	2	3,930,610	3,942,657	12,047
Accounts payable	2	13,145	13,145	-
Mortgage securitization liability	2	159,894	157,766	(2,128)
Members' shares	3	11,001	11,001	-
Shares to be issued	3	124	124	-
Total financial liabilities		4,114,774	4,124,693	9,919

Recurring fair value measurements

(in thousands of dollars)	Level 1 $	Level 2 $	2015 Total carrying amount $
Financial assets - Held for trading or FVTPL or AFS			
Investments	-	33,498	33,498
Total financial assets	-	33,498	33,498
Financial liabilities - Held for trading or FVTPL or AFS			
Interest rate swap	-	1,521	1,521
Total financial liabilities	-	1,521	1,521

The Credit Union did not have any non-recurring measurements for the year ended December 31, 2015.

Fair values disclosed

(in thousands of dollars)	Level	Financial assets/ liabilities at cost or amortized cost $	Estimated fair value $	2015 Fair value greater than carrying value $
Financial assets				
Cash on hand and on deposit	1	114,180	114,180	-
Investments	2	539,619	540,464	845
Loans to members	2	3,453,965	3,490,227	36,262
Accounts receivable	2	6,014	6,014	-
Total financial assets		4,113,778	4,150,885	37,107
Financial liabilities				
Members' deposits	2	3,832,555	3,848,605	16,050
Accounts payable	2	10,042	10,042	-
Mortgage securitization liability	2	93,421	92,020	(1,401)
Members' shares	3	11,392	11,392	-
Shares to be issued	3	129	129	-
Total financial liabilities		3,947,539	3,962,188	14,649

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 $7,521,000 and the fair value of financial liabilities would decrease by $3,491,000. A corresponding decrease of 10 basis points in the forward yield curve would result in a $7,547,000 increase in the fair value of financial assets and a $3,501,000 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, 2016 and 2015.

18 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.

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 security loans to members. At December 31, 2016, the balance outstanding was $nil (2015 - $nil). The line of credit with Central is payable on demand with interest payable on a variable rate basis which at year-end was 2.5% (2015 - 2.5%). Interest paid on borrowings from CUCM during the year amounted to $nil (2015 - $nil).

Transactions with Central included income earned on cash on deposits and investments in the amount of $10,441,000 (2015 - $8,613,000) and fees assessed by Central which include annual affiliation dues in the amount of $1,211,000 (2015 - $939,000).

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 $3,098,000 (2015 - $2,928,000) 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:

(in thousands of dollars)	2016 $	2015 $
Salaries and other short-term employee benefits	1,383	1,997
Post-employment benefits	82	92
	1,465	2,089

Included in salaries and other short-term employee benefits is remuneration of $249,000 (2015 - $262,000) paid to directors during the year. Expenses paid by the Credit Union on behalf of the directors were $26,000 (2015 - $36,000).

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

(in thousands of dollars)	2016 $	2015 $
Loans outstanding	870	772
Savings and deposits outstanding	1,467	944

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, 2016, outstanding loans to directors, management, and staff totalled 0.90% (2015 - 0.93%), in aggregate, of the assets of the Credit Union.

19 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:

(in thousands of dollars)	$
2017	2,318
2018	2,257
2019	2,060
2020	1,406
2021	783
Thereafter	5,898

20 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.

21 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, 2016 were $1,343,000 (2015 - $1,409,000) 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.