Access Credit Union Limited
Consolidated Financial Statements
For the year ended December 31, 2019

Contents

For the year ended December 31, 2019

Management's Responsibility

To the Members of Access Credit Union Limited:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

Signed "Larry Davey"
Chief Executive Officer

Signed "Reuben Schulz"
Chief Financial Officer

Independent Auditor's Report

To the Members of Access Credit Union Limited:

Opinion

We have audited the consolidated financial statements of Access Credit Union Limited and its subsidiaries (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The comparative figures as at December 31, 2018 were audited by another firm of Chartered Professional Accountants who expressed an unqualified opinion in their report dated February 20, 2019.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor’s report is information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management 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 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.

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.

Winnipeg, Manitoba

MNP LLP

February 19, 2020

Chartered Professional Accountants

Access Credit Union Limited
Consolidated Statement of Financial Position
As at December 31, 2019

	2019	2018
Assets		
Funds on hand and on deposit	**18,457,458**	28,916,073
Income taxes recoverable	**-**	45,594
Investments *(Note 5)*	**409,619,205**	304,973,283
Members' loans *(Note 6)*	**2,403,011,012**	2,275,784,684
Other assets	**4,170,402**	4,050,559
Property and equipment *(Note 7)*	**16,270,631**	15,683,183
Investment property *(Note 8)*	**1,934,521**	1,987,557
Intangible assets *(Note 9)*	**2,037,140**	801,272
Investment in associates *(Note 10)*	**2,718,698**	2,926,298
Deferred tax assets *(Note 15)*	**355,000**	213,000
	2,858,574,067	2,635,381,503
Liabilities		
Members' savings and deposits *(Note 11)*	**2,574,682,193**	2,391,800,809
Other liabilities	**5,074,139**	5,319,956
Income taxes payable	**584,553**	-
Securitized borrowing *(Note 12)*	**88,920,221**	63,708,619
	2,669,261,106	2,460,829,384
Members' equity		
Members' shares *(Note 14)*	**264,530**	262,170
Retained surplus	**189,053,505**	174,291,808
Accumulated other comprehensive income (loss)	**(5,074)**	(1,859)
	189,312,961	174,552,119
	2,858,574,067	2,635,381,503

Approved on behalf of the Board of Directors

Signed "Curt Letkeman"
Director

Signed "Sherry Woods"
Director

The accompanying notes are an integral part of these financial statements

Access Credit Union Limited
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2019

	2019	*2018*
Financial income		
Interest on loans to members	**88,256,474**	79,409,048
Investment Income		
Profit from associates *(Note 10)*	**821,400**	813,486
Liquidity deposits	**9,833,569**	7,803,082
Shares and debentures	**1,185,672**	870,273
	100,097,115	88,895,889
Cost of funds	**57,525,215**	47,630,672
Financial margin	**42,571,900**	41,265,217
Operating expenses		
Personnel	**18,867,251**	18,735,594
Administration	**8,107,417**	7,893,037
Occupancy	**3,904,848**	3,662,404
Member security	**2,246,660**	2,126,556
Organizational	**1,162,570**	1,212,139
Gross operating expenses	**34,288,746**	33,629,730
Other income	**(9,720,844)**	(10,157,247)
Income from operations before provision for impaired loans and income taxes	**18,003,998**	17,792,734
Provision for (recovery of) impaired loans *(Note 6)*	**361,808**	(340,546)
Income before provision for income taxes	**17,642,190**	18,133,280
Provision for (recovery of) income taxes		
Current *(Note 15)*	**3,022,493**	2,672,994
Deferred *(Note 15)*	**(142,000)**	177,300
	2,880,493	2,850,294
Income for the year	**14,761,697**	15,282,986
Other comprehensive income, net of tax		
Change in unrealized losses on investments, net of tax	**(3,215)**	(22,948)
Total comprehensive income for the year	**14,758,482**	15,260,038

The accompanying notes are an integral part of these financial statements

	Member shares	*Accumulated other comprehensive income (loss)*	*Retained surplus*	*Total equity*
Balance December 31, 2017	**256,905**	**21,089**	**159,008,822**	**159,286,816**
Income and comprehensive income for the year	**-**	**-**	**15,282,986**	**15,282,986**
Issuance of members' shares	**10,555**	**-**	**-**	**10,555**
Redemption of members' shares	**(5,290)**	**-**	**-**	**(5,290)**
Change in unrealized losses on investments	**-**	**(22,948)**	**-**	**(22,948)**
Balance December 31, 2018	**262,170**	**(1,859)**	**174,291,808**	**174,552,119**
Income and comprehensive income for the year	**-**	**-**	**14,761,697**	**14,761,697**
Issuance of members' shares	**14,055**	**-**	**-**	**14,055**
Redemption of members' shares	**(11,695)**	**-**	**-**	**(11,695)**
Change in unrealized losses on investment	**-**	**(3,215)**	**-**	**(3,215)**
Balance December 31, 2019	**264,530**	**(5,074)**	**189,053,505**	**189,312,961**

	2019	*2018*
Operating activities		
Income for the year	**14,761,697**	15,282,986
Interest and investment revenue	**(100,097,115)**	(88,895,889)
Interest expense	**57,525,215**	47,630,672
Depreciation	**1,557,959**	1,533,438
Provision for (recovery of) impaired loans	**361,808**	(340,546)
Loss on disposal of property and equipment	**88,701**	12,744
Deferred taxes	**(142,000)**	177,300
	(25,943,735)	(24,599,295)
Change in income taxes payable	**630,147**	(917,346)
Change in other assets and liabilities	**(365,660)**	(5,013,592)
Change in members' loans	**(127,608,973)**	(155,377,402)
Change in members' savings and deposits	**180,218,297**	153,815,009
Interest received on members' loans receivable	**88,277,311**	78,446,623
Dividends received on investments in associates	**1,029,000**	809,800
Interest paid on members' savings and deposits	**(54,862,128)**	(47,747,350)
Interest received on investments	**10,414,922**	8,361,697
	71,789,181	7,778,144
Financing activities		
Issuance of securitized borrowings (net)	**25,211,602**	33,311,263
Net issue of members' shares	**2,360**	5,265
	25,213,962	33,316,528
Investing activities		
Redemption of investments	**883,252**	507,783
Purchases of property and equipment	**(1,886,483)**	(1,561,216)
Purchase of intangibles	**(1,530,457)**	(90,231)
Purchases of investments	**(9,712,370)**	(7,078,005)
	(12,246,058)	(8,221,669)
Increase in cash resources	**84,757,085**	32,873,003
Cash resources, beginning of year	**302,559,073**	269,686,070
Cash resources, end of year	**387,316,158**	302,559,073
Cash resources are composed of:		
Funds on hand and on deposit	**18,457,458**	28,916,073
Credit Union Central of Manitoba term deposits	**368,858,700**	273,643,000
	387,316,158	302,559,073

1. Reporting entity

Access Credit Union Limited (the "Credit Union") was formed pursuant to the Credit Union and Caisses Populaires Act of Manitoba ("the Act") and operates multiple branches throughout Southern Manitoba. The Credit Union's head office is located at Stanley Business Centre unit #2 - 23111 PTH #14, Winkler, Manitoba.

The Credit Union operates as one segment principally in personal and commercial banking in Manitoba. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of customers and the nature of the regulatory environment.

The Credit Union conducts its principal operations through its branches, offering products and services including consumer, commercial, and agricultural loans and mortgages, chequing and savings accounts, term deposits, registered deposits, automated banking machines ("ABMs"), debit cards and online banking.

Statement of compliance

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

The Credit Union presents its consolidated statement of financial position on a non-classified basis in order of liquidity. The Credit Union classified its expenses by the nature of expenses method.

These financial statements for the year ended December 31, 2019 were approved by the Board of Directors on February 19, 2020.

2. Change in accounting policies

Leases

Effective January 1, 2019 (hereafter referred to as the "date of initial application"), the Credit Union adopted IFRS 16 *Leases* as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives*, and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Transition

The Credit Union applied the changes in the accounting policies resulting from IFRS 16 retrospectively with the cumulative effect (if any) of initially applying IFRS 16 recognized as an adjustment to the opening balance of retained earnings at January 1, 2019. The comparative information contained within these financial statements has not been restated and continues to be reported under previous lease standards.

- The Credit Union did not reassess whether a contract is, or contains, a lease at the date of initial application of IFRS 16 *Leases*. Instead, the Credit Union applied IFRS 16 to all contracts that were previously identified as leases under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. Contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. As a result, the definition of a lease under IFRS 16 has only been applied to contracts entered into (or changed) on or after the date of initial application.
- When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Credit Union has:
  - Adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognized in the statement of financial position in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application.
  - Used hindsight in determining the lease term when contract contains options to extend or terminate the lease.

The application of the standard has resulted in a change in the Credit Union's accounting policy for recognition of leases.

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

Initial application of IFRS 16

The Credit Union recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of remaining lease payments, discounted using its incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate applied is 2.15%.

The application of the standard on January 1, 2019, has resulted in an increase in property and equipment of $178,407 and an increase in other liabilities of $178,407.

3. Basis of preparation

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its wholly owned subsidiaries 5033179 Manitoba Ltd. and 6009655 Manitoba Ltd.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Basis of measurement

The consolidated financial statements have been prepared on the historic cost basis except for the revaluation of certain financial instruments designated as fair value through profit and loss and fair value through other comprehensive income.

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union’s financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are prepared based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. These estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively in comprehensive income in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future. In the future, actual experience may differ from the estimates and assumptions.

3. Basis of preparation *(Continued from previous page)*

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future years could be material.

Key assumptions in determining the allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates, and relevant price indices
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation of in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to Value ratios
- Canadian Small Business Delinquency index
- Canadian Banker's Association report on residential delinquencies and credit card delinquencies

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

3. Basis of preparation *(Continued from previous page)*

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

Impairment of financial assets

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets and determining whether there has been a significant increase in credit risk since initial recognition in accordance with IFRS 9 Financial Instruments. For more information, refer to Note 6.

Financial instruments not traded on active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Hedge accounting

In applying hedge accounting, the Credit Union recognizes derivative financial instruments on the consolidated statement of financial position at fair value with changes in fair value related to the effective portion of the hedge recorded in other comprehensive income, net of income taxes. On an ongoing basis, the derivatives used in hedging transactions are assessed to determine whether they are effective in offsetting changes in fair values or cash flows of the hedged items. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income is removed from equity and recorded directly against the initial cost or other carrying amount of the asset or liability. As at December 31, 2019 the Credit Union had interest rate swaps with a notional principal balance of $25,000,000.

4. Summary of significant accounting policies

The principle accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Funds on hand and on deposit

Funds on hand and on deposit consists of cash on hand and demand deposits.

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

Property, equipment and intangible assets

All property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, with the exception of land which is not depreciated. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property, equipment and intangibles.

The methods of depreciation and useful life applicable for each class of asset during the current and comparative period are as follows:

	Method	***Rate***
Buildings	straight-line	35-40 years
Furniture and equipment	straight-line	5-20 years
Computer equipment	straight-line	5 years
ATM equipment	straight-line	10 years
Parking lots	straight-line	10-23 years
Leasehold Improvements	straight-line	15 years
Vehicles	straight-line	5-7 years
Computer software	straight-line	5-10 years
Right-of-Use assets	straight-line	Lease term

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

The useful lives of items of property, equipment and intangible assets are reviewed periodically and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property, equipment and intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss. Depreciation on intangible asset software will be depreciated over its useful life when it is available for use.

Investment property

Investment property is investment interests in land and buildings held to earn rental income or for capital appreciation, or both. Investment property is comprised of land and office space leased out under operating lease agreements. Where distinguishing between investment property and owner-occupied property is difficult the following criteria are applied to classification:

- If the property is more than 80% held to earn rental income or capital appreciation, it is classified as investment property. The Credit Union determines the percentage of the portions using the size of the property measured in square metres.

Rental income and operating expenses from investment property are presented within other income and occupancy expenses respectively.

Investment property is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

All investment property having a limited useful life is depreciated using the straight-line method over the estimated useful lives, estimated to be 40 years. Land has an unlimited useful life and is therefore not depreciated. Investment property is depreciated from the date of acquisition.

The residual value, useful life and depreciation method applied to each class of asset are reviewed at least annually.

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

Securitized borrowings

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

Leases

The Credit Union assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Credit Union assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019

Where the Credit Union is a lessee in a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Credit Union measures right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property and equipment. The determination of the depreciation period is dependent on whether the Credit Union expects that the ownership of the underlying asset will transfer to the Credit Union by the end of the lease term or if the cost of the right-of-use asset reflects that the Credit Union will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Credit Union under a residual value guarantee, the exercise price of a purchase option that the Credit Union is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Credit Union exercising an option to terminate the lease. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest rate method.

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU’s, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Investments in associates

An associate is an entity over which the Credit Union has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The Credit Union accounts for all of its investments in associates using the equity method. The fiscal year-end of all associates is September 30.

Members' savings and deposits

Members' savings and deposits are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the instrument, and are subsequently measured at amortized cost using the effective interest rate method.

Members' shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognized in income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

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

Interest penalties received as a result of loan prepayments by members are recognized as income in the year in which the prepayment is made, unless only minor modifications (based on a present value of future cash flows test) were made to the loan in which case they are deferred and amortized using the effective interest rate method.

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are recognized using the effective interest rate method over the estimated repayment term of the related loan.

Investment income is recognized as interest is earned on interest-bearing investments, and when dividends are declared on shares.

Commission revenue is recognized net of broker commission expense as earned on the effective date of each policy.

Other revenue is recognized as services are provided to members.

Income taxes

Current tax and deferred tax are recognized in income except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the consolidated statement of financial position date. Exchange gains and losses on translation or settlement are recognized in profit or loss for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the initial transaction and are not subsequently restated. Translation gains and losses are included in profit or loss.

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

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

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest rate method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of funds on hand and on deposits and members' loans.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Financial assets measured at fair value through other comprehensive income are comprised of bonds and debentures included in investments.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of shares in Credit Union Central of Manitoba included in investments.
- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, the significance and frequency of sales in prior periods.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union’s claim to cash flows, and any features that modify consideration for the time value of money.

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

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For members' loans, the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants, requests to restructure loan payment schedules.

For financial assets assessed as credit impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowance for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial assets.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 20 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Credit Union applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

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

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Where a derecognized financial asset is a part of a larger financial asset, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized on the basis of their relative fair values.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union’s policies.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset’s original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities measured at amortized cost include members' savings and deposits, securitized borrowings and other liabilities.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Interest

Interest income and expense are recognized in profit or loss using the effective interest rate method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

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

The "amortized cost" of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective rate interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset or liability is the amortized cost of a financial asset or liability before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest rate method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

Standards issued but not yet effective

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2019 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier application is permitted.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. Earlier application is permitted.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. Earlier application is permitted.

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

Conceptual Framework for Financial Reporting (Amendment)

In March 2018, the International Accounting Standards Board (IASB) issued the revised Conceptual Framework for Financial Reporting, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in October 2018. This revised Conceptual Framework replaces the previous version of the Conceptual Framework issued in 2010. The Conceptual Framework assists entities in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to more broadly and better understand the standards.

The revised Conceptual Framework includes the following clarifications and updates:
- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions and guidance, particularly for the definition of a liability; and,
- Clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The revised Conceptual Framework is effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

5. Investments

	2019	*2018*
Credit Union Central of Manitoba		
Term and contract deposits	**368,858,700**	273,643,000
Accrued interest	**1,333,664**	707,424
	370,192,364	274,350,424
Shares		
CUCM - Class 1 shares	**14,214,775**	11,660,335
CUCM - Class 2 shares	**16,187,710**	9,029,780
Concentra Bank - Class A shares	**6,000,000**	6,000,000
Concentra Bank - Common shares	**62,568**	62,568
	36,465,053	26,752,683
Debentures		
Municipal debentures	**2,628,471**	3,514,938
The Co-operators Group Limited	**250,000**	250,000
Accrued interest	**83,317**	105,238
	2,961,788	3,870,176
Total	**409,619,205**	304,973,283

Term and contract deposits bear interest between 1.60% and 1.96% (2018 - 1.90% to 2.18%). The term deposit maturities range from January 2020 to April 2020 (2018 - January 2019 to April 2019).

The shares in Credit Union Central of Manitoba ("CUCM") are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Credit Union Central of Manitoba. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of CUCM. Class 1 and 2 CUCM shares are subject to a rebalancing mechanism at least annually and are issued and redeemable at par value. There is no separately quoted market value for these shares. However, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

The Municipal debentures bear interest at rates ranging from 4.20% to 6.88% (2018 - 4.20% to 6.88%) and mature between October 2020 and December 2024 (2018 - October 2020 and December 2024).

Pursuant to Regulations, Credit Union Central of Manitoba requires that the Credit Union maintain 8% of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, Deposit Guarantee Corporation of Manitoba, requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2019 the Credit Union has a liquidity ratio of 15.04% and therefore has met the liquidity requirement.

6. Members' loans

Members' loans can have either a variable or fixed rate of interest, and they mature within 25 years.

Variable rate loans are based on a "prime rate" formula, and as at December 31, 2019 the weighted average rate was 4.48% (2018 - 4.39%). The rate is determined by the type of security offered and the member's credit worthiness. The Credit Union's prime rate at December 31, 2019 was 3.95% (2018 - 3.95%).

The weighted average interest rates on fixed rate loans outstanding as at December 31, 2019 was 3.40% (2018 - 3.34%). The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by personal property or investments.

Residential mortgages are secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Principal and allowance by loan type:

					2019
	Principal performing	**Principal impaired**	**Allowance specific**	**Allowance collective**	**Net carrying value**
Commercial loans	1,202,396,400	3,825,565	332,181	946,951	**1,204,942,833**
Personal loans	84,438,885	119,781	61,927	821,965	**83,674,774**
Residential mortgages	1,115,311,465	955,442	86,739	1,786,763	**1,114,393,405**
	2,402,146,750	4,900,788	480,847	3,555,679	**2,403,011,012**

6. Members' loans *(Continued from previous page)*

2018

	Principal performing	Principal impaired	Allowance specific	Allowance collective	Net carrying value
Commercial loans	1,123,292,956	3,453,801	589,338	687,596	1,125,469,823
Personal loans	90,858,671	102,900	53,199	866,862	90,041,510
Residential mortgages	1,065,035,165	710,263	55,303	1,744,795	1,063,945,330
	2,279,186,792	4,266,964	697,840	3,299,253	2,279,456,663

The allowance for loan impairment changed as follows:

	2019	*2018*
Balance, beginning of year	**3,997,093**	4,573,269
Provision (recovery) for impaired loans	**361,808**	(340,546)
	4,358,901	4,232,723
Less: accounts written off, net of recoveries	**322,375**	235,630
Balance, end of year	**4,036,526**	3,997,093

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are less than 90 days past due and fully secured and collection efforts are reasonably expected to result in repayment.

	1-30 days	**31-60 days**	**61 days and greater**	***2019***	*2018*
Commercial loans	7,112,101	22,666	-	**7,134,767**	12,455,727
Personal loans	844,269	47,313	16,081	**907,663**	1,176,245
Residential mortgages	12,883,476	1,975,568	203,418	**15,062,462**	10,128,912
	20,839,846	2,045,547	219,499	**23,104,892**	23,760,884

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 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 existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.

7. Property and equipment

	Land	Buildings	Furniture and equipment	Computer equipment	ATM equipment	Parking lots	Leasehold improve-ments	Vehicles	Total
Cost									
Balance as December 31, 2017	1,676,290	18,969,888	5,460,698	1,707,494	861,142	345,113	615,481	126,578	29,762,684
Additions	223,810	416,659	167,871	501,994	120,943	28,174	203,882	-	1,663,333
Disposals	-	(9,379)	(21,148)	(241,987)	-	-	-	-	(272,514)
Balance at December 31, 2018	1,900,100	19,377,168	5,607,421	1,967,501	982,085	373,287	819,363	126,578	31,153,503
Additions	-	1,151,958	189,828	288,082	57,686	-	11,260	9,262	1,708,076
Disposals	-	-	(194,481)	(224,539)	(8,831)	-	(474,096)	-	(901,947)
Recognition on adoption of IFRS 16	-	178,407	-	-	-	-	-	-	178,407
Balance at December 31, 2019	1,900,100	20,707,533	5,602,768	2,031,044	1,030,940	373,287	356,527	135,840	32,138,039

	Land	Buildings	Furniture and equipment	Computer equipment	ATM equipment	Parking lots	Leasehold improve-ments	Vehicles	Total
Depreciation and impairment losses									
Balance at December 31, 2017	-	8,209,395	3,996,636	1,059,118	470,974	283,082	419,456	42,522	14,481,183
Additions	-	517,450	219,095	256,433	93,778	5,488	36,072	18,164	1,146,480
Disposals	-	(8,544)	(8,951)	(139,848)	-	-	-	-	(157,343)
Balance at December 31, 2018	-	8,718,301	4,206,780	1,175,703	564,752	288,570	455,528	60,686	15,470,320
Additions	-	521,531	213,550	322,535	89,834	6,322	35,770	20,792	1,210,334
Disposals	-	-	(181,456)	(204,014)	(5,039)	-	(422,737)	-	(813,246)
Balance at December 31, 2019	-	9,239,832	4,238,874	1,294,224	649,547	294,892	68,561	81,478	15,867,408
Net book value									
At December 31, 2018	1,900,100	10,658,867	1,400,641	791,798	417,333	84,717	363,835	65,892	15,683,183
At December 31, 2019	1,900,100	11,467,701	1,363,894	736,820	381,393	78,395	287,966	54,362	16,270,631

Included in buildings is a right-of-use asset under IFRS 16. The right-of-use asset is a building under lease. As at December 31, 2019 the right-of-use building had a cost of $178,407 (2018 - $nil), accumulated depreciation of $20,197 (2018 - $nil), and net book value of $158,210 (2018 - $nil).

Included in current year additions is $1,091,161 in buildings that is not yet being amortized.

Included in other liabilities at December 31, 2019 is a lease liability of $162,036 with scheduled repayments over the next five years as follows:

Not later than one year	16,712
Later than one year but not later than five years	79,386
Later than five years	65,938

MNP LLP

8. Investment property

Investment property includes land and building, held to earn rental income and capital appreciation, or both.

Changes to the carrying amount of investment property from the beginning to the end of the year is as follows:

			2019	*2018*
	Cost	Accumulated depreciation	**Net book value**	Net book value
Land	237,338	-	**237,338**	237,338
Building	2,119,462	422,279	**1,697,183**	1,750,219
	2,356,800	422,279	**1,934,521**	1,987,557

Fair value of investment property as at March 10, 2016 is $2,370,000. During the year, depreciation of $53,036 (2018 - $53,036) was recorded in occupancy expenses.

During the year, $162,876 of rental income from investment property was recognized in other income (2018 – $162,673).

The future minimum lease payments under non-cancelable leases are as follows:

Less than 1 year	156,805
Between one and five years	104,547

9. Intangible assets

	Computer Software
Cost	
Balance January 1, 2018	**3,329,423**
Additions	**90,231**
Balance at December 31, 2018	**3,419,654**
Additions	**1,530,457**
Balance at December 31, 2019	**4,950,111**
Amortization and impairment losses	
Balance at January 1, 2017	**2,284,771**
Amortization for the year	**333,611**
Balance at December 31, 2018	**2,618,382**
Amortization for the year	**294,589**
Balance at December 31, 2019	**2,912,971**
Carrying amounts	
At December 31, 2018	801,272
At December 31, 2019	**2,037,140**

Included in current year additions is $1,375,000 in software under development that is not yet being amortized.

10. Investment in associates

	2019	*2018*
Balance beginning of year	**2,926,298**	2,922,612
Investment in associates equity income	**821,400**	813,486
Dividends received on investment in associates	**(1,029,000)**	(809,800)
Balance end of year	**2,718,698**	2,926,298

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

11. Members' savings and deposits

	2019	*2018*
Chequing	**395,548,202**	417,320,551
Savings	**1,074,379,361**	985,988,537
Term deposits	**571,062,596**	508,257,232
Registered savings plans	**520,149,768**	469,355,310
Accrued interest	**13,542,266**	10,879,179
Total	**2,574,682,193**	2,391,800,809

	2019	*2018*
Balance, beginning of year	**2,391,800,809**	2,238,102,478
Net cash increase in members' savings and deposits	**180,218,297**	153,815,009
Non-cash change in accrued interest	**2,663,087**	(116,678)
Balance, end of year	**2,574,682,193**	2,391,800,809

Total deposits include $28,183,627 (2018 - $24,712,639) denominated in United States dollars. Member deposits are subject to the following terms:

- Chequing and savings products are due on demand and bear interest at a weighted average rate of 1.90% (2018 - 1.88%).
- Term deposits are subject to fixed and variable rates at a weighted average rate of 2.79% (2018 - 2.65%), with interest payments due monthly, annually or on maturity.
- Registered savings plans are subject to fixed and variable rates at a weighted average rate of 2.82% (2018 - 2.75%), with interest payments due monthly, annually or on maturity.

Members' savings and deposits are primarily located in and around Southern Manitoba.

12. Securitized borrowing

The Credit Union periodically may securitize mortgages through the transfer of mortgage loans to third parties, and is an approved issuer in the National Housing Act Mortgage-backed Securities Program (NHA MBS). As at December 31, 2019, the aggregate value of securitized mortgages outstanding amounted to $88,920,221 (2018 - $63,708,619). There were no credit losses incurred on the mortgages transferred in 2019. The Credit Union retains the responsibility for servicing the qualifying residential mortgage receivables. Under the program, the Credit Union has an obligation to forward principal and interest amounts from the original loan to Canada Mortgage and Housing Corporation monthly whether or not it receives payments from mortgagers. The Credit Union has retained substantially all of the risks and rewards associated with the transferred assets. These assets are recognized within members' loans and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in securitization liabilities on the consolidated statement of financial position.

NHA MBS mortgage pools consists of fourteen mortgage pools bearing interest rates from 1.5389% to 2.9000% (2018 - 1.5389% to 2.9000%). Mortgage pool maturities range from November 2020 to December 2024.

13. Loan payable

The Credit Union has an approved borrowing limit of 10% of members' savings and deposits. Borrowings are payable to Credit Union Central of Manitoba at an interest rate of 2% above the variable current account rate and are secured by an assignment of term and contract deposits, with no fixed terms of repayment. At December 31, 2019 the balance was $nil (2018 - $nil).

14. Members' shares

Authorized:

Unlimited number of Common shares, at an issue price of $5
Unlimited number of Surplus shares, at an issue price of $1
Unlimited number of Class A preference shares, at an issue price of $10

Issued:

	2019	*2018*
52,906 Common shares (2018 - 52,434)	**264,530**	262,170

During the year, the Credit Union issued 2,811 (2018 - 2,111) and redeemed 2,339 (2018 - 1,058) common shares.

Common shares

When an individual becomes a member of the Credit Union, they are issued a common share at $5 per share. Each member of the Credit Union has one vote, regardless of the number of shares held. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. Since shares are redeemable only at the discretion of the Credit Union Board of Directors, they are classified as equity.

Surplus shares

The total amount of surplus shares purchased and redeemed by the Credit Union in a year shall not exceed 5% of the amount of surplus shares outstanding at the last 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.

The withdrawal is also subject to terms of the Credit Union's VIP program which restrict redemption to certain situations: member is deceased, member ceases to reside in the Credit Union's trading area, wind-up or dissolution of a business or corporation, bankruptcies, legal claim, hardship, member reaching the age of 65. All payouts are at the discretion of the Board of Directors.

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The articles of incorporation for the Credit Union disclose the conditions concerning surplus shares. These shares are redeemable at the discretion of the Board of Directors and as such are recorded as equity.

15. Income tax

	2019	2018
Current tax expense		
Current year	**3,022,493**	2,672,994
Deferred tax expense		
Relating to the origination and reversal of temporary differences	**(142,000)**	107,855
Change in tax rate applied to deferred tax components	**-**	(77,855)
Deferred tax on adoption of IFRS 9	**-**	147,300
Total income tax expense	**2,880,493**	2,850,294

The tax effect of temporary differences which give rise to the deferred taxes is from differences between accounts deducted for accounting and income tax purposes including property, equipment, intangible assets, and the allowance for impaired loans.

	2019	2018
Deferred tax liability		
Property and equipment, investment property and intangible assets	**(486,800)**	(476,500)
Deferred tax asset		
Allowance for impaired loans	**713,500**	586,200
Non-deductible pension expense	**128,300**	103,300
Net deferred tax asset	**355,000**	213,000

All movements in deferred taxes during the year ended December 31, 2019 were recognized in income.

	2019	2018
Deferred tax liabilities to be settled after more than 12 months	**(486,800)**	(476,500)
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**841,800**	689,500
Net deferred tax asset	**355,000**	213,000

Reconciliation between effective tax rate and the actual tax rate

	2019	2018
Applicable tax rate	**38.00 %**	37.00 %
Federal abatement	**(10.00)%**	(10.00)%
Credit Union rate reduction	**(10.00)%**	(12.00)%
Non taxable earnings from associates	**(0.70)%**	(0.70)%
Provincial profits tax	**- %**	1.00 %
Non-deductible and other items	**(0.97)%**	0.42 %
Income taxes as reported	**16.33 %**	15.72 %

16. Related party transactions

Key management compensation of the Credit Union

Key Management Personnel ("KMP") of the Credit Union are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director.

	2019	*2018*
Salaries and other short-term employee benefits	**2,081,236**	1,997,293
Honoraria and per diems	**187,734**	191,851
Meetings, training, and conference costs	**44,610**	81,051
Post-employment benefits	**213,997**	205,539

Transactions with Key Management Personnel

Loans made to KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures below.

There are no loans that are impaired in relation to loan balances with KMP.

There are no benefits or concessional terms and conditions applicable to the family members of KMP. There are no loans that are impaired in relation to the loan balances with family or relatives of KMP.

	2019	*2018*
Aggregate value of loans and lines of credit advanced	**4,074,580**	2,868,367
Unused value of lines of credit	**517,403**	297,515

	2019	*2018*
Loans disbursed to KMP	**2,031,098**	2,154,014

	2019	*2018*
Interest and other revenue earned on loans to KMP	**149,897**	71,267
Interest paid on deposits to KMP	**92,437**	39,939

	2019	*2018*
The total value of members' savings and deposits from KMP as at the year-end	**3,828,254**	2,114,075

Directors, committee members, management and staff

Transactions with Directors, committee members, management and staff are at terms and conditions as set out in the loan policies of the Credit Union.

Loans to Directors (and their spouses) that received beneficial interest rates as at December 31, 2019 amounted to $nil (2018 - $nil) for a total benefit of approximately $nil (2018 - $nil).

Loans to Directors and staff as at year end amounted to 1.24% (2018 - 1.26%) of total assets of the Credit Union.

16. Related party transactions *(Continued from previous page)*

Credit Union Central of Manitoba

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

Interest and dividends earned on investments during the year ended December 31, 2019 amounted to $10,560,986 (2018 - $8,200,272).

Interest and charges paid on borrowings during the year ended December 31, 2019 amounted to $256 (2018 - $515).

Payments made for affiliation dues, liquidity assessment, research and development assessment, cheque clearing and data processing for the year ended December 31, 2019 amounted to $1,452,599 (2018 - $1,487,542).

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (the "Corporation") was created under the Credit Unions and Caisses Populaires Act for the purposes of guaranteeing deposits in Manitoba credit unions, and promoting sound business practices in credit unions. All transactions with the Corporation are recorded at the exchange amount which is the amount agreed upon by the two parties.

The payments made to the Corporation during the year ended December 31, 2019 represent the net statutory annual assessment in the amount of $1,998,002 (2018 - $1,870,565).

Celero Solutions

The Credit Union has entered into an agreement with Celero Solutions to provide the delivery of banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. The agreement expires December 31, 2022. Payments made to Celero Solutions during the year ended December 31, 2019 for these services totaled $1,841,748 (2018 - $1,904,505).

The Credit Union is committed to the following minimum payments to Celero related to a new banking system:

Not later than one year	$625,000

17. Pension plan

The Credit Union has a multi-employer defined contribution pension plan for qualifying employees. The Credit Union matches employee contributions at an average rate of 6% of the employee's salary up to the maximum allowed under pension legislation. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these consolidated financial statements.

The expense and payments for the year ended December 31, 2019 are $883,087 (2018 - $839,072) and are recorded as personnel expenses. As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund benefits to plan members.

18. Capital management

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Unions and Caisses Populaires Act of Manitoba (the "Act").

The Credit Union’s objectives when managing capital are to ensure the long term viability of the Credit Union and the security of member deposits by holding a level of capital deemed sufficient to protect against unanticipated losses and to comply at all times with the capital requirements set out in the Act.

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

The Credit Union measures the adequacy of capital using two methods:

- Total capital as a percent of assets.
- Total capital as a percent of risk-weighted assets. Under this method, the Credit Union reviews its loan portfolio and other assets and assigns a risk weighting using definitions and formulas set out in the Act. The more risk associated with an asset, a higher weighting is assigned. This method allows the Credit Union to measure capital relative to the possibility of loss with more capital required to support assets that are seen as being higher risk.

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

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

During the year ended December 31, 2019, the Credit Union has complied with the capital requirements.

The Regulations to the Act require that the Credit Union establish and maintain a level of capital as follows (as calculated in accordance with the Act):

	2019	*2018*
Members' equity not less than 5.00% of assets	**6.62 %**	6.62 %
Retained surplus not less than 3.00% of assets	**6.61 %**	6.61 %
Members' equity not less than 8.00% of the risk weighted value of assets	**11.69 %**	11.63 %

The Credit Union manages its capital as calculated below:

	2019	*2018*
Members' shares	**264,530**	262,170
Accumulated other comprehensive loss	**(5,074)**	(1,859)
Retained surplus	**189,053,505**	174,291,808
Capital	**189,312,961**	174,552,119

19. Fair value measurements

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

- Level 1: Unadjusted quoted prices in an active market for identical assets and liabilities.
- Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e derived from prices). Level 2 inputs include quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include interest rate swaps. Members' loans, investments and members' savings and deposits are disclosed at fair value based on a level 2 classification.

19. Fair value measurements *(Continued from previous page)*

- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities. Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

There were no transfers between fair value hierarchy levels for the year ended December 31, 2019.

Assets and liabilities measured at fair value

The Credit Union's assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

in 000's	***2019 Fair Value***	***Level 1***	***Level 2***	***Level 3***
Financial assets				
Credit Union Central of Manitoba	**400,594**	**-**	**400,594**	**-**
The Co-operators Group Limited	**250**	**-**	**250**	**-**
Municipal debentures	**2,628**	**-**	**2,628**	**-**
Total financial assets	**403,472**	**-**	**403,472**	**-**

in 000's	*2018 Fair Value*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Credit Union Central of Manitoba	295,041	-	295,041	-
The Co-operators Group Limited	250	-	250	-
Municipal debentures	3,515	-	3,515	-
Total financial assets	298,806	-	298,806	-

19. Fair value measurements *(Continued from previous page)*

Non-recurring fair value measurements

The Credit Union's non-recurring fair value measurements have been categorized in the fair value hierarchy as follows:

in 000's	***2019 Fair Value***	***Level 1***	***Level 2***	***Level 3***
Financial assets				
Funds on hand and on deposit	**18,457**	**18,457**	**-**	**-**
Members' loans	**2,403,011**	**-**	**2,403,011**	**-**
Concentra shares	**6,063**	**-**	**6,063**	**-**
Total financial assets	**2,427,531**	**18,457**	**2,409,074**	**-**
Financial liabilities				
Members' savings and deposits	**2,574,682**	**-**	**2,574,682**	**-**
Other liabilities	**5,074**	**-**	**5,074**	**-**
Securitized borrowings	**89,198**	**-**	**89,198**	**-**
Total financial liabilities	**2,668,954**	**-**	**2,668,954**	**-**

in 000's	*2018 Fair Value*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Funds on hand and on deposit	28,916	28,916	-	-
Members' loans	2,275,785	-	2,275,785	-
Concentra shares	6,063	-	6,063	-
Total financial assets	2,310,764	28,916	2,281,848	-
Financial liabilities				
Members' savings and deposits	2,391,801	-	2,391,801	-
Other liabilities	5,320	-	5,320	-
Securitized borrowings	63,932	-	63,932	-
Total financial liabilities	2,461,053	-	2,461,053	-

The most significant assumption in the above fair value determinations relates to the discount rates utilized. If the discount rates would increase by 100 basis points then the fair value of assets would decrease by approximately $29,347,789 and the fair value of liabilities would decrease by approximately $8,269,405. A corresponding decrease of 100 basis points would result in the fair value of assets increasing by approximately $45,698,340 and the fair value of liabilities would increase by approximately $24,794,693.

20. Financial instruments

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk, liquidity risk.

Accordingly, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union;
- Balance risk and return;
- Manage credit, market and liquidity risk through preventative and detective controls;
- Ensure credit quality is maintained;
- Ensure credit, market, and liquidity risk is maintained at acceptable levels;
- Diversify risk in transactions, member relationships and loan portfolios;
- Price according to risk taken, and
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit Committee and Loan Committee.

There have been no significant changes from the previous year in the Credit Union’s risks to which it is exposed or its general policies and procedures for managing risk.

Credit risk *Financial instruments*

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members’ loans.

Risk management process

Credit risk management is integral to the Credit Union’s activities. Management carefully monitors and manages the Credit Union’s exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due state. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements;
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements;
- Borrowing member character requirements;
- Limits on aggregate credit exposure per individual and related parties;
- Limits on concentration of credit risk by loan type, industry and economic sector;
- Limits on the types of credit facilities and services offered;
- Internal loan approval processes and loan documentation standards;
- Loan re-negotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;

20. Financial instruments *(Continued from previous page)*

- Timely loan analysis processes to identify, access and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes; and
- Loan syndication processes.

The Credit Union’s credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers members' loans to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union’s internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union’s past credit experience, and the covenants placed in standard borrowing contracts.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). When a financial instrument is considered to have low credit risk, it is assumed that there has not been a significant increase in credit risk since initial recognition.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Credit Union measures expected credit losses for members' loans on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial mortgages, other secured loans or non-secured loans). Otherwise, expected credit losses are measured on an individual basis.

20. Financial instruments *(Continued from previous page)*

When measuring 12 month and lifetime expected credit losses, the Credit Union considers items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, probabilities of default and other assumptions and inputs used in calculating the amount of cash shortfalls depending on the type or class of financial instrument. Forward looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12 month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

20. Financial instruments *(Continued from previous page)*

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 Financial instruments. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The gross carrying amount of financial assets and exposure amount of loan commitments and financial guarantee contracts represents the maximum exposure to credit risk for that class of financial asset.

		2019		
	12-month ECL	***Lifetime ECL (not credit impaired)***	***Lifetime ECL (credit impaired)***	***Total***
Commercial loans	**1,202,205,221**	**191,178**	**3,825,564**	**1,206,221,963**
Personal loans	**80,409,408**	**4,029,477**	**119,781**	**84,558,666**
Residential loans	**1,082,180,220**	**33,131,246**	**955,443**	**1,116,266,909**
Total gross carrying amount	**2,364,794,849**	**37,351,901**	**4,900,788**	**2,407,047,538**
Less: loss allowance	**2,564,961**	**990,718**	**480,847**	**4,036,526**
Total carrying amount	**2,362,229,888**	**36,361,183**	**4,419,941**	**2,403,011,012**

		2018		
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Commercial loans	1,121,021,428	2,271,528	3,453,802	1,126,746,758
Personal loans	85,664,565	5,194,106	102,900	90,961,571
Residential loans	1,028,003,886	37,031,278	710,263	1,065,745,427
Total gross carrying amount	2,234,689,879	44,496,912	4,266,965	2,283,453,756
Less: loss allowance	2,083,275	1,215,979	697,839	3,997,093
Total carrying amount	2,232,606,604	43,280,933	3,569,126	2,279,456,663

Financial assets designated as measured at fair value through profit or loss

The Credit Union has designated certain investments as measured at fair value through profit or loss. As at December 31, 2019, the Credit Union's maximum exposure to credit risk arising from this financial asset is $406,657,417 (2018 - $301,103,117)

20. Financial instruments *(Continued from previous page)*

Concentrations of credit risk

Concentration of credit risk exists if a number of borrowers are exposed to similar economic risks by being engaged in similar economic activities or being located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Credit Union due to its primary service area being southern Manitoba and surrounding areas.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Members' loans				
Balance at January 1, 2018	**3,771,940**	**20,201**	**781,128**	**4,573,269**
Net remeasurement of loss allowance	**(1,688,665)**	**1,195,778**	**(83,289)**	**(576,176)**
Balance at December 31, 2018	**2,083,275**	**1,215,979**	**697,839**	**3,997,093**
Balance at January 1, 2019	**2,083,275**	**1,215,979**	**697,839**	**3,997,093**
Net remeasurement of loss allowance	**481,686**	**(225,261)**	**(216,992)**	**39,433**
Balance at December 31, 2019	**2,564,961**	**990,718**	**480,847**	**4,036,526**

Market risk

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member owner needs.

Risk measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Credit Union's Board of Directors.

Objectives, policies and processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk. See Note 21 to additional information on the asset liability matching policy.

20. Financial instruments *(Continued from previous page)*

The following table illustrates the contractual repricing and maturity of all financial instruments:

000's	*Variable rate*	*Within one year*	*One to Five years*	*Greater than 5 years*	*Non-Interest Sensitive*	*Total 2019*	*Total 2018*
Assets							
Funds on hand and on deposit	12,031	-	-	-	6,426	18,457	28,916
Investments, accrued interest, and investment in associates	30,470	369,409	11,042		1,417	412,338	307,900
Members' loans receivable	266,306	828,340	1,279,980	27,260	5,162	2,407,048	2,275,784
	308,807	**1,197,749**	**1,291,022**	**27,260**	**13,005**	**2,837,843**	**2,612,600**
Liabilities							
Member savings and deposits	1,519,875	377,461	493,944	403	182,999	2,574,682	2,391,801
Securitized borrowing	-	16,391	72,529	-	-	88,920	63,709
Other liabilities	-	-	-	-	5,659	5,659	9,958
	1,519,875	**393,852**	**566,473**	**403**	**188,658**	**2,669,261**	**2,465,468**

The following provides the potential before tax impact on an immediate and sustained 1% increase or decrease in interest rates on the Credit Union's net interest income for a one year period. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk measurement initiatives.

Before tax impact of:

1% increase in rates $1,785,946 increase in financial margin

1% decrease in rates $737,792 increase in financial margin

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union may utilize interest rate swaps to assist in managing this rate gap.

Foreign currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange rates when adverse changes in foreign currency exchange rates occur.

The Credit Union’s foreign exchange risk is related to deposits and loans denominated in United States dollars. Foreign currency holdings are monitored by management and holdings are adjusted when offside of the investment policy.

Risk measurement

The Credit Union's position is measured weekly. Measurement of risk is based on the mismatch of assets and liabilities denominated in United States dollars.

Objectives, policies and procedures

The Credit Union limits its mismatch of deposits and loans held to $500,000.

20. Financial instruments *(Continued from previous page)*

For the years-ended 2019 and 2018, the Credit Union's exposure to foreign exchange risk complies with the policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union’s day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union uses different risk management processes to manage liquidity risk. The acceptable amount of risk is defined by policies approved by the board and monitored by the Board of Directors.

The assessment of the Credit Union’s liquidity position reflects management’s estimates, assumptions and judgment pertaining to current and prospective specific and market conditions and the related behaviour of its members and counterparties.

The Credit Union manages its liquidity position by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows;
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union’s responses thereto.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with Credit Union Central of Manitoba
- Maintenance of a pool of high quality liquid assets;
- Monitoring of single deposits and sources of deposits; and
- Monitoring of term deposits.

21. Asset liability matching

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match re-pricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between members' loans and investments and members' savings and deposits for those particular maturity dates. Certain items on the consolidated statement of financial position, such as non interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non interest rate sensitive on the schedule.

Amounts with variable interest rates, or due on demand, are classified as variable.
A significant amount of members' loans and members' savings and deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

000's	Assets	Liabilities	2019 Differential	2018 Differential
Interest sensitive				
Variable	817,120	(1,372,546)	**(555,426)**	(407,161)
Less than 12 months	605,783	(389,873)	**215,910**	139,210
1 to 2 years	266,868	(174,723)	**92,145**	(6,727)
2 to 3 years	409,928	(184,404)	**225,524**	164,905
3 to 4 years	436,066	(135,906)	**300,160**	240,429
4 to 5 years	272,240	(100,697)	**171,543**	300,515
Over 5 years	38,879	(403)	**38,476**	40,331
Non interest rate sensitive	36,690	(525,022)	**(488,332)**	(471,502)
	2,883,574	(2,883,574)	**-**	-

The Credit Union may enter into interest rate swaps under policies and procedures which ensure that they are utilized for reducing the Credit Union’s exposure to fluctuating interest rates. All interest rate swaps are purchased on behalf of the Credit Union by Credit Union Central of Manitoba. As at December 31, 2019 interest rate swaps with a notional value of $25,000,000 were outstanding.

22. Commitments and guarantees

Loans

The Credit Union has authorized $612,301,789 (2018 - $604,211,533) in line of credit loans, of which $346,543,392 (2018 - $343,470,639) has not been advanced as of year end. In addition, $50,980,123 (2018 - $106,114,398) in members' loans have been authorized but have not been advanced as of the year end.

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.

23. Comparative figures

Certain prior year figures have been reclassified to conform to the current years presentation. The reclassification did not affect prior year earnings.

24. Subsequent event

The Credit Union has entered into merger discussions. Following completion of the due diligence process, if both Boards of Directors choose to recommend a merger, they will seek membership approval in the spring of 2020.